

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners:

Mark Sievers, Chairman
Thomas E. Wright
Shari Feist Albrecht

Received
on

DEC 26 2012

by
State Corporation Commission
of Kansas

In the Matter of Staff's Motion Requesting)
The Commission Order Zenda Telephone)
Company, Inc. to Submit to an Audit for)
Purposes of Determining its Cost-Based)
Kansas Universal Service Support,)
Pursuant to K.S.A. 66-2008)

Docket No. 13-ZENT-065-AUD

DIRECT CASE OF

ZENDA TELEPHONE COMPANY, INC

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SELECT INFORMATION REDACTED

December 26, 2012

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by
State Corporation Commission
of Kansas

Index of Filing Schedules

K.A.R. 82-1-231(c)(4)(A)

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ZENDA TELEPHONE COMPANY, INC.
A TelAtlantic Company

2012.12.27 09:50:57
Kansas Corporation Commission
/s/ Patrice Petersen-Klein

December 26, 2012

Patrice Petersen-Klein
Executive Director
Kansas Corporation Commission
1500 SW Arrowhead Road
Topeka, Kansas 66604

Re: Docket No. 13-ZENT-065-AUD, In the Matter of Staff's Motion Requesting the Commission Order Zenda Telephone Company, Inc. to Submit to an Audit for Purposes of Determining its Cost-Based Kansas Universal Service Support, Pursuant to K.S.A. 66-2008

Dear Ms. Petersen-Klein:

Enclosed please find the original and nine (9) copies of Zenda Telephone Company, Inc.'s filing in compliance with the Commission's August 14, 2012 Order Requiring Zenda Telephone Company Inc. to Submit to an Audit for Purposes of Determining its Cost-Based KUSF Support Pursuant to K.S.A. 66-2008. The enclosed filing includes the following information:

- Schedules required by K.A.R 82-1-231, reflecting a calendar year 2011 test year;
- Pre-filed Direct Testimony of John R Ludenia and Mark Ellmer
- National Exchange Carrier Association (NECA) 2011 Jurisdictional Separations Cost Study

Additionally, pursuant to the Commission's August 14, 2012 Order, the following information is being provided to today to staff only:

- 2011 General ledger
- All other information as required by the Commission's order.

Also enclosed are electronic versions of the Schedules required by K.A.R. 82-1-231.

As clearly noted in the Schedules and elsewhere in Zenda's transmittal, certain information, including the entire 2011 General Ledger, is considered by the company to be confidential information. Zenda's statement regarding this confidential information is attached to this letter. If there are any questions regarding this filing please contact me at 304-983-8642, or jludenia@westco.net.

Sincerely,



John R Ludenia
Vice President

Enclosures

**Docket No. 13-ZENT-065-AUD
Service List**

Thomas E. Gleason, Jr.
Gleason & Doty, Chartered
PO Box 6
Lawrence, KS 66044-0006

Roxie McCullar
William Dunkel & Associates
8625 Farmington Cemetery Road
Pleasant Plains, IL 62677

Ann Diggs Herman
Ann Diggs, CPA
321 S. 3rd Street
Wilmington, NC 28401

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of Staff's Motion Requesting)
The Commission Order Zenda Telephone)
Company, Inc. to Submit to an Audit for) Docket No. 13-ZENT-065-AUD
Purposes of Determining its Cost-Based)
Kansas Universal Service Support,)
Pursuant to K.S.A. 66-2008)

CONFIDENTIALITY STATEMENT

COMES NOW Zenda Telephone Company, Inc. ("Zenda") and submits the following statements regarding the basis for claims of confidentiality applicable to certain information supplied herein, as hereafter specified:

1. Zenda's Exhibit 1 is designated confidential for the reason that the information constitutes confidential commercial information in the form of private financial data. The response information consists of Zenda's detailed general ledger. Disclosure of this data will cause the Company significant economic damage. Public access of such data by Zenda's competitors could be extremely detrimental to the market position and the financial position of the Company by disclosing sensitive data about their financial transactions including debt, payroll, and supplier cost data. Requiring their disclosure would constitute governmental creation of competitive bias, by providing actual or potential competitors with competitively sensitive information while comparable information of the competitor(s) would not be made similarly available to Zenda. The resulting distortion of competition could deprive customers in the subject exchange of the benefits of market competition free of governmentally opposed bias.
2. Zenda's Exhibit 3, Section 7, part (i), (ii), (iii), and (iv) is designated confidential for the reason that the information constitutes confidential commercial information in the form of private financial data. The response information consists of Zenda's capital structure, cost of debt, and historical interest coverage.

Disclosure of this data will cause the Company significant economic damage. Public access of such data by Zenda's competitors could be extremely detrimental to the market position and the financial position of the Company by disclosing sensitive data about Zenda's cost of debt and ability to obtain financing to provide services. Requiring their disclosure would constitute governmental creation of competitive bias, by providing actual or potential competitors with competitively sensitive information while comparable information of the competitor(s) would not be made similarly available to Zenda. The resulting distortion of competition could deprive customers in the subject exchange of the benefits of market competition free of governmentally opposed bias.

3. Zenda's Exhibit 3, Section 8, part (v) is designated confidential for the reason that the information constitutes confidential commercial information in the form of private financial data. The response information consists of Zenda's personnel payroll data. Disclosure of this data will cause the Company significant economic damage. Public access of such data by Zenda's competitors could be extremely detrimental to the market position and the financial position of the Company by disclosing sensitive data about Zenda's cost of debt and ability to obtain financing to provide services. Requiring their disclosure would constitute governmental creation of competitive bias, by providing actual or potential competitors with competitively sensitive information while comparable information of the competitor(s) would not be made similarly available to Zenda. In addition, the disclosure of private, personal information such as payroll amounts would violate the privacy rights of Zenda's employees. Disclosure would leave Zenda exposed to significant legal expenses, claims for injunctive relief and/or damages, and the possible loss of human resources. Any arguably non-confidential components of the response could be segregated only at significant additional administrative expense, and even then could be deemed by other parties as being in violation of confidentiality commitments, with adverse consequences for Zenda and/or the public as discussed above.
4. Zenda's Exhibit 3, Section 15 is designated confidential for the reason that Zenda is under a contractual duty to maintain the confidentiality thereof. The response includes the Company's 2011 NECA cost separations study which is the proprietary work of the Company's consultants subject to a Confidentiality Agreement with that party. Disclosure of this data will cause the Company significant economic damage. Disclosure would leave Zenda exposed to significant legal expenses, claims for injunctive relief and/or damages; further it could be deemed by other parties as being in violation of confidentiality commitments, with adverse consequences for Zenda and/or the public as discussed above.

5. Zenda's Exhibit 3, Section 16 is designated confidential for the reason that Zenda is a closely held non-public corporation that is not required to make its financial information public. The response includes the Company's 2011 audited financial statements and the 2011 audited financial statement of the parent company. Disclosure of this data will cause the Company significant economic damage. Public access of such data by Zenda's competitors could be extremely detrimental to the market position and the financial position of the Company by disclosing sensitive data about regarding the Zenda's business and finances. Disclosure of this information could significantly compromise Zenda's ability to manage its business and could subject it to unwanted and wasteful significant legal expenses, claims for injunctive relief and/or damages; further it could be deemed by other parties as being in violation of confidentiality commitments, with adverse consequences for Zenda and/or the public as discussed above.

Zenda stand ready to address individual data claimed by any party having an interest therein to be necessary for dissemination. Any such clam or intended disclosure is properly subject to K.S.A. 66-1200a (b) and K.A.R. 92-1-221a. Absent reasonable attempts to satisfy legitimate interests therein by other means, Zenda states unilateral disclosure of any information claimed to be confidential herein may cause irreparable harm to Zenda, to its actual or potential customers, and/or to the public interest generally.

Zenda Telephone Company, Inc.

By:



John R. Ludenia
Vice President Operations
Zenda Telephone Company
1449 Fairmont Road
Morgantown, WV 26501
Phone: (304) 983-8642
Fax: (304) 983-9951
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THE STATE CORPORATION COMMISSION
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Before Commissioners: Mark Sievers, Chairman
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Docket No. 13-ZENT-065-AUD

PRE-FILED DIRECT TESTIMONY OF
JOHN R. LUDENIA
ON BEHALF OF
ZENDA TELEPHONE COMPANY, INC

December 12, 2012

1 **Q. Please state your name and business address.**

2 A. My name is John R. Ludenia and my business address is 1449 Fairmont Road,
3 Morgantown WV.

4

5 **Q. By whom are you employed and in what capacity are you employed?**

6 A. I am employed as the Vice President of TelAtlantic Communications, Inc, the
7 parent company of Zenda Telephone Company, Inc ("Zenda" or the "Company").
8 I am also employed by West Side Telephone Company, Morgantown WV as Vice
9 President Operations and General Manager. I serve as the Vice President for
10 Zenda Telephone Company.

11

12 **Q. Please describe your educational and professional background.**

13 A. I hold a Bachelor's Degree in Economics, and a Master of Business
14 Administration (MBA) Degree. I also hold an active Certified Public Accountant
15 (CPA) license in the State of North Carolina, and an inactive CPA license in the
16 State of Ohio. I have completed numerous industry seminars including seminars
17 on the separations and settlements process.

18

19 I have worked closely with the General Manager of Zenda for over five (5) years
20 in managing the operational and financial areas of the Company. Previously I
21 have worked for The Germantown Independent Telephone Company,
22 Germantown Ohio, and the Sprint Corporation Local Division in various states. I
23 have extensive experience in all aspects of an operating company including plant
24 operations, pricing, accounting, planning, human resources, and customer
25 service.

26

27 **Q. Have you previously testified before the Commission?**

28 A. I have not testified before the Commission.

29

30 **Q. Who are you representing in this proceeding?**

31 A. I am representing Zenda.

32 **Q. What is the purpose of your testimony?**

33 A. My testimony will provide information required by the Kansas Corporation
34 Commission's order of August 14, 2012 that requires Zenda to "provide a
35 company witness who is able to speak on behalf of Zenda and who can discuss
36 Zenda's corporate structure, cost allocation procedures, affiliate practices and

1 transactions, and facts specific to Zenda's operations and policies".¹
2 Additionally, the order states that this official representative "is to file direct
3 testimony in this docket and is to be available as a witness at the evidentiary
4 hearings."² My testimony addresses these requirements.

5

6 **Q. Please provide a brief overview of Zenda Telephone Company, Inc.**

7 A. Zenda is a small RLEC headquartered and operating in Zenda, Kansas. Zenda is
8 located approximately 60 miles southwest of Wichita, Kansas. Zenda serves
9 approximately 140 access lines across approximately 120 square miles in
10 Kingman and Harper counties.

11 The day to day operations of Zenda are handled by the General Manager with
12 assistance from a part-time office person. All outside plant support is contracted
13 from a neighboring company. Planning, legal support, financial direction,
14 strategic support, and billing support are provided by the parent company or by
15 West Side Telephone Company, an affiliate.

16 Zenda fills a vital role in the provision of communications services in this rural
17 area of the state. Customers have few alternatives available to them for
18 communications and the alternatives that are available to them are not reliable,
19 stable or consistent and tend to be more expensive. Without Zenda continuing to
20 provide the "state of art" services that it does, it is quite possible that some, if not
21 many, of its customers would have to go without such services.

22

23 **Q. Please provide a brief summary of Zenda's structure and operations.**

24 A. Zenda was first formed in 1902 to provide telephony service to the area. In 2001
25 Zenda was acquired by TelAtlantic Communications, Inc. (TAC), a holding
26 company headquartered in Alexandria Va. Since being acquired by TAC, Zenda
27 has upgraded the central office switch to a Taqua softswitch and continued to
28 provide high quality telecommunications service to the customers it serves. As
29 indicated above, Zenda provides services to customers in a rural area of the
30 state. Zenda provides a full range of regulated telephone services to its
31 customers including single party service to all customers, many advanced calling
32 features, and a robust "long distance" network that customers can use to access
33 the carrier of their choice to make long distance calls anywhere in the world to
34 which their carrier provides service. Zenda also provides installation and repair
35 of customer premise inside wire. This activity is very limited, and now is provided
36 through the use of an outside contractor.

37

¹ Zenda Audit order of August 14, 2012, ¶ 7

² Id.

1 **Q. Please Describe Zenda's recent network modernization activities.**

2 A. Earlier this year, after considerable planning, the Company began a project to
3 build an all fiber network to the customers it serves. This fiber to the premise
4 (FTTP) project will allow the Company to provide state of art telecommunications
5 services and wholesale Internet services to all customers in the Zenda exchange.
6 The project is well underway, and it is anticipated it will be completed by year end
7 or early in 2013. When completed, all business and residential customers will be
8 able to access reliable high speed internet service. The Company will also be
9 able to provide the advanced communications services and Internet connection
10 required at the Flat Ridge II Windmill Farm located in the southern portion of the
11 exchange.

12

13 **Q. It is widely known that the FCC's recent order on federal universal service
14 and intercarrier compensation issues has the potential of adversely
15 affecting rural LECs. Has Zenda completed an analysis of the impact of the
16 FCC's decision?**

17

18 A. Yes, the Company has conducted an analysis of the impact of the FCC's order
19 as it presently stands. Mr. Ellmer will address the impact in his testimony. I will
20 however offer some observations from the Company's perspective. It is clear
21 that the recent order will have a profound effect on how rural companies operate
22 in the future. For example, by placing a cap or limit on the amount of certain
23 operating expenses or capital investments that are reimbursable from the USF,
24 companies may be forced to reduce or eliminate services or projects that would
25 be of benefit to the customers. Furthermore, it ignores the fact that for rural
26 companies such as Zenda, with a small customer base and low density per
27 square mile, it costs more to provide services to its customers than for carriers
28 providing services to customers in more densely populated areas.

29 For decades federal and state public policy has directed that all consumers have
30 comparable telecommunications services, at comparable rates, to the services
31 available in more urban areas. If it were not for companies like Zenda that have
32 invested to provide reliable, high quality, affordable service to the areas that they
33 serve, many people in this state and across the country could find themselves
34 without service. In accepting this public mandate, the Company has made
35 significant investments in capital subject to the assurance that it would be entitled
36 to a reasonable opportunity to recover its costs and earn a reasonable return on
37 its investment.

38

39

40

1 **Q. Does Zenda complete its own NECA Cost studies?**

2 A. No, Zenda does not complete its own cost studies. Zenda utilizes the services of
3 John Staurulakis Incorporated (JSI), a national telecom consulting firm
4 headquartered in Greenbelt Maryland that has been in business since 1962.
5 Zenda receives support from JSI out of their office located in Austin, Texas. Mark
6 Ellmer of JSI has provided direct testimony addressing the cost study issues that
7 are required to be addressed.

8 Mr. Ellmer will also cover the impact of the fiber to the premise project and the
9 adverse impacts recent FCC changes have on the Company.

10

11 **Q. Are any of the exhibits included in this application prepared by you or**
12 **under your supervision?**

13 A. Yes, sections of the application identified in following responses were prepared
14 by me or under my supervision. Other sections of the application were prepared
15 by Mr. Ellmer and will be supported in his direct testimony.

16

17 **Q. What test period was used to prepare the exhibits in this application?**

18 A. The Commission, in its order of September 11, 2012 granted the Company's
19 "Petition for Limited Reconsideration" and ordered "...Zenda shall utilize a test
20 year of twelve (12) months ending December 31, 2011 for its audit ordered on
21 August 14, 2012".³ The Company used that test period in preparing the
22 documents for this case.

23

24 **Q. Does Zenda's filing meet the requirements as contained in the**
25 **Commission's order of August 14, 2012?**

26 A. Yes, to the extent possible and practical the Company has gathered information
27 in compliance with K.A.R 82-1-231, as ordered by the Commission in its August
28 14, 2012 order. The Company has also prepared other documents as ordered
29 by the Commission in that same order. These exhibits will be discussed later in
30 this testimony or in the testimony of Mr. Ellmer.

31

32

33

³ Order Granting Petition for Limited Reconsideration, September 11, 2012, page 2, Ordering paragraph (A).

1 **Q. Please describe the requirements for this filing as stated in the**
2 **Commission order of August 14, 2012 and how Zenda is complying with**
3 **these requirements.**

4 A. The Commission, in its order of August 14, 2012, required Zenda to submit its
5 filing in compliance with K.A.R. 82-1-231, which specifies what utilities, subject to
6 the jurisdiction of the Commission, are to include in a rate application, or in this
7 instance a KUSF audit. Zenda has engaged in cooperative discussions with
8 Commission Staff regarding certain components of K.A.R. 82-1-231 that are
9 inapplicable to this proceeding. The relevant portions of K.A.R. 82-1-231 are
10 listed below along with a description of the Company's filing in compliance with
11 the same. Also, in the August 14, 2012 order, the Company was directed to
12 provide the following additional information:

- 13 - Direct testimony from an officer or employee of Zenda
- 14 - The National Exchange Carrier Association (NECA) cost study used in
15 this filing.
- 16 - A structural organizational chart
- 17 - All allocation information required by K.A.R.82-1-231(c)(4)(L)

18
19 **Q. Please describe Zenda's filing as it relates to each applicable section of**
20 **K.A.R 82-1-231.**

21 A. The information required by K.A.R.82-1-231 that is included in Zenda's filing is
22 contained in subsections (c)(4)(A) through (c)(4)(L) of the regulations. Each
23 section of Zenda's filing relates to the appropriate section of the regulation as
24 follows:

25 Section 1 This section includes the letter of transmittal and the testimony of the
26 Company witnesses including an officer of the Company.

27

28 Section 2 This section is not applicable to Zenda's filing.

29

30 Section 3 A summary of the Company's intrastate rate base, operating income,
31 and rate of return is provided.

32

33 Section 4 A summary of the Company's test year actual and pro-forma plant
34 investment and net rate base is provided.

35

36 Section 5 A summary of the Company's accumulated depreciation balances by
37 plant account, actual and pro-forma for the test year.

1 Section 6 The Company's calculation of cash working capital related to the pro-
2 forma test year.

3

4 Section 7 The Company's actual and required cost of capital, both debt and
5 equity; consolidated capital structure and cost of debt of the parent.

6

7 Section 8 The Company's test period and three (3) historical years of financial
8 and operating information.

9

10 Section 9 The Company's test year and pro-forma adjusted income statements.

11

12 Section 10 Information on the Company's depreciation rates by primary account,
13 depreciation expense for the test year, and amounts charged to various
14 accounts.

15

16 Section 11 Information on taxes chargeable to operations and the calculation of
17 taxes applicable to the test year.

18

19 Section 12 Information supporting the allocation ratios used in allocations
20 between jurisdictions, and the Company's allocation procedure.

21

22 Section 13 Not Applicable. Neither the Company nor the parent company
23 provides an annual report to the shareholder. Similarly neither entity files reports
24 with the U.S. Securities and Exchange Commission.

25

26 Section 14 Structural organization chart for the Company and affiliates.

27

28 Section 15 The 2011 NECA Cost Study as submitted to NECA, and is the basis
29 for allocations in this filing.

30

31 Section 16 A copy of the Company's audited financial statements for the latest
32 fiscal year, 2011.

33

34 Sections 17 and 18 These sections are not applicable to the Company's filing.

1 **Q. What other information is being provided with this application?**

2 A. Zenda is providing the following additional information with this application as
3 ordered by the Commission in its order of August 14, 2012⁴.

4 -The Company's cost study as submitted to NECA for the test year 2011,
5 included in section 15 above;

6 -A structural organization chart for the Company, including affiliates, parents and
7 subsidiaries, included in section 14 above;

8 -All allocation information used in the allocation of costs in the Company's cost
9 study;

10 -Consolidated capital structure and cost of debt of the parent, included in section
11 7 above;

12 -A paper copy of the 2011 detail General Ledger for the Company in Attachment
13 x to my testimony.

14 **Q. Has the Company provided information on its capital structure?**

15 A. Yes, in Section 7, the Company shows its actual capital structure as of the end of
16 the test period, which includes no debt. The Company has not had any long term
17 debt for several years.

18

19 **Q. Please explain the capital structure changes that you are proposing.**

20 A. The Company starts with the Zenda 100% equity capital structure in the
21 calculation of the return on rate-base. The Company then imputes a prorated
22 portion of the debt carried on the parent company books to arrive at a return on
23 rate base of 10.58%. The Company believes that this capital structure more
24 reasonably reflects the cost of capital of Zenda. The debt on the parent books
25 was allocated between all of the subsidiaries on the basis of total assets in each
26 entity.

27

28 **Q. What cost of equity has the Company proposed in its filing?**

29 A. The Company has calculated a return on rate base using a 12% cost of equity
30 component. Zenda believes this ROE is supported by increasing levels of risk
31 inherent in the telecommunications market today and particularly applicable to
32 small carriers—driven not only by increased competition but also from increased
33 regulatory uncertainty caused by recent FCC actions, as well as actions at the
34 state level.

35 The increasing number of competitive Eligible Telecommunications Carriers
36 (ETCs) being authorized by the Commission to provide service, as well as the

⁴ Commission order of August 14, 2012, page 4, ¶13.

1 major national wireless carriers (AT&T, Sprint, T-Mobile, and Verizon) continue to
2 take customers from wireline carriers including Zenda. As a small rural single
3 exchange company, the loss of a single customer to a competitor is significant
4 and increases the risks for investors. Due to the limited market size of Zenda, the
5 Company does not have the non-regulated revenue opportunities that some
6 other companies have, therefore it has limited opportunities to offset regulated
7 revenue losses with revenues from other non-regulated ventures.

8 In summary, any of these changes would increase the risk for investors, and
9 collectively they increase the risk that much more. As the risk increases, so must
10 the return if a company is to maintain the ability to attract capital.

11

12 In Staff Witness Gatewood's direct testimony in Docket 11-CNHT-659-KSF, Mr.
13 Gatewood states in part "...In addition to these subsidies, a local telephone
14 company that has opted for traditional rate of return regulation in Kansas can file
15 for a revenue adjustment when it fails to earn its allowed return on capital."⁵
16 While Witness Gatewood is correct in the technical application of the rule, the
17 reality is if a company increases its local service rates, the competitor's prices
18 and service become more attractive to the customer, and the company will lose a
19 percentage of customers to the competition, thereby losing not just the intended
20 increased rate revenue but all revenue from that customer. Ultimately the
21 company could find itself in a position of raising end user rates to earn its allowed
22 rate of return and, as a result, losing all of its customers.

23

24 The Company submits that the rate of return regulated services provided by an
25 RLEC are competitive, and the market is just as competitive as other segments
26 of the telecommunications industry. The difference is that the service is not a
27 consumable, disposable product that has to be replaced periodically,
28 consequently the opportunities to compete for a customer are limited. Once a
29 consumer makes a decision on a service provider, they tend to stay with that
30 provider unless the customer is dissatisfied with that provider for some reason.

31

32 **Q. Does this conclude your testimony?**

33 **A. Yes it does.**

⁵ Direct Testimony of Adam H. Gatewood on Behalf of the Kansas Corporation Commission of the State of Kansas, IN THE MATTER OF THE APPLICATION OF CUNNINGHAM TELEPHONE COMPANY, INC. FOR ADDITIONAL KANSAS UNIVERSAL SERVICE FUND SUPPORT PURSUANT TO K.S.A. 66-2008, DOCKET NO.11-CNHT-659-KSF, Page 13.

STATE OF WEST VIRGINIA)
)
COUNTY OF MONONGALIA)

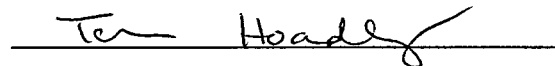
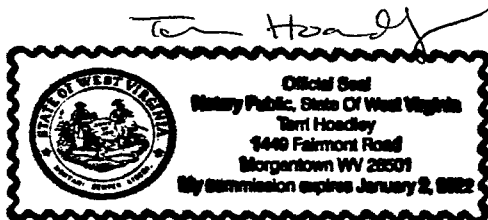
VERIFICATION

John R. Ludenia, being duly sworn upon his oath says that he is the Vice President of Zenda Telephone Company, Inc., that he has read and is familiar with the foregoing Pre-filed Direct Testimony in Docket No. 13-ZENT-065-AUD, and that the statements contained therein are true and correct to the best of his knowledge, information and belief.



John R. Ludenia
Vice President
Zenda Telephone Company, Inc.

Subscribed and sworn to before me this 12 day of December, 2012.



Notary Public

My Commission expires

January 2 2012

REDACTED

Zenda Telephone Company, Inc
Docket No. 13-ZENT-065-AUD

Prefiled Direct Testimony of
John R. Ludenia

Exhibit 1

General Ledger

Zenda's Confidential Exhibit 1 consists of the Company's detailed general ledger for 2011.

Due to the volume of the exhibit, each page has not been stamped CONFIDENTIAL, however the exhibit should be treated as CONFIDENTIAL in its entirety. Consequently a redacted version has not been provided.

Also due to the volume of the exhibit, a single hard copy of the CONFIDENTIAL exhibit is being provided. An electronic copy of Exhibit 1 is also being provided to Staff.

Zenda Telephone Company, Inc
Docket No. 13-ZENT-065-AUD

Prefiled Direct Testimony of
John R. Ludenia

Exhibit 2

Accounting Manual

Accounting Manual

The company does not maintain an accounting manual as requested to be provided. Zenda Telephone Company maintains its accounting records in compliance with FCC Part 32, the Uniform System of Accounts for Telecommunications Companies. The Company follows the guidelines outlined below in the preparation of its financial statements.

ASSETS- asset purchases are recorded in the appropriate asset account based on the item bought. The amount recorded is the amount paid based on the invoice. If the item is purchased for future use it is recorded into an inventory account. As items are removed from inventory and placed into service, the value of that asset is transferred from the inventory account to the appropriate asset account. Material and equipment purchases of a nominal value (generally less than \$200.00) are recorded in an expense account rather than an asset account at the time they are purchased.

EXPENSES-expense payments are made based on the invoice received for the service provided. These payments are recorded in the appropriate expense account based on the type of expense being paid. In cases where the invoice is for future expenses, the Company prepays the expense and records the prepayment in the appropriate prepaid asset account.

PAYROLL-all payroll is recorded using daily time sheets for hourly employees. Time is assigned to the appropriate account based on the work activity reported by the employee. Salaried employee's wages are recorded based on a periodic time study that determines the allocation of time for the future period.

Zenda Telephone Company, Inc
Docket No. 13-ZENT-065-AUD

Filed Direct Testimony of
John R. Ludenia

Exhibit 3

Schedules Required by K.A.R. 82-1-231

Sections 2 through 18

Please see attached documents

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: Mark Sievers, Chairman
 Thomas E. Wright
 Shari Feist Albrecht

In the Matter of Staff's Motion Requesting)
The Commission Order Zenda Telephone)
Company, Inc. to Submit to an Audit for) Docket No. 13-ZENT-065-AUD
Purposes of Determining its Cost-Based)
Kansas Universal Service Support,)
Pursuant to K.S.A. 66-2008)

PRE-FILED DIRECT TESTIMONY OF
R. MARK ELLMER

ON BEHALF OF
ZENDA TELEPHONE COMPANY, INC.

December 7, 2012

1 Q. Please state your name and business address.

2 A. My name is R. Mark Ellmer. My business address is 128 Eastside Drive, Brandon, MS 39047

3

4 Q. By whom and in what capacity are you employed?

5 A. I am a Manager Revenue Requirements with John Staurulakis Incorporated (JSI). JSI
6 provides financial, management, and regulatory consulting services to small and mid-size
7 local exchange carriers (LECs) throughout the United States.

8

9 Q. Please describe your educational and professional background.

10 A. I have worked in the telecommunications industry in various financial management
11 positions for Incumbent Local Exchange Carriers for over 29 years before joining JSI in
12 April of 2012. During my career, I have held several positions in accounting and performed a
13 number of functions for my employers, as outlined in the enclosed Exhibit A.

14

15 Q. Have you previously testified before the Commission?

16 A. No. I have not testified before the Kansas Commission but have testified several times
17 before both the Alabama and Florida state regulatory commissions.

18

19 Q. Who are you representing in this proceeding?

20 A. I am testifying on behalf of Zenda Telephone Company, Inc. (ZTC).

21

22 Q. What is the purpose of your testimony?

23 A. The purpose of my testimony is to present information required by the Commission
24 in its August 14, 2012 Order and subsequent Order Granting Petition for Limited
25 Reconsideration requiring ZTC to submit to an audit for purposes of
26 determining its cost-based Kansas Universal Service Fund (KUSF) support. My testimony is
27 limited in scope and only relates to the 2011 NECA cost study and supporting work papers.
28 This information includes that specifically requested in Information Request Number 2
29 issued by staff on September 27, 2012.

1 Q. What test period did the KCC require for this filing?

2 A. Per the Commission's September 11, 2012 Order in this docket, this filing is to utilize a test
3 year consisting of the twelve months ended December 31, 2011.

4
5 Q. Please continue with a discussion of other information ZTC has provided with this
6 filing and was required by the KCC's August 14 and September 11 Orders.

7 A. Zenda is providing information in addition to that required by K.A.R. 82-1-231 as
8 requested by the KCC and Commission Staff. This information includes: The NECA (National
9 Exchange Carrier Association) cost study for 2011 that forms the basis for the jurisdictional
10 allocation factors used in the filing (see Section 15)

11

12 **Part 36 Separations**

13

14 Q. Please briefly explain the process used to generate the total company and
15 jurisdictional amounts.

16 A. ZTC is a rate-of-return (RoR) regulated local exchange carrier (LEC) in both the Federal
17 and State jurisdictions. As such, ZTC follows FCC rules guiding the measurement,
18 gathering, and allocation of the costs necessary to provide regulated
19 telecommunications services. Specifically Zenda follows rules in FCC Part 32 (Uniform
20 System of Accounts For Telecommunications Companies), Part 36 (Jurisdictional Separations
21 Procedures), Part 64 (Miscellaneous Rules Relating to Common Carriers-Subpart 1 Allocation
22 of Costs) and Part 69 (Access Charges). The Commission has historically and uniformly
23 required its jurisdictional LECs to follow these FCC rules.

24

25 Q. Please describe the Part 36 Jurisdictional Separations procedures and how those rules
26 pertain to ZTC's filing.

27 A. FCC Part 36 separations rules are used to allocate regulated investment and expenses
28 between the interstate and intrastate jurisdictions. As a member of the NECA common
29 line and traffic sensitive access charge pools, ZTC files an interstate cost study on at

1 least an annual basis. These studies determine its revenue requirement recovery
2 attributable to regulated investment and expenses allocated to the interstate
3 jurisdiction.

4
5 **Q. What is the next step once the part 36 Jurisdictional Separations study is completed?**

6 A. The investment and expense amounts included in ZTC's test period KUSF audit filing are
7 taken from ZTC's 2011 Part 36 Separations, or cost, study. These costs have already
8 been jurisdictionally separated in accordance with FCC Part 32, Part 64, and Part 36
9 rules. Ultimately, costs related to the state jurisdiction are included with ZTC's KUSF
10 audit filing. ZTC's KUSF audit filing uses year end 12/31/2011 balances. NECA cost studies
11 typically are prepared using average plant balances (beginning of year and end of year
12 balances are averaged). However, it is my understanding that ZTC's KUSF audit filing is
13 prepared using actual year end amounts for all plant and expense levels due to the
14 prospective nature of ratemaking and KCC precedent.

15
16 **Q. How has the FCC added to the risk faced by ZTC and other rural LECs?**

17 A. The *ICC/USF Order* contains many provisions that will either adversely impact, or have the
18 real potential to adversely impact, carriers providing service to rural areas¹. While a
19 detailed discussion of the *ICC/USF Order* is outside the scope of ZTC's testimony,
20 the *ICC/USF Order* adopts "reforms" that in large part serve to reduce federal USF
21 currently being received by rural LECs. These reforms include, but are not limited to,
22 the limitation on recovery of certain capital and operating expenses based on quantile
23 regression analysis irrespective of an individual carrier's actual reasonable costs,
24 adoption of an arbitrary per-line upper limit on total federal USF, and the elimination or
25 adjustment of an incumbent's support in areas where it is 100% overlapped by
26 unsubsidized terrestrial competition. Additionally the regression analysis is subject
27 to annual revision and recalculation, creating continued uncertainty of recovery even
28 when the individual carrier's costs and investments remain relatively stable. While
29 one could argue whether the FCC was correct in adopting these reforms, it is clear that the

¹ See Comments and Reply Comments of John Staurulakis, Inc. filed April 18, 2011 and May 23, 2011 respectively in WC Docket No. 10-90. See also March 12, 2012 Ex Parte Filing by Lennon Telephone Company, June 22, 2012 Ex Parte Filing Rural Iowa Independent Telephone Association and November 16, 2012 Ex Parte Filing by Dickey Rural Telephone Cooperative (all filed in WC Docket No. 10-90)

1 changes will disrupt the reliability and sufficiency of high cost support, adversely impacting
2 the rural LEC industry and significantly increasing the risk of operating as an RLEC, in turn
3 adversely affecting a carrier's ability to attract capital. Furthermore, the FCC has
4 adopted significant changes to the intercarrier compensation regime whereby all access
5 rates, beginning with terminating rates, will eventually go to bill and keep (essentially
6 zero), allowing other carriers (including functional competitors) to benefit from
7 incumbent's investment without compensation. The new mechanism intended to provide
8 recovery of lost access revenue is limited in intended scope and problematic in a competitive
9 environment. Finally the FCC has discussed, but has
10 not yet adopted, a long term plan for RoR-regulated carrier USF that will focus on
11 broadband services, meaning the impacted carriers know there are additional and likely
12 substantial changes to USF in the non-too-distant future, but no one knows exactly what
13 those changes will be. RoR-regulated carriers historically have been allowed a relatively low
14 rate of return on investment due to the reliability of external support mechanisms. The FCC's
15 reforms have made that reliability speculative at best.

16

17

Pro Forma Adjustments

18

19 **Q. Is the Company proposing any Pro-Forma adjustments in its filing?**

20 A. Yes, at this time the company is proposing three distinct pro forma adjustments. These
21 adjustments will be discussed in greater detail below and consists of: 1) an adjustment
22 to recognize the rate case/audit expenses of company associated with current proceeding,
23 2) an adjustment to reflect the reduction in Intrastate Access Revenues resulting from
24 implementation of the *FCC ICC/USF Order* and 3) changes in rate base, depreciation
25 reserve, depreciation expense and operating taxes associated with the completion of the
26 Fiber to the Premise construction and network modernization project.

27

28 **Q. Please provide a brief description of each of the Pro Forma adjustments**
29 **listed above?**

1 A. The first of the three adjustments is an increase to operating expenses (Corporate
2 Operations) and intended to reflect the cost of the current proceeding. These costs consist
3 primarily of Legal/Attorney fees, cost consultant fees and other out of pocket expenses
4 associated with this proceeding incurred by the company. The amounts currently reflected
5 are estimates and subject to true-up once a Final Order had been issued in this docket.

6
7 The second adjustment represents the annual impact of the FCC ordered Intrastate
8 terminating access rate reductions that were effective July 1, 2012.

9
10 The last of the adjustments reflect the impacts to various plant, reserve and operating
11 expense accounts associated with the network modernization project and related RUS loan.
12 Primarily this adjustment impacts the central office transmission (circuit equipment), buried
13 cable asset and reserve accounts. The amounts shown are net amounts and reflect not only
14 the increased investments but also reflect the retirements of obsolete equipment.
15 Additionally this adjustment includes the projected changes in depreciation expense and
16 property taxes as result of the network upgrades.

17
18 **Q. Does this conclude your testimony?**
19 A. Yes it does

20
21
22
23
24
25
26
27
28
29

Exhibit A – Employment History

GTC, Inc. (A FairPoint Company) – Port St. Joe, Florida

1986 – April 2012

Director Support Revenues

January 2006 – April 2012

- Represent rural local exchange companies and FairPoint positions as member of National Exchange Carrier Association (NECA) Rate Development Task Force and NECA Cost Issues Task Group.
- Work with Chief Operating Officer of Telecom Group to provide regulatory guidance on issues such as cost recovery, budget, and rate development
- Work with affiliated companies and employees to develop and implement processes and systems to provide for continued revenue assurance.
- Assist Senior Vice President/Regulatory in developing corporate policy/positions for various regulatory bodies including FCC.
- Provide data and supporting testimony for State Public Service Commission hearings as needed, coordinate company legislative efforts with other small companies in Florida and Alabama.
- Coordinate with other FairPoint regions the filing of various State and Federal certifications, data requests and forecasts.
- Coordinate with consulting firms the development of standard data collection processes, implement processes to expand internal capabilities in effort to control costs.
- Manage negotiation process for interconnection agreements with other telecommunications companies.

Regional Controller

2003 – May 2007

- Directed activities of Accounting Department whose responsibilities included all General Ledger activity, preparing monthly/annual statements, budgets, budget variance reports and payroll.
- Coordinated with corporate controller regional data for consolidated SEC reporting, quarterly and annual audits, budgets, budget variance reports and payroll.
- Directed activities of Revenue Requirements responsible for the preparation and review of annual cost studies, various NECA, UASC and FCC reporting requirements.
- Supervised all aspects of CABS billing system.

Director of Accounting/Revenue Requirements

1996 - 2003

- Directed activities of Accounting Department whose responsibilities included all General Ledger activity, preparing monthly/annual statements, budgets, budget variance reports and payroll.
- Directed activities of Revenue Requirements department responsible for the preparation and review of annual cost studies.
- Supervised all aspects of CABS billing system .
- Assisted in due diligence work for potential purchases (1996-2000).

Accounting Manager

1990 - 1996

- Directed the activities of accounting staff whose responsibilities included all General Ledger activity, payroll, preparation of monthly and annual statements, annual reports, budget, budget reports and regulatory reporting.
- Responsibility for preparation and review of annual regulatory reports for three affiliated companies.
- Responsibility for coordinating and insuring timely completion of annual audits.

Revenue Requirements Analyst

1986 - 1990

- Preparation of annual regulatory reporting requirements.
- Reviewed and assisted in preparation of regulatory reports for two sister companies.
- Responsibility for billing system that generated approximately 25% of company revenues.
- Assisted accounting department in preparation of annual audit.

Indiantown Telephone System Incorporated – Indiantown, Florida

1984 - 1986

Revenue Requirements Manager

- Responsibility for developing billing program using spreadsheet to bill approximately 15% of company revenues.
- Provided data to consultant for use in preparing annual regulatory studies and responding to Public Service Commission requests.
- Represented company at industry meetings and Public Service Commission hearings.

Southland Telephone Company – Atmore, Alabama

1982 - 1984

Auditor

- Directed the activities of the Accounting Department with staff of five.
- Responsibility for the General Ledger, including preparation of financial statements and annual reports to the FCC, RUS, and Public Service Commissions.

Education

- Bachelor of Arts, 1982
University of West Florida
Accounting
- Bachelor of Business Administration, 1979
University of Mississippi
Banking and Finance

Zenda Telephone Co., Inc.
Docket Number 13-ZENT-065-AUD

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Zenda Telephone Company, Inc. to Submit to an Audit for Purposes of
Determining its Cost-Based Kansas Universal Service Support, Pursuant to K.S.A. 66-2008
For the Test Year of Twelve Months Ending December 31, 2011

Section 2: General Information and Publicity

Not Applicable

ZENDA TELEPHONE COMPANY, INC.

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Section 3: Summary of Rate Base, Operating Income and Rate of Return

Section 3(i): Summary of Revenue Requirement

(A)	(B)	(C)	(D)	(E)	
Line	Description	Total Regulated Company	Total Regulated Interstate	Total Regulated INTRASTATE	Reference: sch[clmn, ln]
1					
2	Proforma Rate Base	\$ 2,692,252	\$ 905,711	\$ 1,786,541	4 (i) [H 40]
3					
4	Rate of Return	3.78%	11.25%	0.00%	7 (i) [I 23]
5					
6	Operating Income Required	\$ 101,892	\$ 101,892	\$ -	
7					
8	Proforma Operating Income	\$ (146,107)	\$ 33,565	\$ (179,672)	9 (i) [H 46]
9					
10	Net Pro Forma Revenue Increase / (Decrease)	\$ 247,999	\$ 68,328	\$ 179,672	
11					
12	Net to Gross Multiplier			1.2371537	11(i) [C 15]
13					
14	Gross Pro Forma Revenue Increase / (Decrease)			\$ 222,281	

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Section 4: Plant Investments - Adjusted Rate Base and Supplemental Schedules

Section 4(i): Rate Base / Plant Investments

Line No.	Acct	Description	A	B	C	D	E	F -- Allocation --		H
			Applicant Book Balance	Applicant Cost Study Adjustments	Applicant Cost Study Balance	Applicant Proforma Adjustments	Applicant Proforma Balance	Interstate	Intrastate	Applicant Intrastate Rate Base
1	2111	Land	0	0	0	0	0	0.397106	0.602894	0
2	2112	Motor Vehicles	0	0	0	0	0	0.397106	0.602894	0
3	2115	Garage Work Equipment	0	0	0	0	0	0.397106	0.602894	0
4	2116	Other Work Equipment	2,648	(46)	2,602	0	2,602	0.397106	0.602894	1,569
5	2121	Buildings	30,366	(325)	29,841	0	29,841	0.397106	0.602894	17,991
6	2122	Furniture	6,945	(120)	6,825	0	6,825	0.397106	0.602894	4,115
7	2123	Office Equipment	4,858	(84)	4,774	0	4,774	0.397106	0.602894	2,878
8	2124	General Purpose Computers	15,372	(266)	15,106	0	15,106	0.397106	0.602894	9,107
9		Total Land & Support Assets	60,189	(1,041)	59,148	0	59,148			35,660
10	2210	Digital Electric Switching Equip.	213,127	(19,248)	193,879	100,000	293,879	0.552539	0.447461	131,499
11										
12	2232	Circuit Equipment	99,856	19,248	119,104	231,565	350,669	0.540012	0.459988	161,304
13		Total Central Office Equip.	312,983	0	312,983	331,565	644,548			292,803
14	2311	Station apparatus	0	0	0	0	0			0
15	2321	Customer premises wiring	0	0	0	0	0			0
16	2341	Large PBX	0	0	0	0	0			0
17	2351	Public Telephone Terminal Equipment	0	0	0	0	0			0
18	2362	Other Terminal Equipment	0	0	0	0	0			0
		Total I.O.T.	0	0	0	0	0			0
19	2411	Poles	0	0	0	0	0	0.291571	0.708429	0
20	2421	Aerial Cable	0	0	0	0	0	0.291571	0.708429	0
21	2423	Buried Cable	454,162	0	454,162	2,070,289	2,524,451	0.291571	0.708429	1,788,394
22	2431	Aerial Wire	0	0	0	0	0	0.291571	0.708429	0
23	2441	Conduit Systems	0	0	0	0	0	0.291571	0.708429	0
24		Total Cable and Wire Facilities	454,162	0	454,162	2,070,289	2,524,451			1,788,394
25	2682	Leasehold Improvements	0	0	0	0	0	0.000000	1.000000	0
26		Gross Telephone Plant	827,334	(1,041)	826,293	2,401,854	3,228,147			2,116,857
27	3100	Accumulated Depreciation	(758,835)	716	(758,119)	194,090	(564,029)	0.388075	0.611925	(345,143)
28	3600	Misc Accum. Depr and Amort	(422,972)	422,972	0	0	0	0.397105	0.602895	0
29		Net Telephone Plant	(354,473)	422,647	68,174	2,595,944	2,664,118			1,771,714
30	1220	Materials and Supplies	0	0	0	0	0	0.291571	0.708429	0
31	1402	RTB Stock	0	0	0	0	0	0.397105	0.602895	0
32	2003	TPUC - Short Term	0	0	0	0	0	0.397105	0.602895	0
33	2005	Telecommunications Plant Adj	422,972	(422,972)	0	0	0	0.397105	0.602895	0
34	2007	Goodwill	691,273	(691,273)	0	0	0	0.000000	1.000000	0
35	4340	Deferred Income Taxes	(155,425)	155,425	0	0	0	0.408000	0.592000	0
36	4040	Customer Deposits	0	0	0	0	0	0.397105	0.602895	0
37	4340	Other Long Term Liabilities	0	0	0	0	0	0.408000	0.592000	0
38		Net Investment	604,347	(536,173)	68,174	2,595,944	2,664,118			1,771,714
39		Cash Working Capital	23,399	0	23,399	4,735	28,134	0.472974	0.527026	14,827
40		Total Rate Base	\$ 627,746	\$ (536,173)	\$ 91,573	\$ 2,600,679	\$ 2,692,252			\$ 1,786,541

Note: 1) Balances in Section 4 are per the G.L. account balances. The separations study utilizes an average investment period. Therefore, the balances in Column C will not reconcile to the separations study in Section 15.
2) See Section 15(i) p. 43-44 for detailed separations categories and allocation information.
3) See Section 15(i) p. 59 for detailed information on cost study adjustments.

ZENDA TELEPHONE COMPANY, INC.

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Section 4: Plant Investments - Adjusted Rate Base and Supplemental Schedules

Section 4(ii): Unadjusted Year-End Plant Investment Balances, for the test year and the three preceding calendar years.

clmn:	(A)	(B)	(C)	(D)	(E)	(F)
	Acct. #	Description	Test Year End 12/31/2011	Year End 12/31/2010	Year End 12/31/2009	Year End 12/31/2008
			Balances per Books			
1		Other Regulated Plant				
2	2002	Property Held for Future Use	0	0	0	0
3	2003	Telecommunications Plant Under Const.	0	0	0	0
4	2005	Telecommunications Plant Adjustment	422,972	422,972	422,972	422,972
5	2006	Non-operating Plant	0	0	0	0
6	2007	Goodwill	691,723	691,273	691,273	691,273
7		Total Other Regulated Plant	1,114,695	1,114,245	1,114,245	1,114,245
8						
9		Telecommunications Plant in Service				
10	2111	Land	0	0	0	0
11	2112	Motor Vehicles	0	0	15,118	15,118
12	2113	Aircraft	0	0	0	0
13	2114	Special Purpose Vehicles	2,648	3,063	3,063	3,063
14	2115	Garage Work Equipment	0	0	0	0
15	2116	Other Work Equipment	0	0	0	0
16	2121	Buildings	30,366	30,366	30,366	30,366
17	2122	Furniture	6,945	7,264	7,264	7,264
18	2123	Office Equipment	4,858	5,037	5,037	5,037
19	2124	General Purpose Computers	15,372	17,353	17,353	14,794
20	2110	Total Land & Support Assets	60,189	63,083	78,201	75,642
21						
22	2211	Analog electronic switching	0	0	0	0
23	2212	Digital electronic switching	213,127	215,562	214,542	216,712
24	2215	Electromechanical switching	0	0	0	0
25	2210	Total Central Office Switching	213,127	215,562	214,542	216,712
26						
27	2220	Operator Systems	0	0	0	0
28						
29	2231	Radio Systems	0	0	0	0
30	2232	Circuit Equipment	99,856	107,224	107,224	129,751
31	2230	Total Circuit Equipment	99,856	107,224	107,224	129,751
32						
33		Total Central Office Equipment	312,983	322,786	321,766	346,463
34						
35	2311	Station apparatus	0	0	0	0
36	2321	Customer premises wiring	0	0	0	0
37	2341	Large PBX	0	0	0	0
38	2351	Public Telephone Terminal Equipment	0	0	0	0
39	2362	Other Terminal Equipment	0	0	0	0
40	2310	Total I.O.T.	0	0	0	0
41						
42	2411	Poles	0	0	0	0
43	2421	Aerial Cable	0	0	0	0
44	2422	Underground Cable	0	0	0	0
45	2423	Buried Cable	454,162	453,612	451,567	451,323
46	2424	Submarine Cable	0	0	0	0
47	2425	Deep Sea Cable	0	0	0	0
48	2426	Intrabuilding network cable	0	0	0	0
49	2431	Aerial Wire	0	0	0	0
50	2432	Conduit Systems	0	0	0	0
51	2410	Total Cable & Wire Facilities	454,162	453,612	451,567	451,323
52						
53	2681	Capital leases	0	0	0	0
54	2682	Leasehold Improvements	0	0	0	0
55	2680	Total Amortizable Tangible Assets	0	0	0	0
56						
57	2690	Intangibles	0	0	0	0
58						
59	2001	Total Telecommunications Plant in Svc.	827,334	839,481	851,534	873,428

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Section 4: Plant Investments - Adjusted Rate Base and Supplemental Schedules

Section 4(ii)a: PRO FORMA Telephone Plant Adjustments

Line	TPA#	Account	Description	KUSF Audit	
				DB	CR
1	1	2212	Digital Switching	\$ 100,000	
2		2232	Circuit Equipment	\$ 274,900	
3		2423	Buried Cable	\$ 2,415,100	
4				<u>\$ 2,790,000</u>	
5			- To record estimated regulated telecommunications infrastructure investment in 2012		
6			source: Schedule 4 (ii) (b)		
7					
8	2	3100-2124	Accum Dep - General Purp Computers		\$ (282)
9		3100-2212	Accum Dep - Digital Switching		\$ 15,931
10		3100-2232	Accum Dep - Circuit Equipment		\$ 41,233
11		3100-2423	Accum Dep - Buried Cable		\$ 137,174
12					<u>\$ 194,056</u>
13			- To record the normalization of depreciation and the pro forma effects of the estimated		
14			regulated telecommunications infrastructure in 2012		
15			source: Schedule 9 (ii) (a)		
16					
17	3	2232	Circuit Equipment		\$ 43,335
18		2423	Buried Cable		\$ 344,811
19					<u>\$ 388,146</u>
20			- To record estimated regulated telecommunications retirements in 2012		
21					
22					
23	4	3100-2232	Accum Dep - Circuit Equipment	\$ 43,335	
24		3100-2423	Accum Dep - Buried Cable	\$ 344,811	
25				<u>\$ 388,146</u>	
26			- To record estimated regulated telecommunications retirements in 2012		
27					
28					
29	5		Cash Working Capital	\$ 4,735	
30				<u>\$ 4,735</u>	
31			- To record the effects of the pro forma adjustments on working capital		
32			source: Schedule 6(i)		

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Section 4: Plant Investments - Adjusted Rate Base and Supplemental Schedules
Section 4(i)(i): PRO FORMA Telephone Plant Addition, Depreciation and Property Taxes

(A)	(B)	(C)	(D)	(E)	(F) F = (D - E)	(G) G = (C * D)	(H)	(I)	(J)	(K) K = (I * J)	(L) L = (H - I)	(M) M = (J * L)
Account #	Description	Depr Rates	Estimated Capital Expenditures - 2012	Acc'd Deprn Balances per Books 12/31/2011	Net Asset Balances per Books 12/31/2011	Annual Depreciation Expense	Actual Annual Depr Exp Based on Net Asset Balances	Depr Exp for Test Year 2011	Intrastate Allocation	Intrastate Depr Exp for Test Year	Total Company Pro Forma Adjustment	Intrastate Pro Forma Depr Exp Adj
2212	Digital electronic switching	11.58%	\$ 100,000	\$ -	\$ 100,000	\$ 11,580	\$ 11,580	\$ -	0.447461	\$ -	\$ 11,580	\$ 5,182
2232	Circuit Equipment	15.33%	\$ 274,900	\$ -	\$ 274,900	\$ 42,692	\$ 42,692	\$ -	0.459988	\$ -	\$ 42,692	\$ 19,638
2423	Buried Cable	5.68%	\$ 2,415,100	\$ -	\$ 2,415,100	\$ 137,178	\$ 137,178	\$ -	0.708429	\$ -	\$ 137,178	\$ 97,181
Total Plant Additions			\$ 2,790,000.00									

	Test Year End 12/31/2011	Reference: sch/ctm, ln
Total Other Regulated Plant	\$1,114,695	4(i) [C 7]
Total Plant in Service	\$827,334	4(i) [C 59]
Total Property	\$1,942,029	
Property Taxes	\$17,223	11(i) [E 4]
% Property Taxes / Property	0.8869%	

	Test Year End 12/31/2011	Pro Forma Property Adds	Pro Forma Property Retirements	Total Company Pro Forma Adjustment
Total Property	\$1,942,029	\$ 2,790,000	\$ (388,146)	\$4,343,883
			% Property Taxes / Property	0.8869%
			Total Pro Forma Property Taxes	\$38,524

ZENDA TELEPHONE COMPANY, INC.
Docket Number 13-ZENT-065-AUD

In the Matter of the Staff's Motion Requesting the Commission Order Zenda Telephone Company, Inc. to Submit to an Audit for Purposes of Determining its Cost-Based Kansas Universal Service Support, Pursuant to K.S.A. 66-2008 For the Test Year of Twelve Months Ending December 31, 2011

Section 5: Accumulated Provision for Depreciation and Amortization
Section 5(i): Unadjusted Year-End Balances, Adjustments and Allocation to State Jurisdiction

clmn:	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
			Balance per Books	Cost Study Adjustments		Regulated Balance	Pro Forma Adjustments		Pro Forma Balance	State Jurisdiction	
In #	Acct. #	Description		Debits	Credits		Debits	Credits		Allocation Factors	Intrastate Balances
1		<u>Investment Offsets</u>									
2	3100	Accum. Depr. - TPIS	(41,419)	716	0	(40,703)	0	-282	(40,421)	0.611925	(24,735)
3	3100.1	Accum. Depr. - Land and Support Assets	(170,684)	15,415	0	(155,269)	0	15,931	(171,200)	0.611925	(104,762)
4	3100.2	Accum. Depr. - C.O.E. Switching	0	0	0	0	0	0	0	0.000000	0
5	3100.3	Accum. Depr. - C.O.E. Operator Systems	0	0	0	0	0	0	0	0.000000	0
6	3100.4	Accum. Depr. - C.O.E. Transmission	(99,856)	0	(15,415)	(115,271)	43,335	41,233	(113,169)	0.611925	(69,251)
7	3100.5	Accum. Depr. - I.O.T. Equipment	0	0	0	0	0	0	0	0.000000	0
8	3100.6	Accum. Depr. - Cable and Wire Facilities	(446,876)	0	0	(446,876)	344,811	137,174	(239,239)	0.611925	(146,396)
9	3100	Total Accum. Depr. - TPIS	(758,835)	16,131	(15,415)	(758,119)	388,146	194,056	(564,029)		(345,143)
10											
11	3200	Accum. Depr. - PHFU	0	0	0	0	0	0	0	0.000000	0
12	3300	Accum. Depr. - Nonoperating	0	0	0	0	0	0	0	0.000000	0
13	3410	Accum. Amort - Capitalized Leases	0	0	0	0	0	0	0	0.000000	0
14	3420	Accum. Amort. - Leasehold Improvements	0	0	0	0	0	0	0	0.000000	0
15	3500	Accum. Amort. - Intangible	(422,972)	422,972	0	0	0	0	0	1.000000	0
16	3600	Accum. Amort. - Other	0	0	0	0	0	0	0	0.000000	0
17											
18		Total Investment Offsets	(1,181,807)	439,103	(15,415)	(758,119)	388,146	194,056	(564,029)		(345,143)

- Note:
- 1) Balances in Section 5 are per the G/L account balances. The separations study utilizes an average investment period. Therefore, the balances in Column F will not reconcile to the separations study in Section 15.
 - 2) See Section 15(i) p. 43-44 for detailed separations categories and allocation information.
 - 3) See Section 15(i) p.59 for detailed information on cost study adjustments.

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Section 5: Accumulated Provision for Depreciation and Amortization

Section 5(ii): Unadjusted Year-End Balances, for the test year and the three preceding calander years.

clmn:	(A)	(B)	(C)	(D)	(E)	(F)
	Balances per Books					
In #	Acct. #	Description	Test Year End 12/31/2011	Year End 12/31/2010	Year End 12/31/2009	Year End 12/31/2008
1						
2		<u>Accumulated Depreciation</u>				
3	3100	Accum. Depr. - TPIS				
4	3100.1	Accum. Depr. - Land and Support Assets	(41,419)	(42,506)	(54,615)	(52,016)
5	3100.2	Accum. Depr. - C.O.E. Switching	(170,684)	(157,365)	(148,162)	(130,928)
6	3100.3	Accum. Depr. - C.O.E. Operating Systems	0	0	0	0
7	3100.4	Accum. Depr. - C.O.E. Transmission	(99,856)	(105,765)	(102,608)	(124,138)
8	3100.5	Accum. Depr. - I.O.T. Equipment	(1,346)	(1,346)	(1,346)	(1,346)
9	3100.6	Accum. Depr. - Cable and Wire Facilities	(446,876)	(440,262)	(432,772)	(426,483)
10	3100	Total Accum. Depr. - TPIS	(760,181)	(747,244)	(739,503)	(734,911)
11						
12	3200	Accum. Depr. - PHFU	0	0	0	0
13	3300	Accum. Depr. - Nonoperating	0	0	0	0
14	3410	Accum. Amort. - Capitalized Leases	0	0	0	0
15	3420	Accum. Amort. - Leasehold Improvements	0	0	0	0
16	3500	Accum. Amort. - Intangible	(422,972)	(389,650)	(350,685)	(311,720)
17	3600	Accum. Amort. - Other	0	0	0	0
18						
19		Total Accumulated Depreciation and Amortization	(1,183,153)	(1,136,894)	(1,090,188)	(1,046,631)
20						

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Section 6: Working Capital

Section 6(i): Calculation of Cash Working Capital and Allocation to State Jurisdiction

clmn:	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
ln #	Acct. #	Description	Applicant Book Balance	Applicant Cost Study Adjustments	Applicant Cost Study Balance	Applicant Pro Forma Adjustments	Adjustment Balance	Reference: sch(clmn, ln)
1								
2	6110 - 6410	Plant Specific Expense	111,150	(1,322)	109,828	0	109,828	9 (E, 19)
3	6510 - 6560	Plant Non-Specific Expense	70,548	(33,407)	37,141	194,056	231,197	9 (E, 25)
4	6560	less: Depreciation Expense	(64,206)	33,353	(30,853)	(194,056)	(224,909)	9 (E, 23)
5	6610 - 6620	Customer Operations Expense	43,712	(3,335)	40,377	0	40,377	9 (E, 30)
6	6710 - 6720	Corporate Operations Expense	226,140	189,000	415,140	25,000	440,140	9 (E, 34)
7	7370	Other Expense - Contributions	0	0	0	0	0	9 (E, 41)
8	7510	Operating Fixed Charges	0	0	0	69,750	69,750	9 (E, 43)
9	7200 less 7250	Operating Taxes	(2,251)	0	(2,251)	20,457	18,206	9 (E35 + E 36 + E 37 + E 38)
10	7540	Interest on Customer Deposits	0	0	0	0	0	
11		Annual Cash Operating Expense Base	385,093	\$ 184,289	\$ 569,382	\$ 115,207	\$ 684,589	
12								
13		Standard Allowance Factor			4.1096%		4.1096%	FCC
14								
15		Cash Working Capital			\$ 23,399	\$ 4,735	28,134	
16		Intrastate Allocation Factor					52.7026%	15 (p. 43)
17								
18		Cash Working Capital - State					<u>\$ 14,827</u>	

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Section 7: Capital and Cost of Money

Section 7(i): Capital structure and Weighted Cost of Capital

clmn:	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
	Year End December 31, 2010					Year End December 31, 2011			
ln #	Description	Amount	Actual weight	Cost	Average Cost	Amount	Actual weight	Cost	Average Cost
1									
2	Debt:								
3									
4									
5	Equity								0.00
6									
7									
8									
9	Weighted Cost of Capital								0.00

REDACTED

End of Test Year December 31, 2011

	Description	Amount	Proposed weight	Cost	Average Cost
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					

P
R
O
P
O
S
E
D

Bold
Equity
Weighted Cost of Capital

0.00
0.00
0.00

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Section 7: Capital and Cost of Money

Section 7(ii): Weighted Cost of Debt

REDACTED

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Section 7: Capital and Cost of Money

Section 7(iii): Historical Interest Coverage

REDACTED

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Section 7: Capital and Cost of Money

Section 7(iv): Consolidated Capital Structure

clmr	(A)	(B)	(C)			(D)			
			Year End December 31, 2010			Year End December 31, 2011			
In #	Description	Amount	Actual weight	Cost	Average Cost	Amount	Actual weight	Cost	Average Cost
1									
2	Debt								
3									
4									
5	Equity								
6									
7									
8									
9									
10	Weighted Cost of Capital								

REDACTED

ZENDA TELEPHONE COMPANY, INC.

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SECTION 8: Financial and Operating Data

Section 8(i): Balance sheet by Primary Accounts (unadjusted)

Ln	Acct #	Description	TEST YEAR		Three Preceding Calendar Years	
			YE 12/31/11	YE 12/31/10	YE 12/31/09	YE 12/31/08
1		<u>Current Assets</u>				
2	1130.00	Total Cash & Equivalents	\$70,939.96	\$60,303.69	\$55,805.07	\$84,730.19
3	1180.00	Telecommunication A/R	8,422.38	9,507.58	9,803.73	10,651.03
4	1181.00	Reserve for Uncollectibles	(2,574.04)	(2,629.72)	(2,629.72)	(2,163.81)
5	1190.00	Access Account Receivable	38,089.96	78,580.17	40,775.97	41,033.45
6	1190.40	Accounts Receivable Affiliates	128,892.62	99,995.52	175,213.07	154,626.05
7	1310.00	Prepayments	4,755.72	4,666.73	8,674.50	14,688.33
8	1350.00	Deferred Fed Inc Tax-Current	942.98	703.98	962.98	490.98
9		Total Current Assets	249,469.58	251,127.95	288,605.60	304,056.22
10						
11						
12		<u>NONCURRENT ASSETS</u>				
13	1402.00	Investments	1,647.45	1,617.92	1,592.87	1,529.38
14	1406.00	NonRegulated Investments	2,692.55	2,692.55	2,692.55	2,692.55
15	1438.00	Deferred maintenance	13,021.47	12,157.92	7,258.74	0.00
16	1490.02	Internet Modem Banks	7,010.37	7,010.37	7,010.37	7,010.37
17	1490.03	Accum Depr Internet Modem Banks	(7,010.37)	(7,010.37)	(7,010.37)	(6,718.30)
18		TOTAL NONCURRENT ASSETS	17,361.47	16,468.39	11,544.16	4,514.00
19						
20		<u>PLANT, PROPERTY, AND EQUIPMENT</u>				
21	2112.00	Vehicle	0.00	0.00	15,118.28	15,118.28
22	2114.00	Work Equipment	2,647.50	3,062.50	3,062.50	3,062.50
23	2121.00	Building and Grounds	30,366.04	30,366.04	30,366.04	30,366.04
24	2122.00	Furniture	6,945.02	7,264.32	7,264.32	7,264.32
25	2123.00	Office Equipment	4,858.10	5,036.79	5,036.79	5,036.79
26	2124.00	Computer	15,372.45	17,353.45	17,353.45	14,793.79
27	2212.00	Digital Switch	213,126.73	215,562.66	214,542.65	216,712.65
28	2232.00	Circuit Equipment	99,855.30	107,223.29	107,223.29	129,749.78
29	2423.00	Buried Cable	454,161.99	453,611.95	451,568.31	451,322.70
30		Total Plant in Service	827,333.13	839,481.00	851,535.63	873,426.85
31						
32		<u>Property Held for Future Use</u>				
33	2005.00	Telecommunications Plant Adjust.	442,972.00	442,972.00	422,972.00	422,972.00
34	2007.00	Goodwill	691,273.01	691,273.01	691,273.01	691,273.01
35		Total Plant Adjustment	\$1,114,245.01	\$1,114,245.01	\$1,114,245.01	\$1,114,245.01
36						
37						

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SECTION 8: Financial and Operating Data

Section 8(i): Balance sheet by Primary Accounts (unadjusted)

Ln	Acct #	Description	TEST YEAR	Three Preceding Calendar Years		
			YE 12/31/11	YE 12/31/10	YE 12/31/09	YE 12/31/08
1		Less: Accumulated Depreciation				
2	3100.50	Accumulated Amortization	(\$422,972.00)	(\$389,649.89)	(\$350,684.93)	(\$311,719.97)
3	3106.20	Depreciation Non-Reg Invest	(1,346.28)	(1,346.28)	(1,346.28)	(1,346.28)
4	3111.20	Depreciation Vehicle	0.00	0.00	(15,118.28)	(15,118.28)
5	3111.41	Depreciation Work Equipment	(2,947.50)	(3,362.50)	(3,362.50)	(3,362.50)
6	3121.21	Depreciation Building-Grounds	(11,013.35)	(9,488.99)	(7,964.63)	(6,440.27)
7	3121.22	Depreciation Furniture	(6,945.02)	(7,264.32)	(7,264.32)	(7,264.32)
8	3121.23	Depreciation Office Equipment	(4,858.10)	(5,036.79)	(5,036.79)	(5,036.79)
9	3121.24	Depreciation Computer	(15,654.91)	(17,353.45)	(15,867.99)	(14,793.79)
10	3122.10	Depreciation Digital Switch	(170,683.65)	(157,365.01)	(148,162.27)	(130,927.90)
11	3123.00	Depreciation Circuit	(99,855.36)	(105,764.17)	(102,607.57)	(124,137.19)
12	3142.00	Depreciation Buried Cable	(446,875.27)	(440,261.39)	(432,771.21)	(426,483.09)
13		Total Less: Accum. Depre.	(1,183,151.44)	(1,136,892.79)	(1,090,186.77)	(1,046,630.38)
14		NET PLANT	758,426.70	816,833.22	875,593.87	941,041.48
15		TOTAL ASSETS	1,025,257.75	1,084,429.56	1,175,743.63	1,249,611.70
16						
17						
18		<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>				
19		<u>Current Liabilities</u>				
20	4010.00	Accounts Payable	33,552.18	31,569.34	48,616.84	52,355.90
21	4030.00	Advance Billing & Payment	2,344.31	2,506.64	2,713.50	3,693.67
22	4080.00	Other Taxes Accrued	7,340.30	7,342.99	6,746.09	6,658.59
23	4120.00	Accrued Vac & sick (net)	0	(707.57)	0.00	0.00
24		Total Current Liabilities	43,236.79	40,711.40	58,076.43	62,708.16
25						
26		<u>OTHER LIABILITIES AND DEFERRED CREDITS</u>				
27	4340.00	Deferred income taxes	155,245.00	148,039.00	143,417.00	136,776.00
28						
29		Total Other Liabilities	155,245.00	148,039.00	143,417.00	136,776.00
30						
31		<u>STOCKHOLDERS EQUITY</u>				
32	4510.00	Capital Stock	1.00	1.00	1.00	1.00
33		Additional Paid In Capital	1,489,604.41	1,489,604.41	1,489,604.41	1,489,604.41
34		Retained Earnings	(663,009.45)	(593,926.25)	(515,355.21)	(439,477.87)
35		Total Equity	826,595.96	895,679.16	974,250.20	1,050,127.54
36						
37		TOTAL LIABILITIES AND EQUITY	\$1,025,257.75	\$1,084,429.56	\$1,175,743.63	\$1,249,611.70

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SECTION 8: Financial and Operating Data

Section 8(ii): Comparative Income and Retained Earnings Statements (unadjusted)

Ln	Acct #	Description	TEST YEAR	Three Preceding Calendar Years		
			YE 12/31/11	YE 12/31/10	YE 12/31/09	YE 12/31/08
1		<u>INCOME</u>				
2		<u>Telephone Operating Income</u>				
3	5000	Operating Revenue	\$600,060.61	\$596,782.59	\$587,679.38	\$632,154.07
4	6000	Operating Expenses	639,681.76	639,510.48	624,190.05	634,747.04
5	7240.25	Federal Income Taxes	(20,072.00)	(20,014.00)	(17,170.00)	(8,798.00)
6	7240.26	State and Local Income Taxes	598.00	80.00	2,571.00	8,547.00
7	7240.00	Other operating Taxes-Property	17,223.13	15,671.00	14,944.03	12,112.59
8						
9		Operating Income	(37,370.28)	(38,464.89)	(36,855.70)	(14,454.56)
10						
11						
12		<u>Non Operating Income/Expense</u>				
13	7320	Interest Income	42.58	57.10		
14	7510	Interest Expense		24.60		
15	7360	Non-Operating Income	42.18	(875.34)	197.31	207.27
16						
17						
18		Non-operating Income/expense-Net	84.76	(842.84)	197.31	207.27
19						
20		Income Available for Fixed Charges	(37,285.52)	(39,307.73)	(36,658.39)	(14,247.29)
21						
22		Deregulated Income - Net	(1,797.68)	736.69	781.05	3,576.53
23						
24		Total Net Income	(39,083.20)	(38,571.04)	(35,877.34)	(10,670.76)
25						
26		<u>Retained earnings</u>				
27						
28		Balance - beginning of year	(593,927.00)	(515,355.00)	(439,478.00)	(388,807.00)
29						
30		Net Loss for Year	(39,083.00)	(38,572.00)	(35,876.00)	(10,671.00)
31						
32		Dividends Paid during Year	(30,000.00)	(40,000.00)	(40,000.00)	(40,000.00)
33						
34		Balance - end of year	(\$663,010.00)	(\$593,927.00)	(\$515,354.00)	(\$439,478.00)
35						
36						

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SECTION 8: Financial and Operating Data

Section 8(iii): Operating Revenue and Expense by Primary Accounts

Ln	Acct #	Description	TEST YEAR	Three Preceding Calendar Years		
			YE 12/31/11	YE 12/31/10	YE 12/31/09	YE 12/31/08
1		<u>Local Revenue</u>				
2	5000	Local Service Revenue	\$29,513.86	\$31,561.90	\$33,560.23	\$34,209.68
3	5060	Custom Calling Revenue	\$4,759.66	4,981.82	5,116.05	5,446.26
4	5060	Connection Charges	\$336.00	311.50	579.00	292.50
5	5061	PIC Revenue-Interstate	\$0.00	30.25	2.75	0.00
6	5061	PIC Revenue-Intrastate	\$0.00	93.72	8.52	8.52
7		Total Local Revenue	\$34,609.52	36,979.19	39,266.55	39,956.96
8						
9		<u>Network Access Revenue</u>				
10	5081	End User- Interstate	\$11,670.19	12,815.96	13,771.02	14,839.59
11	5082	Interstate Switched Access	\$237,638.54	193,335.32	202,990.18	227,536.43
12	5082	Interstate USF	\$114,486.00	142,269.00	132,780.00	135,129.00
13	5083	Interstate Special Access	\$28,960.82	28,374.10	17,304.64	16,041.72
14	5084	Lifeline	\$50.34	(158.07)	96.00	(54.72)
15	5084	Intrastate Switched Access	\$8,334.99	11,711.75	13,096.46	28,161.13
16	5084	KUSF	\$92,513.23	97,364.32	100,982.57	117,350.47
17	5085	Intrastate End User	\$2,525.50	2,769.65	2,327.10	2,196.01
18	5086	State Switched Access - Cellular	\$737.56	931.05	\$363.74	\$13,736.88
19	5087	State Special Access	\$52,955.88	52,955.88	48,548.40	35,325.96
20		Total Network Access Revenue	\$549,873.05	542,368.96	532,260.11	590,262.47
21						
22		<u>Private Line Revenue</u>				
23	5120	Private Line - Intrastate	\$552.00	552.00	552.00	552.00
24	5122	Private Line - Interstate	\$11,485.69	13,688.81	12,460.03	10,981.99
25		Total Private Line	\$12,037.69	14,240.81	13,012.03	11,533.99
26						
27		<u>Billing and Collection</u>				
28	5271	B&C - Interstate	\$661.52	118.17	147.12	197.13
29	5272	B&C - Intrastate	\$409.14	896.05	1,146.70	1,749.71
30		Total B&C	\$1,070.66	1,014.22	1,293.82	1,946.84
31						
32		<u>Miscellaneous Revenue</u>				
33	5210	Late Payment Revenue	\$190.48	0.00	0.00	0.00
34	5260	Miscellaneous Revenue	\$145.18	141.50	362.12	265.84
35	5230	Directory Revenue	\$2,134.03	2,037.91	2,084.75	2,258.81
36		Total Miscellaneous Revenue	\$2,469.69	2,179.41	2,446.87	2,524.65
37	5301	Uncollectable Revenue	0.00	0.00	(600.00)	(14,070.84)
38						
39		NET OPERATING REVENUE	\$600,060.61	\$596,782.59	\$587,679.38	\$632,154.07

ZENDA TELEPHONE COMPANY, INC.

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SECTION 8: Financial and Operating Data

Section 8(iii): Operating Revenue and Expense by Primary Accounts

Ln	Acct #	Description	TEST YEAR	Three Preceding Calendar Years		
			YE 12/31/11	YE 12/31/10	YE 12/31/09	YE 12/31/08
1		<u>Plant Specific Expenses</u>				
2	6121	Land & Buildings Expense	\$12,163.49	\$13,100.38	\$14,142.55	\$12,634.77
3	6123	Office Equipment Expense	450.52	614.50	834.55	742.24
4	6124	Computers Expense	13,747.25	14,607.90	14,360.85	13,976.35
5	6212	Digital COE expense	66,418.35	62,633.73	42,439.68	20,487.12
6	6232	Circuit Expense	854.16	351.34	367.00	21,861.02
7	6423	Buried Cable Expense	16,648.57	9,934.98	18,508.92	16,560.06
8		Total Plant Specific Expenses	110,282.34	101,242.83	90,653.55	86,261.56
9						
10		<u>Plant Non-Specific Expenses</u>				
11	6531	Power Expense	3,100.29	2,302.95	2,295.76	2,752.68
12	6532	Network Administration Expense	100.62	50.79	52.44	756.73
13	6533	Testing Expense	3,141.08	4,374.34	3,712.13	3,275.70
14	6534	Plant Administration	0	999.76	1,359.63	1,465.16
15	6540	Transport Expense	0.00	6,101.69	6,261.32	6,190.55
16		Total Plant Non-Specific Expense	6,341.99	13,829.53	13,681.28	14,440.82
17						
18		<u>Depreciation & Amortization</u>				
19	6561	Depreciation Expense	30,884.00	32,157.31	31,514.45	32,314.99
20	6563	Amortization Expense	33,322.11	38,964.96	38,964.96	38,964.96
21		Total Depr. & Amort.	64,206.11	71,122.27	70,479.41	71,279.95
22						
23		<u>Customer Operations Expense</u>				
24	6622	Directory Expense	2,624.93	3,072.93	3,126.84	3,033.70
25	6623	Customer Service Expense	18,313.75	19,504.74	23,224.38	16,695.96
26	6627	Customer Billing Expense	22,773.75	24,193.90	16,490.81	11,314.88
27		Total Customer Operations Expense	\$43,712.43	\$46,771.57	\$42,842.03	\$31,044.54

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SECTION 8: Financial and Operating Data

Section 8(iii): Operating Revenue and Expense by Primary Accounts

Ln	Acct #	Description	TEST YEAR	Three Preceding Calendar Years		
			YE 12/31/11	YE 12/31/10	YE 12/31/09	YE 12/31/08
1		Corporate Operations Expense				
2	6711	Executive Expense	\$88,629.53	\$88,796.01	\$90,024.69	\$295,790.96
3	6712	Corporate Operations Expense	299.62	440.03	683.24	381.72
4	6720	G&A Managements Fees	189,000.00	0.00	0.00	0.00
5	6721	Accounting & Finance Expense	47,634.16	55,380.31	60,201.45	59,160.70
6	6722	External Relations & Cost Study Expense	59,454.43	45,080.58	39,291.19	36,703.52
7	6724	Information Management Expense	1,037.50	0.00	535.43	0.00
8	6725	Legal Expense	22,573.24	19,819.48	19,400.26	20,359.53
9	6728	Other G&A Expense	6,510.41	195,448.79	194,633.51	17,776.93
10	7370	Misc Fees	0.00	1,579.08	1,764.01	1,546.81
11		Total Corporate Operating Expense	415,138.89	406,544.28	406,533.78	431,720.17
12						
13		Total Operating Expenses	\$639,681.76	\$639,510.48	\$624,190.05	\$634,747.04

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SECTION 8: Financial and Operating Data

Section 8(iv): Operating Statistics

NOT APPLICABLE

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SECTION 8: Financial and Operating Data

Section 8(v): Annual Payrolls by Primary Accounts

Ln	Acct #	Description	TEST YEAR	Three Preceding Calendar Years		
			YE 12/31/11	YE 12/31/10	YE 12/31/09	YE 12/31/08
1	2003.00	Short Term Construction				
2	2423.00	Buried Cable				
3	6112.22	Expense-Vehicle				
4	6121.00	Expense-Land/Building				
5	6123.00	Expense-Office Equipment		REDACTED		
6	6124.00	Expense-Computers				
7	6212.00	Expense-COE				
8	6232.00	Expense-Circuit				
9	6311.00	Expense-CPE/Internet Non-Reg				
10	6423.00	Expense-Buried Cable				
11	6531.00	Expense-Power				
12	6532.00	Expense-Network Administration				
13	6533.00	Expense-Exchange Testing				
14	6534.00	Expense-Plant Safety				
15	6622.00	Expense-Directory				
16	6623.00	Expense-Customer Service				
17	6627.00	Expense-Billing				
18	6711.00	Expense-Executive				
19	6712.00	Expense-Corporation Operations				
20	6721.00	Expense-Accounting				
21	6722.00	Expense-External Relations				
22	6728.00	Expense-Other Gen & Admin				

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Section 9: Test Year and Pro Forma Income Statement

Section 9(i): Income Statement

Line No.	Acct. No.	Description	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
			Applicant Book Balance	Applicant Cost Study Adjustments	Applicant Cost Study Balance	Applicant Proforma Adjustments	Applicant Proforma Balance	Allocation --- Interstate	Allocation --- Intrastate	Applicant Intrastate Balance
<u>Operating Revenues</u>										
1	5001	Local Network Services Revenues	29,514	0	29,514	0	29,514	0.000000	1.000000	29,514
2	5060	Other Basic Area Revenue	5,096	0	5,096	0	5,096	0.000000	1.000000	5,096
3	5069	Federal High Cost Loop Support	114,486	0	114,486	0	114,486	0.000000	1.000000	114,486
4	5100	Kansas Universal Service Support	92,513	0	92,513	0	92,513	0.000000	1.000000	92,513
5	5080	Network Access Revenue	354,358	0	354,358	163,333	517,691	Direct Assign		64,359
6	5100	Long Distance Network Service Rev	552	0	552	0	552	0.000000	1.000000	552
7	5270	Billing and Collection	1,071	0	1,071	0	1,071	Direct Assign		409
8	5230	Directory Revenue	2,134	0	2,134	0	2,134	0.000000	1.000000	2,134
9	5260	Misc Revenue	335	0	335	0	335	0.000000	1.000000	335
10	5280	Non-regulated Revenue	26,340	(26,340)	0	0	0	0.000000	0.000000	0
11	5300	Uncollectible Revenue	0	0	0	0	0	0.000000	0.000000	0
12		Total Revenues	626,399	(26,340)	600,059	163,333	763,392			309,398
<u>Plant Specific Operations Expenses</u>										
13	6110	Network Support Expense	0	0	0	0	0	0.397110	0.602890	0
14	6120	General Support Expense	26,362	(456)	25,906	0	25,906	0.397110	0.602890	15,618
15	6210	Central Office Switching Expense	66,419	0	66,419	0	66,419	0.547793	0.452207	30,035
16	6230	Central Office Transmission Expense	854	0	854	0	854	0.547793	0.452207	386
17	6310	Information Orig/Term Expense	866	(866)	0	0	0	0.000000	0.000000	0
18	6410	Cable and Wire Facilities Exp	16,649	0	16,649	0	16,649	0.291571	0.708429	11,795
19		Total Plant Specific Operations Exp.	111,150	(1,322)	109,828	0	109,828			57,834
<u>Plant Non-Specific Operations Expense</u>										
20	6510	Other Plant Expense	0	0	0	0	0	0.397105	0.602895	0
21	6530	Network Operations Expense	6,342	(54)	6,288	0	6,288	0.397106	0.602894	3,791
22	6540	USF	0	0	0	0	0	0.000000	0.000000	0
23	6560	Depreciation & Amortization	64,206	(33,353)	30,853	194,056	224,909	0.480569	0.519431	116,825
24	6565	Amort of Tangible Assets	0	0	0	0	0	0.397105	0.602895	0
25		Total Non-Specific Op Exp.	70,548	(33,407)	37,141	194,056	231,197			120,616
<u>Customer Operations Expense</u>										
26	6610	Marketing Expense	0	0	0	0	0	0.216238	0.783762	0
27	6621	Operator Services	0	0	0	0	0	0.000000	0.000000	0
28	6622	Directory Expense	2,624	(2,624)	0	0	0	0.000000	0.000000	0
29	6623	Customer Services Expense	41,088	(711)	40,377	0	40,377	0.321817	0.678183	27,383
30		Total Customer Operations Expense	43,712	(3,335)	40,377	0	40,377			27,383
31	6710	Executive and Planning Exp	88,930	0	88,930	0	88,930	0.438007	0.561993	49,978
32	6720	General and Administrative Exp	137,210	189,000	326,210	0	326,210	0.506726	0.493274	160,911
33	6720	General and Administrative Exp-Rate Case	0	0	0	25,000	25,000	0.000000	1.000000	25,000
34		Total Corporate Operations Expense	226,140	189,000	415,140	25,000	440,140			235,889
<u>Operating Taxes & Other Operating Expenses</u>										
35	7210	Amortization of ITC	0	0	0	0	0	0.397105	0.602895	0
36	7220	Operating Federal Income Taxes	0	(20,072)	(20,072)	(14,140)	(34,212)	0.397105	0.602895	(20,626)
37	7230	Operating State Income Taxes	0	598	598	(3,927)	(3,329)	0.397105	0.602895	(2,007)
38	7240	Other Operating Taxes	(2,251)	19,474	17,223	38,524	55,747	0.393601	0.606399	33,805
39	7250	Deferred Income Taxes	0	0	0	0	0	0.000000	0.000000	0
40	7340	Allow. For Funds Used During Const.	0	0	0	0	0	0.000000	0.000000	0
41	7370	Contributions and Fees	0	0	0	0	0	0.000000	0.000000	0
42	5240	Rent Revenue	0	0	0	0	0	0.000000	0.000000	0
43	7500	Interest and Related Items	0	0	0	69,750	69,750	0.481352	0.518648	36,176
44		Total Oper. Taxes & Other Oper. Exp.	(2,251)	0	(2,251)	90,207	87,956			47,348
45		Total Operating Expenses	449,299	150,936	600,235	309,264	909,499			489,070
46		Net Operating Income	177,100	(177,276)	(176)	(145,931)	(146,107)			(179,672)

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Section 9: Test Year and Pro Forma Income Statement

Section 9(i): Adjustments for known or determinable changes in revenues and expenses

Line	TPA#	Account	Description	KUSF Audit	
				DB	CR
1	1	5080	Network Access Revenue		\$ 172,356
2					
3					\$ 172,356
4			- Pro Forma adjustment for estimated changes in Interstate revenue requirement due To FTTH project		
5					
6					
7	2	5080	Network Access Revenue	\$ 9,023	
8					
9				\$ 9,023	
10			- To adjust for changes in Interstate and State Access revenues due to FCC Order reforms		
11			source: Schedule 9 (ii) (b)		
12					
13					
14	3	6720	General and Administrative - KUSF Audit	\$ 25,000	
15					
16				\$ 25,000	
17			- To record one year amortization expense of KUSF audit expense		
18			Projected cost of KUSF audit fees \$125,000 amortized over 5 years		
19					
20	4	6561	Depreciation Expense	\$ 194,056	
21					
22				\$ 194,056	
23			- To record the normalization of depreciation and the pro forma effects of the estimated regulated telecommunications infrastructure in 2012		
24			source: Schedule 9 (ii) (a)		
25					
26					
27	5	7220	Operating Federal Income Taxes	\$ (14,140)	
28		7230	Operating State and Local Income Taxes	\$ (3,927)	
29				\$ (18,067)	
30			- Pro Forma adjustment for income tax calculations		
31			source: Schedule 11(i)		
32					
33	6	7240	Other Operating Taxes	\$ 38,524	
34				\$ 38,524	
35			- To record increase in property taxes due to Pro Forma telephone plant additions in 2012		
36			source: Schedule 4(ii)(b)		
37					
38					
39	6	7510	Interest Expense	\$ 69,750	
40				\$ 69,750	
41			- To record increase in interest expense due to RUS loan in 2012		
42					

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Section 9: Test Year and Pro Forma Income Statement

Section 9 (B)(a) Depreciation and Amortization - Adjustments for known or determinable changes in revenues and expenses

Line No.	Acct Description	(C) Depreciation Rates	(D) Asset Balances		(E) Accum Depreciation		(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
			per Books 12/31/2011	Pro Forma Capital Akts	Balances per Books 12/31/2011	Net Asset Bal Test Year	F = (D - E)	G = (C * D) Annual Depreciation Expense	Actual Annual Deprec Expense Based on Net Asset Balances	Depr Expense for Test Year 2011	Intrastate Deprec Exp for Test Year 2011	Total Company Pro Forma Adjustment	Intrastate Pro Forma Deprec Exp Adj	Intrastate Adjusted Deprec Exp for Test Year	
General Support Facilities															
1	2112 Motor Vehicles	26.27%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.60289	\$ -	\$ -	\$ -	0
2	2115 Garage Work Equipment		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.60289	\$ -	\$ -	\$ -	0
3	2116 Other Work Equipment	23.98%	\$ 2,648	\$ -	\$ (2,948)	\$ (300)	\$ 635	\$ -	\$ -	\$ -	0.60289	\$ -	\$ -	\$ -	0
4	2121 Buildings	5.02%	\$ 30,366	\$ -	\$ (11,013)	\$ 19,353	\$ 1,524	\$ 1,524	\$ 1,524	\$ 1,524	0.60289	\$ 919	\$ 0	\$ 0	919
5	2122 Furniture	15.57%	\$ 6,945	\$ -	\$ (6,945)	\$ -	\$ 1,081	\$ -	\$ -	\$ -	0.60289	\$ -	\$ -	\$ -	0
6	2123 Office Equipment	18.10%	\$ 4,858	\$ -	\$ (4,858)	\$ -	\$ 879	\$ -	\$ -	\$ -	0.60289	\$ -	\$ -	\$ -	0
7	2124 General Purpose Computers	18.57%	\$ 15,372	\$ -	\$ (15,655)	\$ (283)	\$ 2,855	\$ -	\$ 282	\$ 282	0.60289	\$ 170	\$ (282)	\$ (170)	0
8															
9	Central Office Assets														
10	2210 Digital Electric Switching Equip.	11.58%	\$ 213,127	\$ -	\$ (170,684)	\$ 42,443	\$ 24,680	\$ 24,680	\$ 20,329	\$ 20,329	0.44746	\$ 9,096	\$ 4,351	\$ 1,947	11,043
11	Switch Additions-2012	11.58%	\$ 100,000	\$ -	\$ -	\$ 100,000	\$ 11,580	\$ 11,580	\$ -	\$ -	0.44746	\$ -	\$ 11,580	\$ 5,182	5,182
12	2232 Circuit Equipment	15.53%	\$ 99,856	\$ -	\$ (99,856)	\$ -	\$ 15,508	\$ -	\$ 1,459	\$ 1,459	0.45999	\$ 671	\$ (1,459)	\$ (671)	0
13	Circuit Equipment Adds-2012	15.53%	\$ 274,900	\$ -	\$ -	\$ 274,900	\$ 42,692	\$ 42,692	\$ -	\$ -	0.45999	\$ -	\$ 42,692	\$ 19,638	19,638
14															
15	Cable & Wire Facilities Assets														
16	2411 Poles	15.81%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.70843	\$ -	\$ -	\$ -	0
17	2421 Aerial Cable	17.58%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.70843	\$ -	\$ -	\$ -	0
18	2423 Buried Cable	5.68%	\$ 454,162	\$ -	\$ (446,876)	\$ 7,286	\$ 25,796	\$ 7,286	\$ 7,290	\$ 7,290	0.70843	\$ 5,164	\$ (4)	\$ (3)	5,162
19	Buried Cable Additions-2012	5.68%	\$ 2,415,100	\$ -	\$ -	\$ 2,415,100	\$ 137,178	\$ 137,178	\$ -	\$ -	0.70843	\$ -	\$ 137,178	\$ 97,181	97,181
20	2431 Aerial Wire	5.68%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.70843	\$ -	\$ -	\$ -	0
21	2441 Conduit Systems	6.48%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.70843	\$ -	\$ -	\$ -	0
22															
23	2682 Leaschold Improvements		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000					
24															
25	TOTALS		\$ 827,334	\$ 2,790,000	\$ (758,835)	\$ 2,858,499	\$ -	\$ 224,940	\$ 30,884	\$ -	\$ 16,021	\$ 194,056	\$ 123,103	\$ 139,124	
26															

\$ 194,056

Note: 1) See Section 15(i) p.30 for detailed separations categories and allocation information.

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Section 9: Test Year and Pro Forma Income Statement

Section 9 (ii)(b) Federal Universal Service Support and ICC Reform-Adjustments for known or determinable changes in revenues and expenses

Annualized Effect of USF Reforms:

	2012
Federal High Cost Loop Support Adjustments	\$ -
Safety Net Additive Adjustments	\$ -
High Cost Support Cap	\$ -
	\$ -

Annualized Effect of ICC Reforms:

	2012
State Access Revenues, base year	\$ 3,218
Percentage available for CAF Recovery	95%
Percentage unrecovered	5%
State Access Revenue Reduction	\$ 161

	2012
Interstate Access Revenues, base year	\$ 177,247
Percentage available for CAF Recovery	95%
Percentage unrecovered	5%
Interstate Access Revenue Reduction	\$ 8,862

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Section 10: Depreciation and Amortization

Section 10: Depreciation and Amortization expense for the test period

clmn:	(A)	(B)	(C)	(D)	(E) (F) (G) Amounts Charged to:		
ln#	Account #	Description	Depreciation Rates	Balance per Books 12/31/2011	Operations	Clearing Accounts	Construction
1							
2	6561	Depreciation Expense - TPIS					
3	S6561.1	Depr. Exp. - General Support Facilities					
4		Motor Vehicles	26.27%	\$0	\$0	\$0	\$0
5		Tools and Other Work Equipment	23.98%	\$0	\$0	\$0	\$0
6		Buildings	5.02%	\$1,524	\$1,524	\$0	\$0
7		Furniture	15.57%	\$0	\$0	\$0	\$0
8		Office Equipment	18.10%	\$0	\$0	\$0	\$0
9		General Purpose Computers	18.57%	\$282	\$282	\$0	\$0
10							
11		Depr. Exp. - Central Office Assets					
12	S6561.2	Depr. Exp. - C.O. Switching	11.58%	\$20,329	\$20,329	\$0	\$0
13							
14	S6561.5	Depr. Exp. - C.O. Circuit Equipment	15.53%	\$1,459	\$1,459	\$0	\$0
15							
16		Depr. Exp. - Information Orig./Term. Assets					
17		Depr. Exp. - Public Tele. Terminal Equipment	19.58%	\$0	\$0	\$0	\$0
18	S6561.6	Depr. Exp. - IOT	19.58%	\$0	\$0	\$0	\$0
19							
20		Depr. Exp. - Cable & Wire Facilities Assets					
21	S6561.7	Depr. Exp. - Poles	15.81%	\$0	\$0	\$0	\$0
22		Depr. Exp. - Aerial Cable	17.58%	\$0	\$0	\$0	\$0
23		Depr. Exp. - Underground Cable	5.38%	\$0	\$0	\$0	\$0
24		Depr. Exp. - Buried Cable	5.68%	\$7,290	\$7,290	\$0	\$0
25		Depr. Exp. Aerial Wire	5.68%	\$0	\$0	\$0	\$0
26		Depr. Exp. - Conduit	6.48%	\$0	\$0	\$0	\$0
27							
28	6563	Amortization Expense - Leasehold Improvements		\$0	\$0	\$0	\$0
29							
30	6560	Total Depr. & Amort. Expense		\$30,884	\$30,884	\$0	\$0

ZENDA TELEPHONE COMPANY, INC.
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In the Matter of the Staff's Motion Requesting the Commission Order Zenda Telephone Company, Inc. to Submit to an Audit for Purposes of Determining its Cost-Based Kansas Universal Service Support, Pursuant to K.S.A. 66-2008 For the Test Year of Twelve Months Ending December 31, 2011

Section 11: Calculation of Taxes

Section 11(i): Taxes chargeable to operations

clmn:	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	
ln#	Account#	Description	Balance per Books 12/31/2011	Study Adjustments	Test Year Adjusted Regulated Balance	Test Year Pro Forma Adj	Test Year Adjusted Pro Forma Regulated Balance	Intrastate Allocation %	Intrastate Jurisdictional Allocations	
1	7210	Operating investment tax credits - net	\$ -	\$ -	\$ -	\$ -	\$ -	0.602895	\$ -	
2	7220	Operating Federal Income Taxes	\$ -	\$ (20,072)	\$ (20,072)	\$ (14,140)	\$ (34,212)	0.602895	\$ (20,626)	
3	7230	Operating State and Local Income Taxes	\$ -	\$ 598	\$ 598	\$ (3,927)	\$ (3,329)	0.602895	\$ (2,007)	
4	7240.1	Other Operating Taxes	\$ (2,251)	\$ 19,474	\$ 17,223	\$ 38,524	\$ 55,747	0.606399	\$ 33,805	
5	7240.2	Interstate Regulatory Fees	\$ -	\$ -	\$ -	\$ -	\$ -	0.606399	\$ -	
6	7240.3	Intrastate Regulatory Fees	\$ -	\$ -	\$ -	\$ -	\$ -	0.606399	\$ -	
7	7250	Provisions for Deferred Operating Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	0.000000	\$ -	
8	7200	Total Operating Taxes	\$ (2,251)	\$ -	\$ (2,251)	\$ 20,457	\$ 18,206		\$ 11,172	
9										
10										
11	NET TO GROSS MULTIPLIER									
12		Federal Income Tax Rate		15.0026%						
13		State Income Tax Rate		4.1667%						
14		Combined Tax Rate		19.1693%						
15		Net to Gross Multiplier		1.237153711						
16										
17										
18	PROFORMA ADJUSTMENT FOR INCOME TAXES									
19		Proforma Revenues	\$ 163,333							
20		Proforma Expenses	\$ 257,580							
21		Proforma Net Income (Expense)	\$ (\$94,247)							
22										
23		Proforma Federal Income Tax	\$ (14,140)	15.0026%						
24		Proforma State Income Tax	\$ (3,927)	4.1667%						

ZENDA TELEPHONE COMPANY, INC.

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Section 11: Calculation of Taxes

Section 11(ii): Calculation Federal and State Income Tax Allowance

Line	Account/Category	Company Total
1		
2	Rate Base	49,837
3	Rate of Return	11.25%
4	Return on Rate Base	<u>\$5,607</u>
5		
6	Operating Investment Tax Credits	0
7	Excess Deferred Tax Amortization	0
8	Environmental Tax	0
9	Allowance for Funds Used During Construction	0
10		
11	Net Return on Rate Base	<u>\$5,607</u>
12		
13	Return on Rate Base, less AFUDC	\$5,607
14	Operating Expenses	\$280,319
15	Federal Income Taxes	\$990
16	State Income Taxes	\$275
17		
18	Revenue Requirement	<u>\$287,190</u>
19		
20		
21	Net Return on Rate Base	\$5,607
22	Fixed Charges	\$0
23	Other Adjustments for F.I.T.	\$0
24	After Tax Income for F.I.T.	<u>\$5,607</u>
25		
26	Federal Income Tax @ 15.0026% Gross up: 17.6507%	\$990
27	Operating Investment Tax Credits	\$0
28	Excess Deferred Tax Amortization	\$0
29	Environmental Tax	\$0
30	Net Federal Income Tax	<u>\$990</u>
31		
32		
33	Net Return on Rate Base (exclude ITC)	\$5,607
34	Fixed Charges	\$0
35	Other Adjustments for S.I.T.	\$0
36	Federal Income Tax (Gross)	\$990
37	State Taxable Income	<u>\$6,596</u>
38		
39	Effective State Income Tax Rate	<u>4.16667%</u>
40	State Income Taxes	<u>\$275</u>

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Section 11: Calculation of Taxes

Section 11(iii): Calculation of Effective Federal Income Tax Rate

CALCULATION OF EFFECTIVE FIT RATE

	TOTAL COMPANY
1. Average Net Investment (Cost Study)	103,943
2. Authorized Rate of Return	11.25%
3. Return (Ln 1 X Ln 2)	11,694
4. FIT Income Adjustments (Cost Study)	0
5. Investment Tax Credit (Cost Study)	0
6. After Tax Income Before Credits (Ln 3 - Ln 4 - Ln 5)	11,694
7. FIT Before Tax Credits (Must Equal Ln 17)	2,064
8. Taxable Income (Ln 6 + Ln 7)	13,758
9. FIT on 0 to 50,000 @.15	2,064
10. FIT on 50,000 to 75,000 @.25	0
11. FIT on 75,000 to 100,000 @.34	0
12. FIT on 100,000 to 335,000 @.39	0
13. FIT on 335,000 to 10,000,000 @.34	0
14. FIT on 10,000,000 to 15,000,000 @.35	0
15. FIT on 15,000,000 to 18,333,333 @.38	0
16. FIT on over 18,333,333 @ .35	0
17. Total FIT Before Tax Credits (Lns 9 through 16)	2,064
18. Realized Tax Rate (Ln 17 / Ln 8)	15.0026%
19. Effective Tax Rate [Ln 18 / (1- Ln 18)]	17.6507%

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Section 12: Cost Allocation manual

The Company does not maintain a formal cost allocation manual (cam). The non-regulated activities include installation, repair and maintenance of customer premise wiring and equipment, and Internet installation repair, and maintenance.

The company records the costs of these activities as follows:

- Materials purchased are recorded to the appropriate regulated or non-regulated account based on the reason for the purchase
- External labor is recorded to the appropriate regulated or nonregulated account based on the activity performed
- Internal labor is recorded as follows:
 - hourly employees report time to the appropriate accounts using daily timesheets
 - salaried employee time is allocated based on periodic time studies

-Other expenses and costs such as floor space, utilities, and other joint and common costs are allocated using direct wages. Each year the factor of total non-regulated wages to total wages is developed. This factor is then used to allocate these costs. In 2011 the non-regulated factor for the joint common costs was 1.729%. This factor is applied to various assets (and associated reserves) including, but not limited to, land, building, vehicle and work equipment. Additionally this factor is applied to certain joint and common expenses including appropriate depreciation associated with the non-regulated assets, certain plant specific (general support), customer service and plant non-specific expenses.

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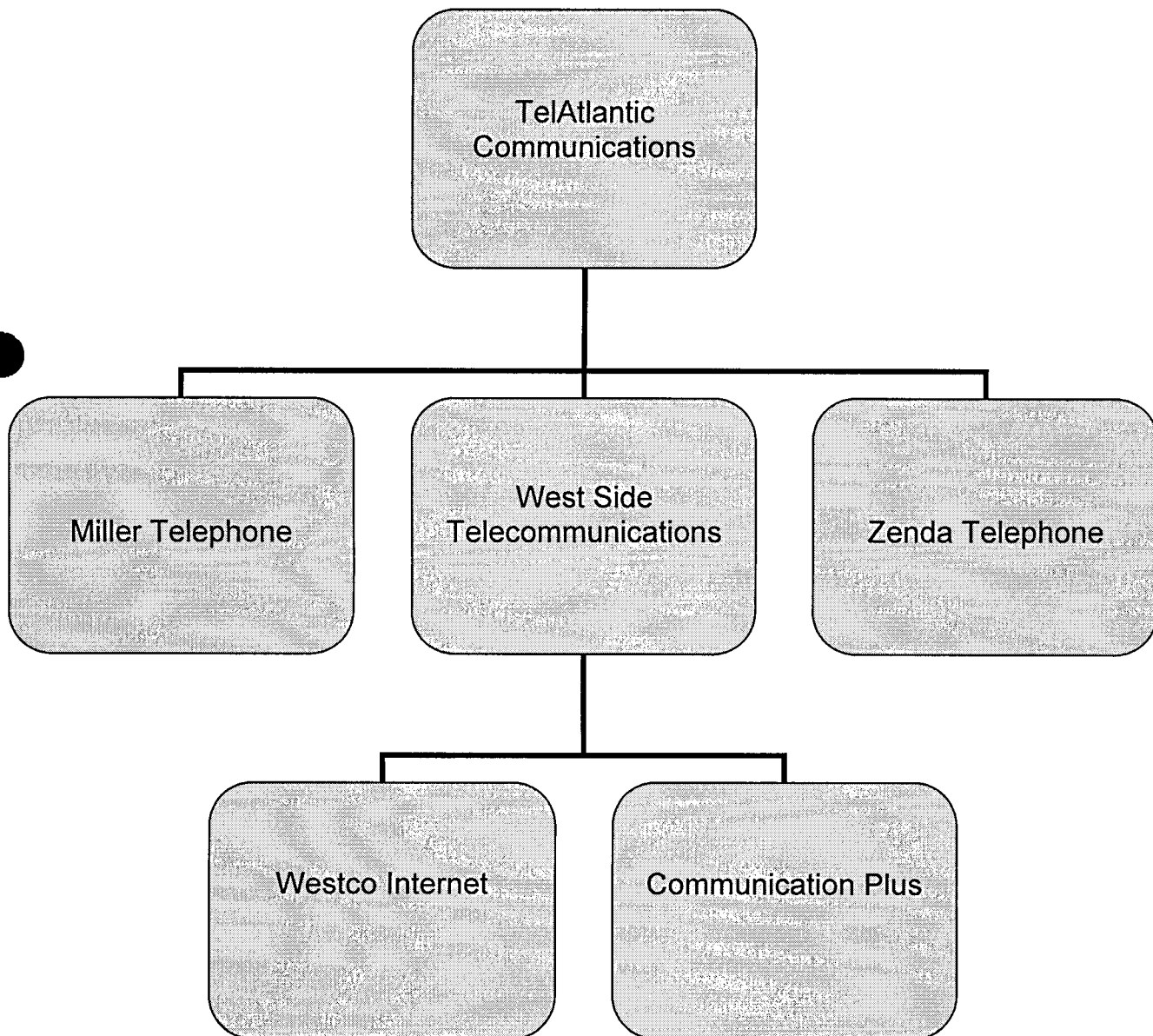
Section 13: Annual Report to Shareholders

Not Applicable

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Section 14: Structural Organization Chart including Parent and Affiliates.



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Section 15: NECA Cost study

REDACTED

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Section 16: Audited Financial Statements

REDACTED

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Section 17: Tariff Section Changes

Not Applicable

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Section 18: Proposed Rate Changes

Not Applicable