

**D. JOLEEN FREDERICK
ATTORNEY AT LAW
P.O. BOX 508
WEST LIBERTY, KY 41472**

Phone: (606)743-2550

FAX: (606) 743-2551

VIA HAND DELIVERY

Jeff R. Derouen, Executive Director
KY Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

RECEIVED

AUG 16 2010

**PUBLIC SERVICE
COMMISSION**

Re: *In The Matter of the Application of Mountain Rural Telephone Cooperative Corporation, Inc. for a Certificate of Public Convenience and Necessity for Construction of a New Headquarters Building in West Liberty, Kentucky Case No. 2010-00224*

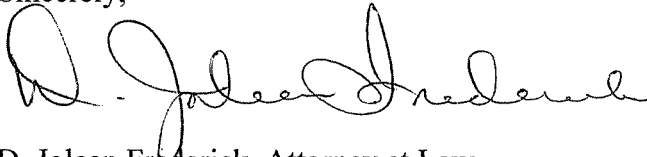
August 16, 2010

Dear Director Derouen,

Enclosed for filing in the above-referenced case, please find one original and ten (10) copies of Mountain Rural Telephone Cooperative Corporation, Inc.'s response to the information request of the staff of the Public Service Commission of the Commonwealth of Kentucky.

Any questions about this application should be referred to Eileen Bodamer, Consultant to Mountain Rural Telephone Cooperative Corporation, Inc. at 770-649-1886.

Sincerely,



D. Joleen Frederick, Attorney at Law

enclosures

Cc: W. A. Gillum
Shayne Ison

RECEIVED

AUG 16 2010

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF MOUNTAIN RURAL TELEPHONE)
COOPERATIVE CORPORATION, INC. FOR A)
CERTIFICATE OF PUBLIC CONVENIENCE AND)
NECESSITY FOR CONSTRUCTION OF A NEW)
HEADQUARTERS BUILDING IN WEST LIBERTY,)
KENTUCKY)

CASE NO.
2010-00224


**MOUNTAIN RURAL TELEPHONE COOPERATIVE CORPORATION, INC.
COMMISSION STAFF'S FIRST INFORMATION REQUEST**

Mountain Rural Telephone Cooperative Corporation, Inc. ("MRTC"), by counsel, hereby files with the Public Service Commission of the Commonwealth of Kentucky (the "Commission"), its response to Commission staff's first information request.

Index of Information Provided:

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Respectfully submitted,


D. Joleen Frederick, Attorney at Law

Attachment A

Certification of Respondents

CERTIFICATION

I hereby certify that, for the data requests for which I have been identified as the responsible witness, I have supervised the preparation of Mountain Rural Telephone Cooperative Corporation, Inc.'s responses to the past-hearing data requests, and that the responses contained therein are true and accurate to the best of my knowledge, information, and belief formed after reasonable inquiry.

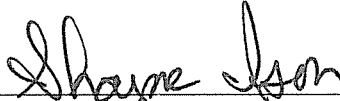
WA Gillum

W. A. Gillum, General Manager
Mountain Rural Telephone Cooperative Corporation, Inc.

Date: 8-13-2010

CERTIFICATION

I hereby certify that, for the data requests for which I have been identified as the responsible witness, I have supervised the preparation of Mountain Rural Telephone Cooperative Corporation, Inc.'s responses to the past-hearing data requests, and that the responses contained therein are true and accurate to the best of my knowledge, information, and belief formed after reasonable inquiry.

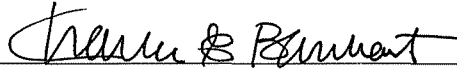


Shayne Ison, Assistant General Manager
Mountain Rural Telephone Cooperative Corporation, Inc.

Date: 8/13/2010

CERTIFICATION

I hereby certify that, for the data requests for which I have been identified as the responsible witness, I have supervised the preparation of Mountain Rural Telephone Cooperative Corporation, Inc.'s responses to the past-hearing data requests, and that the responses contained therein are true and accurate to the best of my knowledge, information, and belief formed after reasonable inquiry.



Charles Barnhart

Sherman Carter Barnhart, PSC

Date: 8/12/2010

REQUEST NO. 1

What is the total square footage of Mountain's current headquarters facility in West Liberty, Kentucky?

Responsible Witness: Charles Barnhart

RESPONSE:

Total square footage of the current facility is approximately 12,206 sq. ft. comprised of the existing main office at 7,825 sq. ft. and the remaining 4,381 sq. ft. used for the plant building.

REQUEST NO. 2

Provide a set of full-sized plans for the proposed new construction that fully, completely and clearly identify and describe all usable space on each occupied level of the proposed building.

Responsible Witness: Charles Barnhart

RESPONSE:

Due to their size, requested plans are provided separately from the main response.

REQUEST NO. 3

Fully describe Mountain's plan for obtaining bids for the proposed construction. Include timeframes for bid submittals and identify the minimum number of bids to be considered.

Responsible Witness: W. A. Gillum, Charles Barnhart

RESPONSE:

Mr. Gillum:

In June 2009, the Board of directors received a proposal for the construction of its new building including a preliminary design layout that permitted board members an opportunity to thoroughly review the requirements and procedures of the construction process. Following that meeting the Board reviewed the portfolios of fourteen (14) architectural firms. Motion was made and seconded to invite four (4) firms from that list to appear before the board for presentation and interview.

On July 14, 2009, two (2) firms were approved as finalists and designated to receive additional requests for information. Following that process, on August 7, 2009 motion was made and seconded to hire Sherman-Carter-Barnhart, PSC as architect for a new headquarters facility.

Mr. Barnhart:

The new Mountain Rural Telephone Cooperative Corporation Office Building was bid June 29, 2010 at 5:00 p.m. local time. Fourteen general contractors requested and received plans in anticipation of bidding the project. At the time of bid, four general contractors provided bid proposals. Standafer Builders, 1178 West Main Street, West Liberty, Kentucky 41472, was the apparent low bidder for the project. The bid was for the amount of \$4,897,295.00. They have been awarded the bid pending approval of this Application.

REQUEST NO. 4

Explain what protections are in place to insure that Rural Utilities Services (“RUS”) loan funds and America Recovery and Reinvestment Act monies assigned to fund the construction of facilities approved in Case No. 2009-005381 are not utilized to support the construction of the proposed new headquarters building. Include any auditing and reporting requirements that will be instituted by RUS and the National Telecommunications and Information Administration.

Responsible Witness: Shayne Ison

RESPONSE:

As a recipient of RUS loan funds and America Recovery and Reinvestment Monies, MRTC is required to comply with the Broadband Initiatives Program Contracting, Work Order and Advance Procedures Guide prior to receiving any funds for the construction of facilities approved in Case No. 2009-005381. The process ensures that MRTC will be provided funding based solely on the approved Application. This budget divides the award into budget categories that are associated with the proposed projects, such as equipment, outside plant, land and buildings, professional services, etc. Funds from one budget category may not be used for a different budget category without prior written approval from RUS and funds for project outside or beyond the scope of that approved, will be denied. There are no building services included in that Application award and RUS would not permit any of those monies to be spent on the building that is the subject of this Application.

A copy of the Guide is included in Attachment B of this tab.

Attachment B

RURAL UTILITIES SERVICE

Broadband Initiatives Program Contracting, Work Order and Advance Procedures Guide

Rural Development
United States Department of Agriculture

RURAL UTILITIES SERVICE

Broadband Initiatives Program
Contracting, Work Order and
Advance Procedures Guide

GENERAL

This guide implements and explains the provisions of the loan and grant documents containing the requirements and procedures to be followed by an Awardee performing work to be financed with RUS Recovery funds. The Awardee shall maintain accounting and plant records sufficient to document the cost and location of all construction and to support fund advances and disbursements. The standard Loan and Grant Documents also contain provisions regarding advances and disbursement of broadband funds. This document also implements certain provisions by setting forth requirements and procedures to be followed by the Awardees in obtaining advances and making disbursements of funds.

ABBREVIATIONS

For purpose of this guide:

C.F.R. stands for Code of Federal Regulations.

FRS stands for RUS Form 481, *Financial Requirement Statement*.

GFR stands for RUS general field representative.

Pub. L. stands for Public Law.

U.S.C. stands for United States Code.

DEFINITIONS

For purposes of this guide:

Advance means transferring funds from RUS to the Awardee's deposit account.

Architect means a person registered as an architect in the state where construction is performed.

Award means any broadband award made by RUS.

Award documents mean the documents covering an award made by RUS, including the loan or grant agreement, note, and mortgage or other security documents between the Awardee and RUS.

Award funds means funds provided by RUS through an award.

Awardee means any organization that has received financing from RUS.

Bid guarantee means a bid bond or certified check required of contractors bidding on construction work to ensure that the bidder, if successful, will furnish a performance bond.

Buy American Requirement means the requirements as stated in the Recovery Act and any associated waivers.

Broadband Service means the minimum transmission rate as defined in the applicable NOFA for the Broadband Initiatives Program, under which the award was made.

Closeout documents mean the documents required to certify satisfactory completion of all obligations under a contract.

Contract means the agreement between the Awardee and an independent contractor covering the purchase and/or installation of equipment or the construction of facilities to deliver broadband services for an Awardee's system.

Contract work means any work performed pursuant to an RUS form contract, or a Non-Standard Contract.

Disbursement means payment by the Awardee out of the deposit account for approved award purposes.

Engineer means a person registered as an engineer in the state where construction is performed, or a person on the Awardee's staff authorized by RUS to perform engineering services.

In-house engineering means any pre-loan or post-loan engineering services performed by the Awardee's staff.

Interim work means any work that commences after an application has been submitted to RUS, but prior to release of award funds.

Non-Standard Contract means a non-RUS form contract for specific work that is submitted by the Awardee, which must be approved by RUS before execution, if it is to be funded.

Outside plant means the part of the telecommunications network that is physically located outside of telecommunication buildings. This includes cable, conduits, poles and other supporting structures and certain other associated equipment items.

Performance bond means a surety bond in form satisfactory to RUS guaranteeing the contractor's faithful performance of a contract. (See 7 CFR Part 1788.)

Plans and specifications means a copy of the appropriate contract, the specifications, and such additional information and documents needed to provide a clear, accurate, and complete understanding of the work to be performed.

Pledged Deposit account means an account required by the award agreement into which all RUS funds are advanced.

RUS means the Rural Utilities Service; an agency of the United States Department of Agriculture and successor to the Rural Electrification Administration.

RUS form contract means contracts identified as a RUS form.

Subcontract means a secondary contract undertaking some of the obligations of a primary contract.

System design means the system described in the approved Application.

Work means any purchase of equipment, software and/or installation, if applicable; construction of facilities; or professional services.

Work order means any work performed by the Awardee's employees, pursuant to its work order procedure, with the Awardee furnishing all materials, equipment, tools, and transportation.

CONTRACTING PROCEDURES

I GENERAL

All work must conform to the Application, as approved by RUS, and shall be covered by an Environmental Report prepared in accordance with 7 CFR Part 1794 and approved by RUS. No construction and/or installation activities shall commence until all necessary local, state and federal requirements have been satisfied.

All work performed prior to the submission of an application to RUS will not be eligible for financing. In addition, only new materials and equipment may be financed with award funds, unless otherwise approved in writing by RUS.

A. Interim Work

Once RUS has received an application, the applicant may proceed with interim work. However, this should not be construed as a commitment that RUS will approve the application. To ensure that interim work is eligible for reimbursement with award funds, the Awardee must comply with all the procedures in this Guide, including the following requirements:

- (1) Equal employment opportunity requirements in RUS Bulletin 320-15; and
- (2) Environmental requirements contained in 7 CFR 1794;

B. Non-Standard Contracts

The Awardee may choose to use a Non-Standard contract to perform work. The Non-Standard Contract must include a provision that it will not be binding on the parties, until administrative approval by RUS has been granted. RUS will not approve use of the Non-Standard Contract if, in RUS' judgment:

- (1) The contract is for work not covered in the approved Application, or is not for an Eligible Purpose;
- (2) The contract terms and conditions, are vague, inadequate, or unreasonable; or
- (3) The contract presents unacceptable loan security risk to RUS.

C. Contract Amendments

The Awardee shall obtain RUS approval before execution of any amendment to an approved contract if:

- (1) The amendment alters the terms and conditions of the contract or changes the scope of the project covered by the contract regardless of the amount of the contract before amendment;
- (2) The amendment by itself (or together with preceding amendments) increases the original contract price by 20% or more. In this case, a bond extension will be required to bring the penal sum of the bond to the total amended contract price; or
- (3) The amendment causes an unbonded contract to require a contractor's performance bond. This would occur when an amendment increases the contract price to an amount requiring a performance bond per 7 CFR Part 1788, Subpart C.

Once RUS approval to amend the contract has been granted, or for any other contract amendments not requiring approval, the Awardee must submit an original executed amendment to RUS.

D. Insurance

A performance bond is required for construction of facilities exceeding \$250,000, as indicated in 7 CFR Part 1788, Subpart C, or certain significant installation, as outlined in the Agency's memorandum found at http://www.usda.gov/rus/telecom/publications/pdf_files/Contractors-Bond-Requirement7-28-09.pdf.

The Awardee is responsible for ensuring that its contractor and engineer comply with all the insurance and bond requirements of 7 CFR Part 1788, Subpart C.

E. Title Clearance

For any building construction over \$250,000, the Awardee shall provide title evidence satisfactory to RUS, prior to releasing the invitations to bid.

F. Software License

As part of an equipment purchase, the original equipment manufacturer may require that the Awardee enter into a software license agreement for the use of the equipment. The Awardee may use RUS Form 390, *Software License Agreement –Special Equipment Contract*, or a Non-Standard Contract.

G. Buy American

All iron, steel, or manufactured goods that are purchased with Recovery Act funds by state or local governments, or an instrumentality thereof, which are not included in the Agency's waiver covering Broadband Switching Equipment, Broadband Routing Equipment, Broadband Transport Equipment, Broadband Access Equipment, Broadband Customer Premises Equipment and End-User Devices, or Billing/Operations Systems, shall be subject to the Buy American provision of the Recovery Act, unless a waiver is requested from the RUS. For further details see 74 Fed. Reg. 31402.

H. Davis-Bacon Act

The Awardee shall comply with The Davis-Bacon Act, and the guidance found at 29 C.F.R. pts. 1, 3, and 5, such that any covered contract with a contractor or subcontractor in excess of \$2,000 for construction, alteration or repair (including painting and decorating) shall contain the contract clauses found in 29 C.F.R. 5.5(a), to ensure that all laborers and mechanics employed on the Project receive payment of not less than the prevailing wage.

I. Affiliated Transactions

With regard to the Project, the Awardee shall not enter into any transaction, contract, or dealing with an Affiliate of the Awardee or with the Awardee's or Affiliate's directors, trustees, officers, managers, members (if the Awardee is a limited liability company), or other corporate officials, without the prior written consent of RUS. RUS' consent to advance award funds for affiliated transactions will be limited to an amount which is the lower of cost or market rate and which is subject to verification by RUS and its representatives having access to the books and records of the Affiliate.

As defined in the appropriate award document, "Affiliate" or "Affiliated Company" of any specified person or entity means any other person or entity directly or indirectly controlling of, controlled by, under direct or indirect common control with, or related to, such specified person or entity, or which exists for the sole purpose of providing any service to one company or exclusively to companies which otherwise meet the definition of affiliate. This definition includes Variable Interest Entities as described in Financial Accounting Standards Board Interpretation (FIN) No. 46(R), *Consolidation of Variable Interest Entities*. For the purpose of this definition, "control" means the possession directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement with, one or more other companies, and whether such power is established through a majority or minority ownership voting of securities, common directors, officers, or stockholders, voting trust, holding trusts (other than money exchanged) for property or services.

J. Records

Records supporting all assets financed by RUS shall be retained until audited and approved by RUS.

Records must be sufficient to document the cost and location of all expenditures and to support advances and disbursement of award funds. The support records must include, but not be limited to, contracts, third party invoices, timesheets, payroll records, material records, and overhead allocation records and summary schedules

Records related to plant in service must be retained until the facilities are permanently removed from utility service, all removal and restoration activities are completed, and all costs are retired from the accounting records unless accounting adjustments resulting from reclassification and original costs studies have been approved by RUS or other regulatory body having jurisdiction.

Life and mortality study data for depreciation purposes must be retained for 25 years or for 10 years after plant is retired, whichever is longer.

II PROFESSIONAL SERVICES

General

Awardees shall only obtain professional services from persons or firms not affiliated with, or that do not represent a contractor, vendor or manufacturer presently providing labor, materials, or equipment to the Awardee. This does not include in-house services.

A. Engineering Services

All engineering services required by an Awardee, including inspection and certification, shall be rendered by an engineer selected by the Awardee and licensed in the State where the facilities will be located, or by qualified employees on the Awardee's staff, who after submission of qualifications to RUS, have been approved to perform such services.

- (1) *Outside Consultant.* Engineering services performed by an outside consultant may be covered under RUS Form 217, *Postloan Engineering Services Contract - Telecommunications*, RUS Form 245, *Engineering Service Contract – Special Services*, or a Non-Standard Contract.
- (2) *In-House Engineering.* When the proposed work is such that the engineering involved is within the capabilities of the employees on the Awardee's staff, Awardees may request RUS approval to provide such services. The request shall include:
 - (i) A description of services to be performed;
 - (ii) The names and qualifications of each employee that will be performing the specific services. In addition, the Awardee shall identify an employee who will be in charge of the services. Such employee must meet the State experience requirements for a registered engineer in the State where facilities will be located. In the absence of specific State experience requirements, this employee should have at least eight years experience in the design and construction of telecommunication facilities, with at least two years of the work experience at a supervisory level. RUS does not require professional registration of this employee, but this does not relieve the Awardee from compliance with applicable state registration requirements, which may require a licensed individual to perform such services; and

- (iii) A letter signed by an authorized representative of the Awardee requesting in-house engineering approval and certifying the supporting information.

RUS shall notify the Awardee by letter of approval or disapproval to perform in-house engineering. The letter shall set forth any conditions associated with an approval or the reasons for disapproval. RUS approval of in-house engineering services shall be only for the specific services covered by the approval.

B. Architectural Services

The Awardee shall select an architect licensed in the state where the facility will be located. The borrower may use either RUS Form 220 or RUS Form 217 when contracting for architectural services, or a Non-Standard Contract.

C. Contract and Closeout Documents

The Awardee must submit three executed copies of the RUS form contract or the approved Non-Standard Contract, covering the professional services to be provided, for final administrative approval. Once all services and obligations required under the professional services contract have been completed, Awardees shall submit two copies of RUS Form 288, *Final Statement of Architect's Fees* and/or RUS Form 506, *Final Statement of Engineering Fees*, to close out the specific RUS Form contract. Awardees using Non-Standard Contracts should provide a similar certification for Non-Standard Contracts.

III PURCHASE AND INSTALLATION OF EQUIPMENT

General

When purchasing any equipment, including installation, that costs more than \$100,000, the Awardee must use a contract for the purchase. Any equipment purchases for less than \$100,000, including installation, can be purchased under a purchase order and reimbursed after submission of the invoices along with an RUS Form 771a, following the inspection and reimbursement procedures under Work Order procedures.

A. Equipment Purchased with Contract

Awardee may use RUS Form 397, *Special Equipment Contract (Including Installation)*, RUS Form 398, *Special Equipment Contract (Not Including Installation)*, or a Non-Standard Contract.

The engineer shall prepare the performance requirements, including any installation requirements, if applicable, prior to releasing them along with the respective contract to prospective vendors. The Awardee may purchase equipment using a negotiated purchase, although RUS recommends that the Awardee obtain quotes from at least three different vendors.

Equipment purchased under RUS Form 398 or a Non-Standard Contract that does not include installation, may be installed by the Awardee using the Work Order method or RUS Form 773, as outlined in the Work Order procedures below.

B. Contract and Closeout Documents

Once a vendor has been selected, the Awardee must submit three executed copies of the RUS form contract or the approved Non-Standard Contract, including the non-standard performance requirements covering the equipment to be provided, for final administrative approval. Once all equipment purchased under the contract has been installed, and tested, and meets the performance requirements, the Awardee shall proceed with the closeout of the contract and submit a final

contract closeout certification on RUS Form 756 or a similar certification for Non-Standard Contracts.

IV CONSTRUCTION OF FACILITIES

General

Construction for outside plant facilities, building, and towers may be performed using the work order method or by an outside contractor. When using an outside contractor, either RUS Contract Forms 773, 257, or 515, or a Non-Standard contract may be used.

A. Outside Contractor

If using a standard RUS Contract Form, the Awardee shall use the form without modifications, and attach any diagrams, sketches, and tabulations necessary to specify clearly the work to be performed and who shall provide which materials.

The engineer shall prepare the construction specifications prior to releasing them along with the respective contract to prospective contractors. RUS recommends that Awardees obtain quotes from several contractors before entering into a contract to ensure obtaining the lowest cost. The Awardee shall ensure that the contractor selected meets all federal, state, and local licensing requirements, as well as bonding requirements, and that the contractor maintains the insurance coverage required by the contract for the duration of the work. (See 7 C.F.R. Part 1788.)

Once a contractor has been selected, the Awardee must submit three executed copies of the RUS form contract (except RUS Form 773, which shall follow the procedures below) or the approved Non-Standard Contract, including the construction specifications for the work to be performed, for final administrative approval. Once construction has been completed per the construction specifications and all acceptance tests have been made, the Awardee shall proceed with the closeout of the contract and submit a final contract closeout certification on RUS Form 756 or a similar certification for Non-Standard Contracts.

B. Work Order Procedures

Work order construction shall be performed to all local, state, and Federal requirements. As work order construction is performed, the Awardee shall keep daily timesheets and material reports, referenced by the work project number, to record labor and materials used. Cost accounting system must be in place to meet the requirements of 7 CFR 3015 (including 48 CFR 31.2), 3016, 3019 as applicable, to show the source and summary records to support requested and expended funds.

(1) Inspection and Certification. Upon completion and prior to closeout, the Awardee shall obtain the engineer's certification on RUS Form 771a for all construction completed using RUS Form 773 or the work order method. An authorized official of the Awardee shall execute the Awardee's certification.

(2) Reimbursement. To request funds for construction completed under the work order construction procedures or RUS Form 773 contract construction procedures, the Awardee shall submit RUS Form 771a, initialed by the GFR, along with a description of each project, as well RUS Form 481, *Financial Requirement Statement* (FRS). RUS Form 771a should be submitted only with the FRS that it supports. Unless otherwise approved by RUS, the Awardee shall finance all work order and RUS Form 773 contract construction with non-loan funds and obtain reimbursement with RUS funds when construction is completed and properly executed closeout documents have been submitted to RUS.

V ADVANCE AND DISBURSEMENT OF FUNDS

General

The award document contains the provisions regarding advances and disbursement of funds to the Awardee. This section implements certain provisions by setting forth requirements and procedures to be followed by the Awardee in obtaining advances and making withdrawals/disbursements of funds.

RUS is under no obligation to make or approve advances of funds unless the Awardee complies with all terms and conditions of the award documents.

A. Broadband Budget

The Awardee will be provided a broadband budget, based on the approved Application. This budget divides the award into budget categories that are associated with the proposed projects, such as equipment, outside plant, land and buildings, professional services, etc. Funds from one budget category may not be used for a different budget category without prior written approval from RUS.

B. Budget Adjustments

If more funds are required than are available in a budget category, the Awardee may request RUS' approval of a budget adjustment to use funds from another budget category. The request shall include an explanation as to why the adjustment is needed and the affected budget categories. RUS will not approve a budget adjustment unless the Awardee can demonstrate that all purposes can still be completed with the requested adjustment. RUS, at its discretion, may make a budget adjustment without a formal request to encumber funds for a contract, when funds within the budget category are insufficient, and when it determines that the budget adjustment is insignificant.

C. Pledged Deposit Account

The Awardee shall establish and maintain a pledged deposit account to hold all Advances deposited by the Agency. The pledged deposit account shall only be established in a bank or depository whose deposits are insured by the FDIC or other federal agency acceptable to RUS. Funds in the pledged deposit account shall be used solely for the purpose approved in the Application and shall be withdrawn/disbursed for the approved purpose for which they were requested in the financial requirement statement. All Advances will be deposited into the pledged deposit account by electronic transfer.

RUS may require that other funds be deposited into the pledged deposit account. These may include equity or general fund contributions to construction, proceeds from the sale of property, interest received on award funds and similar types of receipts. Deposit slips for any deposits to the pledged deposit account shall show the source and amount of funds deposited and be executed by an authorized representative of the bank. The disbursement of non-award funds deposited into the pledged deposit account requires the same RUS approval as Advances on the award.

For accounting purposes, all withdrawals/disbursements from the Pledged Deposit Account must be evidenced by canceled checks or support for other forms of payment. Disbursements to reimburse the Awardee's general fund account shall be documented by a reimbursement schedule to be retained in the Awardee's records that lists the pledged deposit account check number, date, and an explanation of amounts reimbursed for the Project.

D. Financial Requirement Statement (FRS)

To request Advances the Awardee must submit RUS Form 481, *Financial Requirement Statement* ("FRS"), a description of the Advances desired, and other related information to the transactions as required by RUS.

The Awardee must request funds in the first Advance to repay any interim financing indebtedness, as well as other approved pre-application expenses. RUS may not make further Advances until the Awardee has submitted evidence, in form and substance satisfactory to RUS, that: (1) any indebtedness created by the interim financing and any liens associated therewith have been fully discharged of record; and (2) the Awardee has satisfied all other conditions on the advance of additional loan funds.

If the source of funds for interim financing is the Awardee's internally generated funds, the Awardee may request reimbursement of those funds along with Advances for other purposes on the first FRS submitted to RUS.

The Awardee shall request advances as needed to meet its obligations promptly. Generally, RUS does not approve an advance requested more than 30 days before the obligation is payable.

Funds must be disbursed for the item for which they were advanced except in the following circumstance. If the Awardee needs to pay an invoice which has been approved on an FRS for which funds have not been advanced, and disbursement of advanced funds for another item has been delayed, the latter funds may be disbursed to pay the due and owing invoice up to the amount approved for such item on the FRS. The Awardee shall make entries on the next FRS showing the changes under "Total Advances to Date" and shall explain the changes in writing before RUS will process the next FRS.

The certification on each of the three copies of the FRS sent to RUS shall be signed by a corporate officer or manager authorized to sign such statements. RUS Form 675, *Certificate of Authority*, shall be submitted to RUS indicating the names of all persons authorized to sign a FRS. RUS will not process a FRS signed by an individual whose name is not included on the most recent Form 675.

Funds other than award funds that are deposited in the pledged deposit account are reported as a credit under total disbursements. Disbursements of these funds are subject to the same RUS approvals as RUS funds.

The documentation required for audit of FRS transactions, include but are not limited to deposit slips for the pledged deposit account, all cancelled pledged deposit account checks and the supporting third party invoices, timesheets, payroll records, accounts payable records, general ledger, etc., and/or reimbursement schedules. These shall be kept in the Awardee's files for periodic audits by RUS.

The FRS shall be the primary method used by the Awardee to record and control transactions in the deposit account. Approved contracts and other items are shown on the FRS under "Approved Purposes." Funds are approved for advance as follows:

(1) Contracts/Work Orders

- (a) *Equipment Contracts*: Ninety percent of the approved contract amount, including amendments, with the final 10 percent available when RUS approves the contract closeout certification.

(b) *Construction contracts*: Ninety-five percent of the approved contract amount, including amendments, with the final 5 percent available when RUS approves the contract closeout certification.

(c) *Work orders*: The amount shown on the RUS form 771a that RUS determines to be eligible for reimbursement.

(2) Pre-Application Expenses and Engineering

(a) *Pre-Application expenses*: Based on the final itemized invoice from the person(s) or firm(s) that provide services to complete the Application, engineering, and accounting, as approved by RUS.

(b) *Post-loan engineering contracts*: Ninety-five percent of the amount of the RUS approved engineering contract, with the final 5 percent available when RUS approves the final statement of engineering/architectural fees.

(c) *In-house engineering*: One hundred percent of the amount approved by RUS.

(3) Operating Equipment

Office equipment, vehicles, and work equipment will be reimbursed based on copies of invoices.

E. Temporary Excess Construction Funds

When unanticipated events delay the Awardee's disbursement of advanced funds, the funds may be used for other approved purposes as described above or must remain in the pledged deposit account. If the pledged deposit account is an interest bearing account, all interest earned must remain in the pledged deposit account and cannot be disbursed without RUS approval.

F. Method of Advancing Funds

The first or subsequent advances may be conditioned on the satisfaction of certain requirements stated in the Awardee's agreement with RUS.

All advances shall be made electronically using the Automatic Clearing House (ACH). Normally, for advance of funds ACH only makes one payment per FRS.

The following information shall be included with each advance:

(1) Name and address of Awardee's bank. If the Awardee's bank is not a member of the Federal Reserve System, the name and address of its correspondent bank that is a member of the Federal Reserve System;

(2) ACH routing information;

(3) Awardee's bank account title and number; and

(4) Any other necessary identifying information.

REQUEST NO. 5

For the following questions, refer to Application Exhibit A, Probable Construction Budget:

- a. For Division 1 - General Requirements, describe in detail the types of products/materials that are to be used and fully explain the need for \$226,984 being assigned to this category.
- b. For Division 2 - Site, describe in detail the types of products/materials that are to be used and fully explain the need for \$458,985 being assigned to this category.
- c. For Division 6 - Wood & Plastics, describe in detail the types of products/materials that are to be used and fully explain the need for \$525,183 being assigned to this construction category.
- d. For Division 9 - Finishes, describe in detail the types of products/materials that are to be used and fully explain the need for \$418,499 being assigned to this construction category.
- e. For Division 10 - Specialties, describe in detail the types of products/materials that are to be used and fully explain the need for \$45,252 being assigned to this construction category.
- f. For Division 12 - Furnishings, describe in detail the types of products/materials that are to be used and fully explain the need for \$15,950 being assigned to this construction category.

Responsible Witness: Charles Barnhart

RESPONSE:

Item a for Division 1

Items assigned to this category are as follows: superintendent, safety requirements, project manager, project trailer, phone, signage, final project clean up, dumpster, building permit (local), temporary utilities, toilets, tool trailer, testing and engineering, rental equipment, special inspections and testing, and final punch list.

Item B for Division 2

Items assigned to this category are as follows: site clearing, access roads, layout, BMP plan, geotechnical services, mass rock excavation, asphalt paving, striping, pavement applied graphics, wheelstops, site concrete, metal railing, metal guard, ornamental fencing, curb and gutter, storm drainage, 6" painted steel bollards, site demolition, soils poisoning, site signage, ADA pavers, mechanical yard fencing, dumpster enclosure, site project sign, brick sidewalk pavers, seat wall (bracket), concrete footing for seat wall, concrete footing for screen walls, screen wall systems, shade trees, flowering trees, shrubs, grass seeding, grass sod, and topsoil imported and placed.

Item C for Division 6.

Items assigned to this category are as follows: 5/8" plywood sheathing, 3/4" plywood roof sheathing, parapet blocking, cabinetry/millwork (upper and lower), finish carpentry, solid surface tops, wood trusses, wood framing, 3-1/2" wood stud, wood framing, 5-1/2" wood stud.

Item D for Division 9.

Items assigned to this category are as follows: general painting, 2x4 / 2x2 revealed edged acoustical ceiling tile, 6" batt insulation above ceiling, VCT (no pattern), vinyl/rubber base, rubber stair tread and riser, porcelain floor tile (standard), tile base, ceramic wall (standard wet wall), walk-off mats, wall covering, wood floor base, carpet, carpet with pattern, carpet tiles, 5/8" gypsum board soffits, suspended gypsum board ceilings, paint, doors and frames.

Item E for Division 10.

Items assigned to this category are as follows: urinal screen, toilet paper dispensers, sanitary napkin disposal, coat hooks, sanitary napkin dispensers, paper towel dispenser and disposal, soap dispenser, grab bars, mirrors, diaper changing stations, mop and broom holder with shelf, flagpole, dedication plaque, dimensional letters for building identification, signage,

fire extinguisher cabinets, fire extinguishers, miscellaneous access panels, accordion partitions, aluminum, entry canopies, and roof hatch.

Item F for Division 12.

Items assigned to this category are as follows: reception desk, cabinetry.

REQUEST NO. 6

If included in the Probable Construction Budget, identify the amount budgeted and the category assigned for Landscaping, Parking Lot, and other exterior work and fully explain the amount to be assigned to each category.

Responsible Witness: Charles Barnhart

RESPONSE:

Refer to the following items as they relate to budgeting for landscaping, parking, and other exterior work.

- A. Landscaping. This category includes shade trees, flowering trees, shrubs, grass seeding, grass sod and topsoil - \$13,195.00 +/-
- B. Parking Lot: Items included for parking lot are as follows: asphalt paving, heavy duty asphalt paving, light duty striping, wheelstops, curb and gutters - \$140,000.00 +/-
- C. Remaining site work not related to landscaping and parking lot are as follows: site clearing, layout, BMP plan, geotechnical services, mass earthwork, site concrete, metal handrail, metal guardrail, ornamental fencing, storm drainage, post bollards, site demolition, soil poisoning, site signage, ADA pavers, mechanical yard fencing, dumpster enclosure, site project sign, brick pavers, seat walls, screen wall - \$305,789.00 +/-

REQUEST NO. 7

Describe what steps Mountain has undertaken to determine that the proposed budgeted construction costs are reasonable and reflective of the current construction market.

Responsible Witness: W. A. Gillum

RESPONSE:

Prior to deciding to construct a new head quarters building, MRTC first looked in its service territory for existing suitable space that might meet its needs without requiring full construction. No such facilities were found.

Once the decision to construct was reached, I personally contacted multiple utilities in Kentucky in an effort to evaluate a realistic budget for the building proposed to be built in the current construction market. In doing so, I drew from the experience of several companies including, but not limited to, Duo County Telephone Cooperative (facilities completed in 1999) and, in particular, East Kentucky Network d/b/a Appalachian Wireless (facilities completed in May 2006). MRTC has an ownership interest in Appalachian Wireless and I had detailed knowledge about the building they constructed and their cost for doing so. Their recently completed headquarters building was very similar to that proposed by MRTC both in size and in location; their final cost of \$5.3M was in line with what MRTC determined to be a realistic budget when compared to the experiences of other utilities in my survey.

This budget, along with building specifications and requirements, was provided to the final four (4) architectural firms solicited by MRTC to complete the project. Their responses, as part of the competitive bid process, added credence to MRTC's budget as being reasonable and reflective of the current construction market.

REQUEST NO. 8

Provide a copy of the minutes from Mountain's Board of Directors' meeting at which the proposed construction project was approved.

Responsible Witness: W. A. Gillum

RESPONSE:

The Board of Trustees of MRTC met in regular session on May 7, 2010. At that meeting was Rob Selin of the architectural firm of Sherman-Carter-Barnhart, PSC. Mr. Selin presented his plans for the new headquarters including the budgeted amount for the completion of the project. Following his presentation, Director Birchfield proposed accepting the plan and Director Dickerson seconded the motion. The motion passed.

A copy of the minutes from that meeting are included in Attachment C of this tab.

Attachment C

Meeting Minutes

REGULAR MEETING OF THE BOARD OF DIRECTORS

The Board of Trustees of Mountain Rural Telephone Cooperative Corporation, Inc., met in regular session on Friday, May 7, 2010, at 5:30 p.m. at the headquarters building in West Liberty, Kentucky.

Present at 5:30 p.m. were: Jimmie Jones, Susan Cable, Jodi Lawson, Chris Dickerson, Randy Halsey, Robert Bradley, Betty Nickell, Katie Ison, Mark Birchfield, Casey Helton, General Manager W. A. Gillum and Assistant General Manager Shayne Ison. Staff attending: Lana Ingram. Visitors attending: Rob Selin.

President Jones called the meeting to order.

Jodi Lawson made the motion to accept the minutes from the April 2, 2010 regular board meeting. Casey Helton seconded the motion – motion carried.

Chris Dickerson made the motion to accept the consent items consisting of the following for the month of April 2010: Applications to be voted on as Members, Accounts Marked Off totaling \$3,515.52, and Capital Credits Paid to Estates totaling \$ 62,337.22, with detailed records retained in customer billing and accounting records. Randy Halsey seconded the motion – motion carried.

Randy Halsey left the meeting at 6:26 p.m.

Katie Ison made the motion to change the regular board meeting on July 2, 2010 to July 9, 2010 at 5:30 p.m. at the headquarters building in West Liberty. Jodi Lawson seconded the motion – motion carried.

Mark Birchfield made the motion to approve in general the architectural plans to date for the new headquarters facility as presented by Sherman-Carter-Barnhart and in particular to proceed with the bids for construction. Chris Dickerson seconded the motion – motion carried.

Randy Halsey returned to the meeting at 6:51 p.m. Randy Halsey left the meeting at 6:56 p.m. Randy Halsey returned to the meeting at 7:02 p.m.

Mark Birchfield left the meeting at 7:06 p.m.

Robert Bradley made the motion to have a special meeting on Wednesday, June 2, 2010 at the headquarters building in West Liberty, Kentucky at 5:30 p.m. to review contract bid proposals for Fiber to the Home in West Liberty and Index and to have three committees meetings immediately following. Jodi Lawson seconded the motion – motion carried.

Mark Birchfield returned to the meeting at 7:10 p.m.

Randy Halsey made the motion to approve the RUS 217 Contract with Finley Engineering for 2010. Susan Cable seconded the motion – motion carried.

Randy Halsey left the meeting at 7:13 p.m. Randy Halsey returned to the meeting at 7:20 p.m. Robert Bradley left the meeting at 7:24 p.m. Robert Bradley returned to the meeting at 7:26 p.m.

Katie Ison made the motion to approve the insurance policy renewals with National Farmers Union for \$ 85,196.00, Zurich for \$ 13,537.00 and KEMI for \$ 41,823.62 for 2010. Susan Cable seconded the motion – motion carried.

Robert Bradley made the motion for Mountain Telephone to enter into contract and all associated documents with RUS for the \$78,000,000.00 stimulus loan/grant funds. Jodi Lawson seconded the motion – motion carried.

Susan Cable made the motion to approve a merit pay increase for Becky Nickell and Adam Mann as suggested by management with details in accounting. Katie Ison seconded the motion – motion carried.

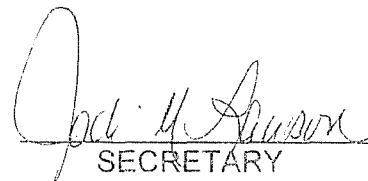
Robert Bradley made the motion to establish a special bank account for RUS stimulus funds per RUS requirement. Chris Dickerson seconded the motion – motion carried.

IRS Form 990 was presented to the Board for review prior to filing by the CPA / General Manager.

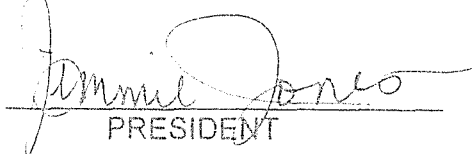
Jodi Lawson left the meeting at 7:59 p.m.

Casey Helton made the motion to adjourn. Mark Birchfield seconded the motion – motion carried.

The meeting adjourned at 8:01 p.m.


SECRETARY

ATTEST:


PRESIDENT