



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

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AUG 30 2010

PUBLIC SERVICE  
COMMISSION

August 27, 2010

Re: Case No. 2010-00336 – Supplemental Information – Financial

Dear Director Derouen,

In response to Ms. Faulkner's August 24, 2010 memo, attached is an original and 10 copies of WK&T's financial information to satisfy 807 KAR 5:001: Section 9(2)(f). The information provides the estimated cost of operation after the proposed facilities are built.

If you have any questions please contact me at 270-674-1000.

Sincerely,

A handwritten signature in cursive script that reads "Martin Clift".

Martin Clift  
Regulatory Manager

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Attachment 18 -  
Pro Forma 5-Year Financial Forecast - Single Application  
Income Statement - Existing Operations and BIP Project

PROJECT TITLE	West Kentucky and West Tennessee FTTH Initiative		EASYGRANTS ID	5370			
	Historical		Forecast Period				
	Historical Year 1	Historical Year 2	Year 1	Year 2	Year 3	Year 4	Year 5
<b>REVENUES</b>							
Network Services Revenues:							
Local Voice Service	\$ 4,455,093	\$ 4,233,723	\$ 4,007,208	\$ 3,802,555	\$ 3,611,105	\$ 3,432,859	\$ 3,267,815
Broadband Data Service	3,149,040	3,511,980	4,145,871	4,751,342	5,529,805	6,308,268	6,963,166
Video Service	905,237	1,601,036	1,844,444	2,164,326	2,649,117	3,348,890	4,093,966
Wireless Service	844,081	341,443	341,443	341,443	341,443	341,443	341,443
Middle Mile Revenues	-	-	-	-	-	-	-
Network Access Service Revenues	12,342,035	12,701,374	10,903,848	10,036,661	10,038,637	10,742,717	10,818,292
Universal Service Fund	4,146,290	4,742,318	5,108,010	4,825,519	4,981,736	6,827,000	9,112,460
Toll Service/Long Distance Voice	1,335,944	1,295,231	1,257,139	1,193,203	1,133,392	1,077,706	1,026,145
Installation Revenues	-	0	0	0	0	0	0
Amortized Grant Revenue BIP	-	0	-	-	-	-	-
Other Operating Revenues	1,887,719	1,279,808	1,561,586	1,561,824	1,587,521	1,630,801	1,672,877
Uncollectible Revenues	150,038	983,614	550,319	529,680	511,419	502,255	499,383
<b>Total Revenues</b>	<b>\$ 28,915,401</b>	<b>\$ 28,723,299</b>	<b>\$ 28,619,231</b>	<b>\$ 28,147,195</b>	<b>\$ 29,361,338</b>	<b>\$ 33,207,429</b>	<b>\$ 36,796,782</b>
<b>EXPENSES</b>							
Backhaul	354,644	363,644	429,280	491,936	572,462	652,987	720,733
Internet	1,633,312	1,364,561	1,610,856	1,846,109	2,148,576	2,451,044	2,705,501
Video	2,426,352	1,725,338	2,044,434	2,458,404	3,072,685	3,953,117	4,902,401
Wireless	467,513	307,915	177,332	177,332	177,332	177,332	177,332
Network Maintenance/Monitoring	7,919,493	6,118,505	6,726,496	6,315,770	5,892,803	5,561,591	5,324,098
Utilities	322,767	280,868	280,051	271,393	264,449	262,262	262,996
Sales/Marketing	23,653	170,563	85,374	90,150	97,481	106,768	115,819
Customer Care	2,767,781	2,117,548	1,437,330	1,380,977	1,330,162	1,302,942	1,292,525
Corporate G&A	5,015,675	4,068,508	3,231,028	3,017,081	2,791,677	2,613,340	2,486,043
Other Tax	964,958	946,992	888,902	819,622	744,336	681,287	633,863
Other Operating Expense	-	-	-	-	-	-	-
<b>Total Expenses</b>	<b>\$ 21,896,148</b>	<b>\$ 17,464,443</b>	<b>\$ 16,911,083</b>	<b>\$ 16,868,773</b>	<b>\$ 17,091,964</b>	<b>\$ 17,762,670</b>	<b>\$ 18,621,310</b>
<b>EBITDA</b>	<b>\$ 7,019,253</b>	<b>\$ 11,258,857</b>	<b>\$ 11,708,148</b>	<b>\$ 11,278,422</b>	<b>\$ 12,269,375</b>	<b>\$ 15,444,759</b>	<b>\$ 18,175,471</b>
Depreciation Non BIP Assets	8,131,581	9,828,780	8,322,994	7,327,898	7,528,024	7,385,167	5,944,990
Depreciation BIP Assets	-	-	237,901	1,204,036	2,628,367	3,458,045	3,591,626
Amortization	-	-	-	-	-	-	-
Interest Expense - BIP Loan	-	-	183,768	920,593	1,978,726	2,538,071	2,541,289
Interest Expense - Non BIP Debt	1,867,668	2,052,960	1,854,233	1,659,217	1,481,484	1,314,041	1,139,546
Dividend Income	1,021,698	889,486	955,869	955,869	955,869	955,869	955,869
Interest Income	49,972	112,244	69,859	69,859	69,859	69,859	69,859
Other Income (Expense)	6,422,639	(1,607,389)	(1,508,288)	(1,508,288)	(1,508,288)	(1,508,288)	(1,508,288)
Income Taxes	(450,647)	60,891	270,639	253,704	231,552	186,094	148,412
<b>Net Income (Loss)</b>	<b>\$ 4,964,960</b>	<b>\$ (1,289,433)</b>	<b>\$ 356,053</b>	<b>\$ (569,586)</b>	<b>\$ (2,061,339)</b>	<b>\$ 80,780</b>	<b>\$ 4,327,049</b>
<b>TIER</b>	<b>3.66</b>	<b>0.37</b>	<b>1.17</b>	<b>0.78</b>	<b>0.40</b>	<b>1.02</b>	<b>2.18</b>

Attachment 18  
 Pro Forma 5-Year Financial Forecast - Single Application  
 Balance Sheet - Existing Operations and BIP Project

PROJECT TITLE		West Kentucky and West Tennessee FTTH Initiative		EASYGRANTS ID	5370		
ASSETS	Historical		Forecast Period				
	Historical Year 1	Historical Year 2	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Current Assets</b>							
Cash	\$ 2,154,858	\$ 5,976,087	\$ 6,244,915	\$ 6,801,507	\$ 6,859,050	\$ 7,880,402	\$ 9,189,019
Marketable Securities	33,548,684	38,750,734	39,250,734	39,250,734	39,250,734	40,250,734	43,750,734
Accounts Receivable	2,114,184	1,302,262	1,671,095	1,622,278	1,675,902	1,896,608	2,102,099
Other Current Assets	5,121,078	2,933,726	3,195,790	3,046,644	2,958,448	2,971,972	3,030,503
<b>Total Current Assets</b>	<b>42,938,804</b>	<b>48,962,809</b>	<b>50,362,534</b>	<b>50,721,163</b>	<b>50,744,134</b>	<b>52,999,716</b>	<b>58,072,355</b>
<b>Non-Current Assets</b>							
Amortizable Asset - Net	-	-	-	-	-	-	-
Plant in Service Non BIP Assets	118,475,894	117,851,672	120,539,091	123,226,510	125,913,928	128,601,347	131,288,766
Accumulated Depreciation Non BIP Assets	(67,820,605)	(75,010,463)	(83,273,133)	(90,540,706)	(98,008,406)	(105,333,249)	(111,217,914)
Plant in Service BIP Assets	-	-	8,201,870	33,308,510	57,307,140	61,912,500	61,912,500
Accumulated Depreciation BIP Assets	-	-	(237,901)	(1,441,937)	(4,070,304)	(7,528,349)	(11,119,975)
Other Non-Current Assets	3,190,442	5,846,938	5,846,938	5,846,938	5,846,938	5,846,938	5,846,938
<b>Total Non-Current Assets</b>	<b>53,845,731</b>	<b>48,688,147</b>	<b>51,076,865</b>	<b>70,399,315</b>	<b>86,989,297</b>	<b>83,499,188</b>	<b>76,710,315</b>
<b>Total Assets</b>	<b>\$ 96,784,535</b>	<b>\$ 97,650,956</b>	<b>\$ 101,439,399</b>	<b>\$ 121,120,477</b>	<b>\$ 137,733,431</b>	<b>\$ 136,498,903</b>	<b>\$ 134,782,670</b>
<b>LIABILITIES AND EQUITY</b>							
	Historical Year 1	Historical Year 2	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Current Liabilities</b>							
Accounts Payable	\$ 1,181,905	\$ 1,852,268	\$ 1,279,047	\$ 1,229,966	\$ 1,214,017	\$ 1,244,883	\$ 1,292,573
Current Portion - Non BIP Debt	3,895,285	4,000,189	3,928,080	3,567,630	3,612,273	3,711,534	3,889,698
Current Portion - BIP Loans	-	-	710,301	1,581,457	2,145,929	2,323,650	2,429,993
Current Portion - Deferred Grant Revenue BIP	-	-	-	-	-	-	-
Other Current Liabilities	1,605,635	1,153,349	1,054,655	977,930	908,189	872,181	849,515
<b>Total Current Liabilities</b>	<b>6,682,825</b>	<b>7,005,806</b>	<b>6,972,083</b>	<b>7,356,983</b>	<b>7,880,408</b>	<b>8,152,248</b>	<b>8,461,779</b>
<b>Non-Current Liabilities</b>							
Existing Non BIP Debt	41,007,256	37,007,506	33,079,426	29,420,007	25,718,173	21,849,316	17,926,495
BIP Loans	-	-	7,353,094	30,878,277	52,730,978	55,012,688	52,582,695
Deferred Grant Revenue BIP	-	-	-	-	-	-	-
Other Non-Current Liabilities	-	-	-	-	-	-	-
<b>Total Non-Current Liabilities</b>	<b>41,007,256</b>	<b>37,007,506</b>	<b>40,432,520</b>	<b>60,298,284</b>	<b>78,449,151</b>	<b>76,862,003</b>	<b>70,509,190</b>
<b>Total Liabilities</b>	<b>\$ 47,690,081</b>	<b>\$ 44,013,312</b>	<b>\$ 47,404,603</b>	<b>\$ 67,655,267</b>	<b>\$ 86,329,559</b>	<b>\$ 85,014,252</b>	<b>\$ 78,970,970</b>
<b>Equity</b>							
Memberships	54,689	54,689	54,689	54,689	54,689	54,689	54,689
Additional Paid-In Capital	-	-	-	-	-	-	-
Patronage Capital Credits	51,544,477	49,801,485	49,801,485	49,801,485	49,801,485	49,801,485	49,801,485
Retained Earnings	(2,504,712)	3,781,470	4,178,622	3,609,036	1,547,698	1,628,477	5,955,526
<b>Total Equity</b>	<b>\$ 49,094,454</b>	<b>\$ 53,637,644</b>	<b>\$ 54,034,796</b>	<b>\$ 53,465,210</b>	<b>\$ 51,403,872</b>	<b>\$ 51,484,651</b>	<b>\$ 55,811,700</b>
<b>Total Liabilities and Equity</b>	<b>\$ 96,784,535</b>	<b>\$ 97,650,956</b>	<b>\$ 101,439,399</b>	<b>\$ 121,120,477</b>	<b>\$ 137,733,431</b>	<b>\$ 136,498,903</b>	<b>\$ 134,782,670</b>
<b>Current Ratio</b>	<b>6.43</b>	<b>6.99</b>	<b>7.22</b>	<b>6.89</b>	<b>6.44</b>	<b>6.50</b>	<b>6.86</b>

Attachment 18  
Pro Forma 5-Year Financial Forecast - Single Application  
Cash Flows - Existing Operations and BIP Project

	PROJECT TITLE		West Kentucky and West Tennessee FTTH Initiative		EASYGRANTS ID	5370	
	Historical		Forecast Period				
	Historical Year 1	Historical Year 2	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Beginning Cash</b>	<b>\$ 3,363,577</b>	<b>\$ 2,154,858</b>	<b>\$ 5,976,087</b>	<b>\$ 6,244,915</b>	<b>\$ 6,801,507</b>	<b>\$ 6,859,050</b>	<b>\$ 7,880,402</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Net Income (Loss)	4,964,960	(1,289,433)	356,053	(569,586)	(2,061,339)	80,780	4,327,049
Adjustments to Reconcile Net Income (Loss) to Net Cash From Operating Activities:							
Add: Depreciation Non BIP Assets	8,131,581	9,828,780	8,322,994	7,327,898	7,528,024	7,385,167	5,944,990
Add: Depreciation BIP Assets	-	-	237,901	1,204,036	2,628,367	3,458,045	3,591,626
Add: Amortization	-	-	-	-	-	-	-
Less: Amortized Grant Revenue BIP	-	(0)	-	-	-	-	-
Changes in Assets and Liabilities:							
Accounts Receivable	(173,476)	811,922	(368,833)	48,816	(53,624)	(220,706)	(205,492)
Other Current Assets	(4,063,935)	1,821,273	(262,064)	149,146	88,195	(13,524)	(58,531)
Other Non-Current Assets	-	-	-	-	-	-	-
Accounts Payable	(1,529,841)	670,363	(573,221)	(49,081)	(15,949)	30,866	47,690
Other Current Liabilities	(1,974,231)	(452,286)	(98,694)	(76,725)	(69,741)	(36,008)	(22,666)
Other Non-Current Liabilities	-	-	-	-	-	-	-
<b>Net Cash From Operating Activities</b>	<b>\$ 5,355,058</b>	<b>\$ 11,390,619</b>	<b>\$ 7,614,136</b>	<b>\$ 8,034,505</b>	<b>\$ 8,043,934</b>	<b>\$ 10,684,620</b>	<b>\$ 13,624,667</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Proceeds from Sale of Equity	-	-	-	-	-	-	-
Proceeds from BIP Grant	-	0	8,201,870	25,106,640	23,998,630	4,605,360	-
Proceeds from BIP Loans	-	-	8,201,870	25,106,640	23,998,630	4,605,360	-
Proceeds from Non BIP Debt	16,217,662	439	-	(91,789)	(89,561)	(157,323)	(33,122)
Repayments of BIP Loans	-	-	(138,474)	(710,301)	(1,581,457)	(2,145,929)	(2,323,650)
Repayments of Non BIP Debt	(3,218,305)	(3,895,285)	(4,000,189)	(3,928,080)	(3,567,630)	(3,612,273)	(3,711,534)
Payments of Patronage Capital Credits	-	(430,855)	41,099	(0)	0	(0)	0
Payments of Dividends	-	-	-	-	-	-	-
<b>Net Cash From Financing Activities</b>	<b>\$ 12,999,357</b>	<b>\$ (4,325,701)</b>	<b>\$ 12,306,176</b>	<b>\$ 45,483,109</b>	<b>\$ 42,758,612</b>	<b>\$ 3,295,195</b>	<b>\$ (6,068,306)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Capital Expenditures Non BIP Operations	(3,753,158)	(2,014,700)	(2,747,743)	(2,747,743)	(2,747,743)	(2,747,743)	(2,747,743)
Capital Expenditures BIP	-	-	(16,403,740)	(50,213,280)	(47,997,260)	(9,210,720)	(0)
Additions to Amortizable Assets	-	-	-	-	-	-	-
Change in Marketable Securities- Net	(15,809,976)	(1,228,989)	(500,000)	-	-	(1,000,000)	(3,500,000)
<b>Net Cash From Investing Activities</b>	<b>\$ (19,563,134)</b>	<b>\$ (3,243,689)</b>	<b>\$ (19,651,483)</b>	<b>\$ (52,961,023)</b>	<b>\$ (50,745,003)</b>	<b>\$ (12,958,463)</b>	<b>\$ (6,247,743)</b>
<b>Increase (Decrease) in Cash</b>	<b>(1,208,719)</b>	<b>3,821,229</b>	<b>268,829</b>	<b>556,592</b>	<b>57,543</b>	<b>1,021,352</b>	<b>1,308,617</b>
<b>Ending Cash</b>	<b>\$ 2,154,858</b>	<b>\$ 5,976,087</b>	<b>\$ 6,244,915</b>	<b>\$ 6,801,507</b>	<b>\$ 6,859,050</b>	<b>\$ 7,880,402</b>	<b>\$ 9,189,019</b>

**Attachment 20  
Pro Forma Financial Assumptions - Single Application**

**Market & Penetration Assumptions**

Factor	Specific Metric Used in Analysis	Rationale (Cite Basis)
Customers Passed		
<b>Non-Funded Area</b>		
N/A	N/A	The entire serving area is applying for BIP funds.
<b>Project Area</b>		
Anchor Institutions	99 Critical Community Facilities	Company records were used to identify all business in the non-funded area. After reviewing the entire list of business, the Critical community facilities were separated from the total list.
Businesses	3512 Businesses	The business customers were determined from a list from the ILEC records. These are businesses left after subtracting the CCF.
Residential	21072 Housing Units	Determined from the Mapping tool
Take Rate (narrative should provide rationale for take rates for each market group and service levels listed in Attachment 13)		
<b>Non-Funded Area</b>		
N/A	N/A	The entire serving area is applying for BIP funds.
<b>Project Area</b>		
Voice	Voice lines were reduced by 5.12%, 5.05%, 4.97%, 4.85% and 4.71% in 2010, 2011, 2012, 2013 and 2014, respectively. Access line loss was approximately 5% in 2009.	The voice lines are projected from current access line trends. The company does not see the rate of decline in access lines changing much over the next five years. However, they do project an eventual leveling off of access lines as broadband and video penetration increase.
High-speed data (DSL)	End of year DSL customers were projected at 8888, 10338, 12038, 13488, and 14688 in 2010, 2011, 2012, 2013 and 2014, respectively.	The company is currently able to offer DSL to its entire serving area. Of the 20719 homes passed, the company's 2009 DSL penetration was approximately 37%. The company expects penetration to increase as speeds increase. We project an ~70% penetration rate by the end of the projection period. This penetration level is achievable due to a lack of competition and competitive pricing.
Video	Total Video customers of 3245, 3695, 4395, 5435 and 5995 in 2010, 2011, 2012, 2013 and 2014 respectively.	Of the 20719 homes passed, the company's 2009 video penetration was approximately 14%. We project an ~29% penetration rate by the end of the projection period.

**Attachment 20**  
**Pro Forma Financial Assumptions - Single Application**

**Income Statement Assumptions**

**Revenue Assumptions**

Factor	Specific Metric Used in Analysis	Rationale (Cite Basis)
<b>Network Service Revenues</b>		
Local Voice Service	Lines * ARPU	A historical ARPU was developed by dividing 2009 local service revenues by the averaged access lines of 2008 and 2009. This yielded an ARPU of \$22.44 for 2009. This ARPU was held constant throughout the projection period assuming no rate increases. The ARPU was multiplied by projected access lines to develop the Local Voice Service revenue amounts.
Broadband Data Service	Subscribers * ARPU	A historical ARPU was developed by dividing 2009 DSL revenue by the averaged DSL customer counts of 2008 and 2009. This yielded an ARPU of \$41.19 for 2009. The ARPU was assumed constant for the remainder of the projection period. The ARPU was multiplied by projected subscribers to develop projected broadband revenue.
Video Service	Subscribers * ARPU	A historical ARPU was developed by dividing 2009 Video revenue by the averaged 2008 and 2009 Video customer counts, yielding a Video ARPU of \$47.14. The ARPU was increased 5% each year to account for increased programming expense. The ARPU was multiplied by the average of the current and previous forecasted customer counts.
Wireless Service	Subscribers * ARPU	The company has a minor investment in wireless technology, and generates a small amount of wireless revenue. A historical ARPU was developed by dividing 2009 DSL revenue by the averaged customer counts of 2008 and 2009. This yielded an ARPU of \$50.01 for 2009. The ARPU was assumed constant for the remainder of the projection period. The ARPU was multiplied by projected subscribers to develop projected revenue.
<b>Middle Mile Revenue</b>		
Middle Mile Service	N/A	N/A
<b>Network Access Service</b>		
Interstate and Intrastate Access	Pooling mechanism maintained by the National Exchange Carrier Association (NECA) for Interstate Access revenues. The metric used for Intrastate Access revenues is MOU * ARPU.	Interstate Access revenue was estimated by developing a revenue requirement based on forecasted expenses and investments. Interstate allocation factors were pulled from the 2008 cost study, the last study completed and approved. All three interstate access pools are collapsed back into one catch-all account, "Interstate Access." Costs associated with a grant reward were not included in the rate base to calculate the revenue requirement. Intrastate Switched Access Revenue is based on Intrastate Minutes of Use (MOU). A rate of \$.289 per minute was developed for 2009 based on the average of Intrastate MOU in 2008 and 2009 divided into total 2009 Intrastate revenue. It was assumed that Intrastate MOU would decline proportionately to the decline in access lines.
<b>Universal Service Fund</b>		
Universal Service (High Cost Loop)	NECA/FCC USF Algorithms	USF revenue is calculated using standard USF algorithms. It is also estimated using forecasted expenses and investment, but none linked to grant funds. The National Average Cost Per Loop (NACPL) was estimated to grow by 6% each year.
<b>Toll Service/Long Distance Voice</b>		
Long Distance	MOU * ARPU	An historical ARPU was developed by dividing 2009 long distance revenue by the averaged 2008 and 2009 long distance minutes of use. This yielded an ARPU of \$0.09. This rate was multiplied by the projected average LD minutes for each projection year.
<b>Installation Revenues</b>		
Installation	N/A	Installation revenues are not separately accounted for in the current operations. Installation fees do not apply to new data or video customers.
<b>Amortized Grant Revenue BIP</b>		
BIP Revenue	BIP Application Guide	Those applicants that are rate regulated Telecom or Electric companies must continue to utilize the accounting required by the respective uniform system of accounts for those industries, which require that the plant accounts be reduced by the grant funds received in the year of receipt.
<b>Other Operating Revenues</b>		
Miscellaneous	Lines * ARPU	A historical ARPU was developed by dividing 2009 miscellaneous revenues by the averaged access lines of 2008 and 2009. This yielded an ARPU of \$5.97 for 2009. The ARPU was assumed constant for the remainder of the projection period. The ARPU was multiplied by projected access lines to develop miscellaneous revenues.
<b>Uncollectible Revenues</b>		
Uncollectibles	% of Operating Revenue	Uncollectible revenue is estimated by dividing the 2009 uncollectible amount by the company's total operating revenue multiplied by the projected year's total gross operating revenue (before uncollectibles). This percent was estimated to be ~2.1% per year.

**Attachment 20  
Pro Forma Financial Assumptions - Single Application**

<b>Expense Assumptions</b>		
Factor	Specific Metric Used in Analysis	Rationale (Cite Basis)
<b>Network Expenses</b>		
Backhaul	Subscribers * ACPU	Backhaul is the circuit expense necessary to carry broadband data to the ISP. Backhaul expense was tied to broadband subscribers and grew with the growth of DSL customers. The ACPU was \$4.26 and was assumed constant through the projection period.
IP/Internet	Subscribers * ACPU	A historical cost per user was calculated by dividing the 2009 DSL expense by the average of the DSL customers in service at the end of years 2008 and 2009. The average cost per user in 2009 was \$16.00. No growth in the ACPU was assumed. The ACPU was applied to the forecasted subscribers in the projected years to develop the DSL expense amounts.
Video Content	Subscribers * ACPU	A historical cost per user was calculated by dividing the 2009 video expense by the average of the video customers in service at the end of years 2008 and 2009. The average cost per user in 2009 was \$50.81. The ACPU grew by 8% in 2010 and there were diminishing growth factors in every year with a growth of 6.52% in 2014. The ACPU grow is due to the ever increasing cost of video content. The ACPU was applied to the forecasted subscribers in the projected years to develop the video expense amounts.
Wireless	Subscribers * ACPU	A historical cost per user was calculated by dividing the 2009 wireless expense by the average of the wireless customers in service at the end of years 2008 and 2009. The average cost per user in 2009 was \$25.97. No growth in the ACPU was assumed. The ACPU was applied to the forecasted subscribers in the projected years to develop the spectrum expense amounts.
Maintenance	% of Operating Revenue	Maintenance is Plant-Nonspecific expenses, with the exception of utilities and depreciation, and the average percentage of expense to revenue for the past two years was carried forward in the projected years. This expense increased or decreased with changes in revenue and the average margin of the past three years was maintained in the forecasted years. The idea is that the company will be as efficient in the foreseeable future as it is today. Maintenance expense is 27.73% of operating revenue.
Utilities	% of Operating Revenue	Utilities is power expense. In a regulated telecommunications company, power is a Plant-Nonspecific expense, and as a result, it was treated in a similar fashion to Maintenance expense. Utilities are 1.02% of operating revenue.
Depreciation	Average Plant Balance * Depreciation Rate	Depreciation expense is calculated by taking the average plant balance and multiplying it by its depreciation rate. Over depreciation of asset accounts is not permitted.
Sales & Marketing	% of Operating Revenue	Sales and Marketing are components of Customer Operations and are tied to revenues because of the direct correlation between a company's advertising campaign and the amount of revenue it generates. Sales and Marketing expense was estimated to be .1% of gross operating revenues.
Customer Care & Billing	% of Operating Revenue	Customer Care & Billing are components of Customer Operations and are implicitly tied to revenues. Revenues, to a certain extent, are an indication of customer levels. As customers increase, revenue increase, and so will the amount of expense needed per customer. We assumed that relationship would stay relatively unchanged. Customer care expense was estimated to be 5.7% of gross operating revenues.
General & Administrative	% of Operating Revenue	General & Administrative expenses reflect a company's Corporate operations. Changes in G&A expenses mirror changes in revenue in order to maintain similar operating margins. Corporate G&A expense was estimated to be 15.2% of gross operating revenues.
Property/Other Taxes	% of Operating Revenue	This represents all taxes other than Income taxes and reflects the same level of operational efficiency in projected years as the company displayed in historical years. Property/Other taxes was estimated to be ~4.50% of gross operating revenues.
Interest Expenses	Debt schedule amortizations	Interest payments on existing debt were calculated each year based on the remaining balance of each note and the interest rate until the notes reached maturity. Interest on new debt was calculated quarterly each year by applying a term approximately equivalent to the weighted average useful life of the assets and the prevailing interest rate of 4.5% on 20 year treasury bonds. See attachment #23 for more information about existing terms.
Income Taxes	EBT * Tax Rate	Since the ILEC is a cooperative, no taxes were assumed at that entity. However, taxes are generated at the unregulated subsidiary. At the subsidiary, a composite tax rate of 40% was assumed on earnings before taxes (EBT).

**Attachment 20**  
**Pro Forma Financial Assumptions - Single Application**

**Balance Sheet Assumptions**

**Assets Assumptions**

Factor	Specific Metric Used in Analysis	Rationale (Cite Basis)
Cash	Residual	Cash equals liabilities and stockholders' equity less assets (except cash).
Marketable Securities	Operations and Cash levels	Marketable securities were bought or sold based on the company's profitability and cash balance.
Accounts Receivable	% of Total Revenue	The historical relationship of receivables to total revenue was applied to the company's forecasted revenues to develop Accounts Receivables in the projected years. Receivables reflect sales or services provided but not collected yet. We assumed that the historical relationship of accounts receivable would continue into the future. The historical percentage relationship was carried forward in the forecasted years and was estimated to be 6.54% of gross consolidated revenues.
Other Current Assets	% of Cash Operating Expenses	This includes Prepayments and Material & Supplies. Prepayments are expenses paid in advance and Materials & Supplies are assets that have been paid for but not yet put into service. These are future items that have been paid for with cash, thus linking them to Cash Operating Expenses is an ideal way to treat them for budgeting and modeling purposes. The historical percentages were carried forward in the forecasted years. Prepayments are 18.1% of cash operating expenses, while Materials & Supplies are 8.2%
Amortizable Asset - Net	N/A	N/A
Plant in Service Non BIP Assets	Capital Budget Summary	This represents all of the regulated and nonregulated Plant that the company has put into service. Only regulated fixed assets are included in a company's rate base when developing the Interstate revenue requirement and USF amounts. Additional capital expenditures were made in each year to maintain the current operations of the company.
Accumulated Depreciation Non BIP Assets	Calculated	Accumulated depreciation grows by the current year's depreciation expense less retirements for each asset account until the asset is fully depreciated. Over-depreciation of assets is not allowed.
Plant in Service BIP Assets	Attachment 22	This represents the Plant that was purchased with BIP funds and put into service. Per the BIP Application Guide, only assets acquired with the loan portion of the project are included at gross cost. The pro-rated portion of assets bought with grant funds are booked at zero cost. See attachment 22 for further detail.
Accumulated Depreciation BIP Assets	Calculated	Accumulated depreciation grows by the current year's depreciation expense less retirements for each asset account until the asset is fully depreciated. Only assets recorded at gross investment are allowed to accumulate depreciation. Over depreciation of assets is not allowed.
Other Non-Current Assets	Calculated	This includes Investments and Deferred Income Taxes and the 2009 level was applied to the projected years.



**Attachment 20**  
**Pro Forma Financial Assumptions - Single Application**

**Liability Assumptions**

Accounts Payable	% of Cash Operating Expenses	Accounts payable is an entity's obligation to pay off its short-term debt/credit. Accounts payable is generated from expenses that have accrued but have not been paid; thus, accounts payable is based on a % of cash operating expenses (operating expenses - depreciation). We projected accounts payable to be 10.1% of operating expenses.
Current Portion - Non BIP Debt	Loan Term Sheets	This is the current maturities of the company's existing long-term debt. This is calculated based on the terms on the loans term sheet. The current portion of long-term debt is the following years' debt payment. See attachment #23 for more detail.
Current Portion - BIP Loans	Loan Term Sheets	This is the current maturities of the company's proposed long-term debt acquired to fund the BIP project. This get calculated each year based on the terms of each loan. The current portion of long-term debt is the following years' debt payment.
Current Portion - Deferred Grant Revenue BIP	N/A	The grant funding that pays for CAPEX is netted to zero, per RUS BIP guide.
Other Current Liabilities	% of Cash Operating Expenses	This includes accruals and customer deposits. Accruals are generated from expenses that have accrued but have not been paid; thus, the projected accruals are based on a % of cash operating expenses (operating expenses - depreciation). We projected accruals to be 8% of cash operating expenses. Customer deposits is an immaterial percent of other current liabilities.
Existing Non BIP Debt	Loan Term Sheets	This is the existing long-term debt obligation that the company has to repay. This amount is adjusted each year as the company pays off principal or raises new debt. See attachment #23 for existing debt terms.
BIP Loans	Loan Term Sheets	These are new loans the company will acquire to help fund a portion of the BIP project. The company will take four loans. The terms of the loans are as follows: quarterly payments, 5.5% interest, 19 year term.
Deferred Grant Revenue BIP	N/A	The grant funding that pays for CAPEX is netted to zero, per RUS BIP guide.
Other Non-Current Liabilities	N/A	There are no other Non-Current Liabilities.

**Equity Assumptions**

Memberships	N/A	This account was assumed constant based on 2009.
Additional Paid-In Capital	N/A	The company has no additional paid-in capital
Patronage Capital Credits	Held constant	This account was assumed constant based on 2009.
Retained Earnings	Calculated	In this projection, Retained Earnings represent Net-operating margins and the net unrealized loss on securities. Retained Earnings were based on the previous year's level and adjusted for the current year by adding net income (loss).

**Attachment 20**  
**Pro Forma Financial Assumptions - Single Application**

**Cash Flow Assumptions**

Factor	Specific Metric Used in Analysis	Rationale (Cite Basis)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Net Income (Loss)</i>	Income Statement	Net Income is carried over from the Income Statement
<i>Adjustments to Reconcile Net Income (Loss) to Net Cash From Operating Activities:</i>		
Add: Depreciation Non BIP Assets	Income Statement	Depreciation is carried over from the Income Statement
Add: Depreciation BIP Assets	Income Statement	Depreciation is carried over from the Income Statement
Add: Amortization	Income Statement	Amortization is carried over from the Income Statement
Less: Amortized Grant Revenue BIP	Income Statement	This is netted to zero
<i>Changes in Assets and Liabilities:</i>		
Accounts Receivable	Balance Sheet	This shows the year to year changes in the Accounts Receivable balances from the Balance Sheet
Current Assets	Balance Sheet	This shows the year to year changes in Current Asset balances from the Balance Sheet
Other Non-Current Assets	Balance Sheet	This shows the year to year changes in Other Non-Current Asset balances from the Balance Sheet
Accounts Payable	Balance Sheet	This shows the year to year changes in the Accounts Payable balances from the Balance Sheet
Other Current Liabilities	Balance Sheet	This shows the year to year changes in Other Current Liability balances from the Balance Sheet
Other Non-Current Liabilities	Balance Sheet	This shows the year to year changes in Other Non-Current Liability balances from the Balance Sheet
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Sale of Equity	N/A	N/A
Proceeds from BIP Grant		This shows the Grant Funds the company hopes to secure, by year, to complete its BIP project. This is directly linked to the Grant portion of the project and is tied to the three years that correspond to asset purchases.
Proceeds from BIP Loans		This shows the Loan Funds, by year, the company hopes to secure to help complete its broadband expansion tied to the BIP project. This is directly linked to the Loan portion of the project and is tied to the three years that correspond to when the assets are purchased.
Proceeds from Non BIP Debt		This shows the loans secured by the company that are not related to the BIP project.
Repayments of BIP Loans		This represents the principal payments mandated by the terms of the existing company's loans.
Repayments of Non BIP Debt		This represents the principal payments mandated by the terms of the proposed loans associated with the BIP project.
Payments of Patronage Capital Credits		No capital credit allocations were projected
Payments of Dividends		N/A
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital Expenditures Non BIP Operations	Estimated	This represents the capital expenditures needed to maintain the company's current operations (maintenance CAPEX). This is based on trends from the past few years and is similar in amount for each forecasted year. This CAPEX is independent of the BIP project.
Capital Expenditures BIP	Attachment 22	Projected capital for the BIP project. The amounts are projected capital linked to the company's BIP project timeline. The CAPEX associated with the BIP project will net to zero with the Proceeds from BIP Loans and Proceeds from BIP Grant on the Financing activities section of the cash flow statement.
Additions to Amortizable Assets	N/A	The company does not plan to add any amortizable assets.
Change in Marketable Securities- Net	Balance Sheet	This shows the year to year changes in Marketable Securities from the Balance Sheet.