

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

GENESEO TELEPHONE COMPANY, )  
CAMBRIDGE TELEPHONE COMPANY and )  
HENRY COUNTY TELEPHONE COMPANY ) Docket 11-0210  
)  
Petition for Universal Service. )

ILLINOIS INDEPENDENT TELEPHONE )  
ASSOCIATION )  
)  
)  
Petition to update the Section 13-301(1)(d) Illinois ) Docket 11-0211  
Universal Service Fund and to implement Intrastate )  
Switched Access Charge reform as described herein ) Consolidated  
and for other relief. )

**DIRECT TESTIMONY OF MICHAEL W. STOKES**

**ON BEHALF OF REYNOLDS TELEPHONE COMPANY**

**May 5, 2011**

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

2 A. Michael W. Stokes. My business address is 2141 W. White Oaks Dr., Suite A,  
3 Springfield, Illinois 62704.

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

5 A. I am employed as an accountant/CPA for Stokes and Co., CPA's, LLC.

6 **Q. Please outline your educational background and business experience.**

7 A. I graduated from the University of Illinois - Springfield in 1989 with a Bachelor degree in  
8 Accountancy. Upon graduation, I became employed with Kiesling Associates LLP and  
9 worked there for over 4 years. My experience at the firm involved providing accounting,  
10 auditing, regulatory reporting, budgeting, costing, and individual & corporate income tax  
11 preparation primarily to small independent telephone companies. From 1993 through  
12 1996, I was employed by McGladrey & Pullen CPA's (a big eight CPA firm) as a  
13 certified public accountant and later for Growmark FS. In 1996, I began practicing as a  
14 sole practitioner CPA. I built a practice from 1996 to 2000 to include four employees  
15 which primarily provided audit, tax and accounting services to telephone, cellular, cable  
16 TV, and contractor clients.

17 In 2001, I merged my practice and my employees with my previous employer Kiesling  
18 Associates LLP and was appointed partner-in-charge of their existing Springfield,  
19 Illinois, branch office. In 2004, I sold my accounting practice to Kiesling Associates  
20 LLP and took the following four years working on a limited basis for only a few clients  
21 (including a Telephone Company located in Missouri). Starting in 2009, following the

22 expiration of a non-compete, I began to expand Stokes & Co., CPA's, LLC and currently  
23 provide services to approximately 20 telephone and cable TV clients as well as several  
24 non-telephony clients such as contractors and manufacturers.

25 **Q. How did you come to be involved in gathering of evidence for the IUSF?**

26 A. The Company received a request from the IITA a number of months ago to complete the  
27 form referred to as the Form 1.01. I understand that the form is essentially the same form  
28 capturing the same information established by agreement between the IITA and  
29 Commission Staff in consolidated Docket Nos. 00-0233 and 00-0335 and relied upon by  
30 the Illinois Commerce Commission in establishing the current Illinois Universal Service  
31 Fund ("IUSF"). I also understand that Mr. Schoonmaker who is testifying on behalf of  
32 the IITA will be describing the general format of the form in greater detail and will  
33 explain the use of the results from the form in establishing the proposed revision to the  
34 IUSF.

35 **Q. Did you complete the Schedule 1.01 for the Company in accordance with its**  
36 **instructions and based on the Company's Schedule 23A or other information filed**  
37 **by the Company with the Commission for the year 2009?**

38 A. Yes, I completed Schedule 1.01 for the Company based on the Company's Schedule 23A  
39 or other information filed with the Commission for the year 2009. For certain  
40 information that was not available from the Schedule 23A filed with the Commission I  
41 used Company records as the source of information. That Schedule 1.01 is attached as  
42 Exhibit 1.01 to this testimony.

43 **Q. Have you provided the Company's Schedule 1.01 with all the requisite information**  
44 **to Mr. Schoonmaker for his use in compiling the composite results for all companies**  
45 **seeking updated IUSF funding in connection with his testimony in this docket?**

46 A. Yes. The Company initially provided this information to Mr. Schoonmaker for use in  
47 negotiating the Stipulation and Agreement between the IITA and AT&T. The Company  
48 has confirmed this information for use in this docket.

49 **Q. Is the Company's Schedule 1.01 (Exhibit 1.01 to this testimony) true and correct to**  
50 **the best of your knowledge, information and belief?**

51 A. Yes. A substantial part of the information included in Schedule 1.01 comes directly from  
52 the Form 23A. As stated in the accountant's report that accompanies the Form 23A as  
53 filed with this Commission for the year 2009, the Company's financial statements and  
54 any supplementary information included in the prescribed form are prepared in  
55 accordance with Standards for Accounting and Review Services issued by the American  
56 Institute of Certified Public Accountants. The Company's financial statements and  
57 records are kept in accordance with Generally Accepted Accounting Principles (GAAP)  
58 and FCC Part 32 accounting rules. In addition, additional information that is presented in  
59 the Schedule 1.01 that did not come from these sources, but from the Company's records  
60 is also true and correct to the best of my knowledge, information, and belief.

61 **Q. Did you make any of the standard adjustments as directed by the instructions to the**  
62 **Schedule 1.01 which Mr. Schoonmaker describes in his testimony?**

63 A. Yes.

64 **Q. Standard Adjustment #1 of the described standard adjustments is an adjustment to**  
65 **normalize approved regulatory changes. Did the Company have this type of**  
66 **adjustment?**

67 A. Yes. Because the Company's local rates are actually lower than the  
68 Commission-established affordable rate, I calculated an adjustment to impute additional  
69 local revenue to the Company's operating revenues based on the affordable rate. The  
70 revenue adjustment for this item was an increase of \$7,862 to total operating revenues.  
71 This adjustment to revenue is reflected on the Company's Schedule 1.01, Page 1, Line  
72 14. This adjustment is also shown on Page 4 of Schedule 1.01, which is attached to my  
73 testimony.

74 **Q. Standard Adjustment #2 is related to out of period or extraordinary revenue and**  
75 **expense adjustments. Did the Company have this type of adjustment?**

76 A. No.

77 **Q. Standard Adjustment #3 relates to significant or extraordinary changes in plant**  
78 **investment. Did the Company make this type of adjustment?**

79 A. Yes. The Company has made adjustments to plant to reflect the addition of fiber to the  
80 home plant additions made in 2010. The result of the rate base adjustments is an  
81 adjustment increase to net rate base of \$150,000. This adjustment is shown on Page 4 of  
82 Schedule 1.01. The net rate base increase amount of \$150,000 is also shown on Page 1 of  
83 Schedule 1.01 in the adjustment column for Line 1, Net Regulated Plant.

84 **Q. Standard Adjustment #4 relates to adjustments made to Federal USF amounts. Did**  
85 **the Company make any of this type of adjustment?**

86 A. Yes. The Company made an adjustment to reflect the difference between high cost loop  
87 (HCL) revenues booked in 2009 and the known and measurable amount of HCL revenues  
88 for 2010 provided to the Company by NECA. This difference is a decrease in revenues  
89 in the amount of \$1,515. This adjustment is shown on Page 4 of Schedule 1.01. This  
90 amount is also shown on Page 1 of Schedule 1.01 as a portion of the amount in the  
91 adjustment column for Line 14, Total Operating Revenues.

92 **Q. Standard Adjustment #5 refers to adjustments made to reflect non-regulated**  
93 **revenue or expense items that may have been reflected in the Company's regulated**  
94 **accounts as shown in Schedule 23A. Did the Company make this type of**  
95 **adjustment?**

96 A. No. Based on the Company's accounting practices no non-regulated revenues or  
97 expenses are included in the Company's regulated accounts.

98 **Q. Has your Company reviewed and does your Company support the Stipulation and**  
99 **Agreement between the IITA and AT&T?**

100 A. Yes. As I mentioned above, we provided our Schedule 1.01 information to  
101 Mr. Schoonmaker and the IITA in support of the Stipulation and Agreement negotiation  
102 process. The Company supports the Stipulation and Agreement taken in its entirety.  
103 Although the Company believes that the agreed 9.34% after-tax cost of capital is  
104 inadequate in the long run to attract sufficient capital to high cost areas like those the  
105 Company serves, the Company believes the approval of the Stipulation and Agreement

106 will provide a needed and timely interim updating of the IUSF better reflecting the  
107 current financial circumstances and needs of individual companies pending further action  
108 by the FCC. The Company also supports the creation of an access restructuring element  
109 for the IUSF that will allow small carriers in Illinois to mirror their intrastate switched  
110 access rates to their interstate switched access rates by replacing the revenues lost from a  
111 reduction in intrastate switched access rates on a dollar-for-dollar basis as set forth in the  
112 Stipulation and Agreement.

113 **Q. Does that conclude your testimony?**

114 **A.** Yes it does.

Reynolds Telephone Company  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2009

<u>Line #</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>	<u>Adjustment*</u>	<u>Adjusted Amount</u>
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 1,593,549	\$ 150,000	\$ 1,743,549
2	Materials and Supplies Inventory	Page 2, 13-Month Average	22,793		22,793
3	Customer Deposits	Form 23A, P 8, 4040	2,800	-	2,800
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	142,446	-	142,446
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			1,621,096
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 11, Total	492,280	-	492,280
8	Less: Depreciation Expense	Form 23A, P 11, 6560	138,331	-	138,331
9	Total WC Operating Expense	line 7 - line 8	353,949	-	353,949
10	WC OE Requirement	line 9 * 45 / 360			44,244
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			44,244
13	Total Rate Base	line 5 + line 12			1,665,340
14	Total Operating Revenues	Form 23A, P 9, Total	518,901	9,377	528,278
15	Less: Illinois Universal Service Fund	Page 3, Line 4	-	-	-
16	Net Operating Revenues	line 14 - line 15	518,901	9,377	528,278
17	Total Operating Expenses	Form 23A, P 11, Total	492,280	-	492,280
18	Other Operating Inc and Exp - Net	Form 23A, P 12, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 12, 7240	3,438	-	3,438
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	23,183	9,377	32,560
21	Income Tax Expense	line 34			12,639
22	Net Operating Income	line 20 - line 21			19,921
23	Return on Rate Base	line 22 / line 13			1.20%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			186,685
26	Adj to Achieve Target Return on RB	line 25 - line 22			166,764
27	Gross Revenue Conversion Factor	line 35			1.6345
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			272,575
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			32,560
31	Illinois Inc & Rep Tax Expense	line 30 * 7.30%			2,377
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			30,183
33	Federal Income Tax Expense	line 32 * 34.00%			10,262
34	Total Imputed Income Tax Expense	line 31 + line 33			12,639
35	Gross Revenue Conversion Factor	1 / ((1 - .0730) * (1 - .34))			1.6345

\* Provide detail on Page 4 for all adjustments.

Reynolds Telephone Company  
 Illinois Universal Service Funding Calculation  
 Based upon ICC Form 23A Report Data for December 31, 2009  
 Material & Supplies Worksheet and Other Information

Line #		
1	December-08	\$23,865
2	January-09	\$23,865
3	February-09	\$23,865
4	March-09	\$23,865
5	April-09	\$23,865
6	May-09	\$23,865
7	June-09	\$23,427
8	July-09	\$23,332
9	August-09	\$22,582
10	September-09	\$23,352
11	October-09	\$23,352
12	November-09	\$22,408
13	December-09	\$14,663
14	13 Month Average	\$22,793

Sale/Lease Back Arrangement

- The company does not have any sale(s)/lease back arrangement.
- The company does have sale(s)/lease back arrangement.

Lease Agreement with Affiliates

- The company does not have any lease agreements with affiliates.
- The company does have lease agreements with affiliates.

Tax Status (1=Taxable, 2=Coop) 1

After Tax Return-Taxable 11.21%  
 After Tax Return-Coop 12.60%

Reynolds Telephone Company  
 Illinois Universal Service Funding Calculation  
 Based upon ICC Form 23A Report Data for December 31, 2009  
 Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
1	Local Revenues	Form 23A, P 9, Total Local Network Service Revenues	\$ 123,409
2	State Subscriber Line Charges	Trial Balance 12/31/09	\$ 21,369
3	State Access Revenues	Trial Balance 12/31/09	\$ 58,401
4	State Universal Service Support	Trial Balance 12/31/09	\$ -
5	State Special Access Revenues	Trial Balance 12/31/09	\$ 30,775
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	<u>\$ 233,954</u>
7	Federal Subscriber Lines Charges	Trial Balance 12/31/09	\$ 34,867
8	Federal Access Revenues	Trial Balance 12/31/09	\$ 191,207
9	Federal High Cost Loop Support	Trial Balance 12/31/09	\$ 29,970
10	Federal Special Access Revenues	Trial Balance 12/31/09	\$ 13,996
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	<u>\$ 270,040</u>
12	Misc Revenues	Trial Balance 12/31/09	\$ 14,907
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u><u>\$ 518,901</u></u>

Reynolds Telephone Company  
 Illinois Universal Service Funding Calculation  
 Based upon ICC Form 23A Report Data for December 31, 2009  
 Description of Adjustments

Description of Adjustment	Calc	Debit	Credit
<u>Rate Base Adjustments</u>			
Fiber to the Home Investment		\$150,000	
<u>Revenue Adjustments</u>			
Local Rate Adjustment \$20.39	Residential		
Local Rate	\$14.25		
State SLC	\$4.19		
Total Rate	<u>\$18.44</u>		
12/31/09 Lines	336		
Monthly Revenue	\$6,196		
Annualized Revenue	\$74,350		
Annualized Revenue @ 20.39	\$82,212		
Difference	\$7,862		\$7,862
2009 HCL USF	\$29,970		
2010 Projected HCL USF	<u>\$31,485</u>		
Change	\$1,515		\$1,515

Expense Adjustments

Note: Carry all adjustments forward to Page 1

Certificate of Service

Docket No. 11-0211 (Consolidated)

The undersigned certifies that a copy of the *Direct Testimony of Michael W. Stokes on Behalf of Reynolds Telephone Company* was served upon the following persons by e-mail this 5<sup>th</sup> day of May, 2011.

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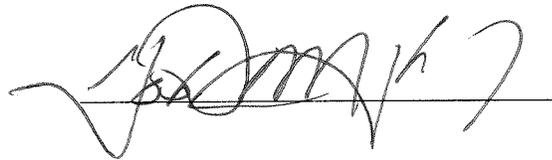
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A handwritten signature in black ink, appearing to read "Gary Smith", is written over a horizontal line. The signature is stylized and cursive.