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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION)
OF TABLE TOP TELEPHONE COMPANY,)
INC., FOR AUTHORIZATION TO ASSUME)
NEW DEBT)

DOCKET NO. T-02724A-03-0750

NOTICE OF FILING
AUDITED FINANCIAL
STATEMENTS

On October 9, 2003, Table Top Telephone Company filed an application for authority to borrow money from the U. S. Department of Agriculture, Rural Utilities Service, and the Rural Telephone Bank. Table Top filed draft financial statements with its application because the audited financial statements were not complete at that time. Since the filing of the application, the auditors have completed their work, and attached is a copy of Table Top's audited financial statement for the periods ending June 30, 2003 and 2002.

RESPECTFULLY SUBMITTED this 6th day of November, 2003.

SNELL & WILMER

By 
Jeffrey W. Crockett
One Arizona Center
Phoenix, Arizona 85004-2202
Attorneys for Table Top Telephone
Company, Inc.

Arizona Corporation Commission
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day of November, 2003, to:

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MOSS ADAMS LLP 

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Table Top Telephone Company, Inc.

We have audited the accompanying balance sheets of Table Top Telephone Company, Inc. as of June 30, 2003 and 2002, and the related statements of income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Table Top Telephone Company, Inc. as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Stockton, California
September 11, 2003

TABLE TOP TELEPHONE COMPANY, INC.

AJO, ARIZONA

INDEPENDENT AUDITOR'S REPORT

and

FINANCIAL STATEMENTS

with

ADDITIONAL INFORMATION

JUNE 30, 2003 and 2002

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BALANCE SHEETS

TABLE TOP TELEPHONE COMPANY, INC.
BALANCE SHEETS

ASSETS

	JUNE 30,	
	2003	2002
CURRENT ASSETS		
Cash	\$ 1,885,926	\$ 1,175,935
Telecommunications accounts receivable	271,018	269,000
Other accounts receivable	626,414	444,494
Materials and supplies	42,696	136,073
Prepaid income taxes	163,013	41,650
Other prepayments	63,337	50,413
Total current assets	<u>3,052,404</u>	<u>2,117,565</u>
NONCURRENT ASSETS		
Investments	<u>757,124</u>	<u>811,691</u>
PROPERTY, PLANT, AND EQUIPMENT		
Telecommunications plant in service	25,417,209	24,122,561
Plant under construction	235,248	851,751
Goodwill	<u>3,190,756</u>	<u>3,190,756</u>
	28,843,213	28,165,068
Less accumulated depreciation and amortization	<u>13,372,818</u>	<u>11,410,384</u>
Net property, plant, and equipment	<u>15,470,395</u>	<u>16,754,684</u>
	<u>\$ 19,279,923</u>	<u>\$ 19,683,940</u>

TABLE TOP TELEPHONE COMPANY, INC.
BALANCE SHEETS

LIABILITIES AND STOCKHOLDER'S EQUITY

	JUNE 30,	
	2003	2002
CURRENT LIABILITIES		
Accounts payable	\$ 660,958	\$ 334,103
Current maturities of mortgage notes	1,332,929	1,146,000
Current maturities of capital lease obligation	72,089	66,307
Advance billings and customer deposits	367,027	315,187
Property taxes payable	147,578	160,008
Accrued vacations payable	43,602	26,506
Profit sharing plan payable	36,410	33,655
Other accrued liabilities	64,519	51,984
	<u>2,725,112</u>	<u>2,133,750</u>
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes	1,350,362	914,157
Deferred credit	81,490	84,624
	<u>1,431,852</u>	<u>998,781</u>
LONG-TERM DEBT		
Mortgage notes	8,136,506	9,679,906
Capital lease obligation	44,921	117,011
	<u>8,181,427</u>	<u>9,796,917</u>
STOCKHOLDER'S EQUITY		
Common stock, authorized 10,000,000 shares		
\$1 par value:		
Issued and outstanding 5,500,000 shares	5,500,000	5,500,000
Retained earnings	1,441,532	1,254,492
	<u>6,941,532</u>	<u>6,754,492</u>
	<u>\$ 19,279,923</u>	<u>\$ 19,683,940</u>

TABLE TOP TELEPHONE COMPANY, INC.
STATEMENTS OF INCOME AND RETAINED EARNINGS

	YEARS ENDED JUNE 30,	
	2003	2002
OPERATING REVENUES		
Local network services	\$ 1,580,595	\$ 1,527,645
Network access services	5,980,741	5,736,866
Miscellaneous	67,822	(29,533)
Total operating revenues	<u>7,629,158</u>	<u>7,234,978</u>
OPERATING EXPENSES		
Plant specific operations	1,066,223	835,426
Plant nonspecific operations	460,375	394,660
Customer operations	523,516	485,701
Corporate operations	905,159	788,401
Depreciation and amortization	2,564,392	2,801,987
Property and other taxes	288,829	274,958
Total operating expenses	<u>5,808,494</u>	<u>5,581,133</u>
OPERATING INCOME	<u>1,820,664</u>	<u>1,653,845</u>
OTHER INCOME AND (EXPENSES)		
Allowance for funds used during construction	11,066	1,528
Interest and dividend income	24,526	7,555
Interest expense	(645,738)	(655,527)
Amortization – goodwill	-	(409,509)
Nonoperating expense, net	(9,758)	(2,211)
Nonregulated income, net	178,522	135,730
Total other income and (expenses)	<u>(441,382)</u>	<u>(922,434)</u>
NET INCOME BEFORE INCOME TAXES	1,379,282	731,411
Provision for income taxes	532,242	312,535
NET INCOME	847,040	418,876
RETAINED EARNINGS, beginning of year	1,254,492	835,616
Dividends on common stock	(660,000)	-
RETAINED EARNINGS, end of year	<u>\$ 1,441,532</u>	<u>\$ 1,254,492</u>

TABLE TOP TELEPHONE COMPANY, INC.
STATEMENTS OF CASH FLOWS

	YEARS ENDED JUNE 30,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and settlements	\$ 8,065,026	\$ 7,978,693
Cash paid to vendors, suppliers, and employees	(3,279,842)	(3,199,667)
Interest and dividends received	24,526	7,555
Interest paid	(661,265)	(690,121)
Income taxes paid	(217,400)	(43,655)
Net cash from operating activities	<u>3,931,045</u>	<u>4,052,805</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and acquisition of plant	(1,178,777)	(1,868,822)
Salvage, net of cost of removal	(15,001)	(10,544)
Purchase of investments	-	(19,500)
Sale of investments	55,503	52,033
Net cash from investing activities	<u>(1,138,275)</u>	<u>(1,846,833)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received for loan fees	-	2,316
Principal payments on short-term debt	-	(231,383)
Principal payments on mortgage notes and capital lease obligation	(1,422,779)	(1,262,829)
Dividends paid	(660,000)	-
Net cash from financing activities	<u>(2,082,779)</u>	<u>(1,491,896)</u>
NET CHANGE IN CASH	709,991	714,076
CASH, beginning of year	1,175,935	461,859
CASH, end of year	<u>\$ 1,885,926</u>	<u>\$ 1,175,935</u>

TABLE TOP TELEPHONE COMPANY, INC.

STATEMENTS OF CASH FLOWS

	YEARS ENDED JUNE 30,	
	2003	2002
RECONCILIATION OF NET INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
NET INCOME	\$ 847,040	\$ 418,876
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	2,578,983	3,225,520
Deferred income taxes	436,205	310,480
Allowance for funds used during construction	(11,066)	(1,528)
Patronage credits	(15,527)	(33,840)
Increase (decrease) in cash due to changes in assets and liabilities:		
Telecommunications accounts receivable	(2,018)	59,001
Other accounts receivable	(181,920)	166,318
Materials and supplies	93,377	7,734
Prepaid income taxes	(121,363)	(41,600)
Other prepayments	(12,924)	(7,154)
Accounts payable	251,596	(54,650)
Advance billings and customer deposits	51,840	42,877
Property taxes payable	(12,430)	(50,328)
Accrued vacations payable	17,096	3,032
Profit sharing plan payable	2,755	6,851
Other accrued liabilities	12,535	1,216
Deferred credit	(3,134)	-
Total adjustments	3,084,005	3,633,929
NET CASH FROM OPERATING ACTIVITIES	\$ 3,931,045	\$ 4,052,805

TABLE TOP TELEPHONE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS

**NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

Description of operations – Table Top Telephone Company, Inc. (the Company) is a wholly owned subsidiary of Stageline Communications, Inc. Prior to October 2002, it was owned by Stageline Communications, Inc. (67.34%) and Wagner Telecommunications, Inc. (32.66%). The Company provides telephone service in its franchised territory of Pima, Maricopa, Coconino, Yavapai, and Apache Counties, and is subject to the Rules and Regulations of the Arizona Corporation Commission (the Commission) and the Federal Communications Commission (FCC). Pending and future regulatory actions may have a significant impact on the Company's operations and financial condition.

Basis of presentation – The accounting policies of the Company conform to generally accepted accounting principles and reflect practices appropriate to the telecommunications industry. The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the Commission.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Regulatory accounting – The Company follows accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," since the Company is subject to regulation by the Commission and other federal agencies, and meets the criteria set forth in SFAS No. 71.

Revenue recognition – Regulated and nonregulated operating revenues are recognized when earned regardless of the period in which they are billed. Nonregulated revenues consist of sales of telecommunications equipment and certain nonregulated maintenance and communications services.

Compensation for interstate access services is received through tariffed access charges filed by the National Exchange Carrier Association (NECA) with the FCC on behalf of the member companies. These access charges are billed by the Company to the interstate interexchange carriers, and pooled with like revenues from all NECA member companies. The portion of the pooled access charge revenue received by the Company is based upon its actual cost of providing interstate access service, plus a return on the investment dedicated to providing that service.

Intrastate network access revenues are based on tariffed rates and billed to the long distance carriers and end users, respectively.

TABLE TOP TELEPHONE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS

**NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)**

Accounts receivable – The Company generally does not require collateral or other security to support accounts receivable. Credit risk associated with receivables is periodically reviewed by management and, if required, an allowance for doubtful accounts is established. No allowance for doubtful accounts was considered necessary at June 30, 2003 and 2002.

Materials and supplies – Materials and supplies are valued at average cost.

Income taxes – Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. Generally accepted accounting principles require a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of its deferred tax assets will not be realized.

Reclassifications – Certain reclassifications have been made to the prior year's financial statements in order to present them on a basis consistent with that of the current year.

NOTE 2 – CASH

Cash consists of the following:

	<u>2003</u>	<u>2002</u>
Cash in checking	\$ 1,827,951	\$ 401,552
Cash in savings	52,745	769,753
Other	<u>5,230</u>	<u>4,630</u>
	<u>\$ 1,885,926</u>	<u>\$ 1,175,935</u>

Of the Company's cash, \$1,685,926 and \$1,075,935 at June 30, 2003 and 2002, respectively, is in excess of the FDIC insurance limit.

TABLE TOP TELEPHONE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – OTHER ACCOUNTS RECEIVABLE

Other accounts receivable consists of the following:

	<u>2003</u>	<u>2002</u>
AT&T Communications	\$ 121,558	\$ 137,044
NECA	297,851	227,195
Other interexchange carriers	185,789	25,147
Other	<u>21,216</u>	<u>55,108</u>
	<u>\$ 626,414</u>	<u>\$ 444,494</u>

NOTE 4 – INVESTMENTS

Investments, recorded at cost, consists of the following:

	<u>2003</u>	<u>2002</u>
RTFC 5% subordinated capital certificates and patronage dividends	\$ 715,738	\$ 755,714
NCDC patronage credits	15,171	15,171
Nonregulated equipment, net of accumulated depreciation of \$71,776 and \$227,636	2,835	17,426
Other	<u>23,380</u>	<u>23,380</u>
	<u>\$ 757,124</u>	<u>\$ 811,691</u>

Shares of Rural Telephone Finance Cooperative (RTFC) subordinated certificates are purchased as a condition for obtaining long-term financing from RTFC. Holders of subordinated certificates are entitled to patronage dividends. Investments in RTFC subordinated certificates do not have readily determinable fair values.

TABLE TOP TELEPHONE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

Telecommunications plant in service and under construction at June 30, 2003 and 2002, are stated at original cost of construction including capitalized costs, such as general taxes, pensions, and other fringe benefits, and an allowance for funds used during construction. Depreciation is provided for on the straight-line remaining life basis, which uses a specific depreciation rate for each of a number of categories of physical plant. The rate is applied monthly to the average original book cost of plant still in use. This method attempts to recover the undepreciated portion of the original cost over the estimated remaining life. When depreciable telecommunications plant is retired, the original cost is charged to accumulated depreciation.

Telecommunications plant in service asset lives range from 5 to 50 years. The composite depreciation rate for depreciable telecommunications plant was 10.4% in 2003 and 10.7% in 2002.

Major classes of telecommunications plant in service are:

	2003	2002
Land	\$ 81,067	\$ 81,067
General support	2,516,415	2,374,877
Central office	11,863,106	11,420,814
Cable and wire facilities	10,631,941	9,921,123
Capital leases – central office	324,680	324,680
	<u>\$ 25,417,209</u>	<u>\$ 24,122,561</u>

NOTE 6 – GOODWILL

The Company adopted FASB Statement No. 142, *Goodwill and Other Intangible Assets*, on July 1, 2002. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized, but are subject to annual impairment tests in accordance with the Statement.

In 1995, the Company acquired the assets of several Qwest (formerly U.S. West) exchanges. The excess of the purchase price over the book value of assets acquired has been recorded as goodwill. Prior to adopting SFAS No. 142, the goodwill was amortized to nonoperating expense on a straight-line basis over 15 years. In accordance with SFAS No. 142, goodwill was tested for impairment by comparing the fair value of the reporting unit to the carrying value. The fair value of the Company's goodwill exceeded its carrying value and no impairment loss was recorded.

TABLE TOP TELEPHONE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – GOODWILL (CONTINUED)

The following table represents the impact of SFAS No. 142 on net income had the standard been in effect in July 1, 2001.

	<u>2003</u>	<u>2002</u>
Reported net income	\$ 847,040	\$ 418,876
Add back goodwill amortization	-	409,509
	<u>\$ 847,040</u>	<u>\$ 828,385</u>

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable consists of the following:

	<u>2003</u>	<u>2002</u>
NECA	\$ 321,684	\$ 165,746
Construction payables	145,942	70,683
Trade payables	193,332	97,674
	<u>\$ 660,958</u>	<u>\$ 334,103</u>

NOTE 8 – PROFIT SHARING PLAN PAYABLE

The Company maintains a 401(k) profit sharing plan for all full-time employees who have completed 1,000 hours of service each year.

Under the plan, employees may elect to defer part of their salary, subject to the Internal Revenue Service limits. The Company will match employee contributions up to 4% of their gross wages and may make additional discretionary contributions to the plan. Total Company contributions to the plan were \$97,445 and \$87,114 for the years ended June 30, 2003 and 2002, respectively.

TABLE TOP TELEPHONE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – LONG-TERM DEBT

Long-term debt consists of mortgage notes payable to RTFC. Principal and interest payments of approximately \$450,000 are due quarterly. Interest rates as of June 30, 2003 and 2002 were 5.15% and 6.25%, respectively, for the loan maturing in 2005. The notes are secured by all property of the borrower and require the Company to maintain certain financial ratios.

Interest Rate	Date of Maturity	Original Amount	2003	2002
6.45%	2010	\$ 10,716,312	\$ 5,342,121	\$ 6,013,177
6.45%	2010	4,210,526	2,377,047	2,686,318
6.45%	2010	1,366,312	858,967	952,145
6.45%	2011	1,157,895	781,300	854,266
Variable	2005	500,000	110,000	320,000
			9,469,435	10,825,906
Less current maturities			1,332,929	1,146,000
			<u>\$ 8,136,506</u>	<u>\$ 9,679,906</u>

Current maturities of long-term debt for each of the five years following the balance sheet date are:

2004	\$ 1,332,929
2005	1,304,000
2006	1,391,000
2007	1,484,000
2008	1,583,000

TABLE TOP TELEPHONE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – CAPITAL LEASE OBLIGATION

The Company leases microwave equipment that has been accounted for as a capital lease. The lease is payable in monthly installments of \$6,598, due April 2005, and secured by the equipment. Future minimum lease payments under the capital lease at June 30, 2003, are as follows:

	2004	\$ 79,177
	2005	46,186
Total minimum lease payments		125,363
Less amount representing interest		8,353
Present value of future minimum lease payments		117,010
Less current portion		72,089
Long-term capital lease obligation		\$ 44,921

NOTE 11 – INCOME TAXES

Provision for income taxes consists of the following:

	2003	2002
Current:		
Federal	\$ 26,334	\$ 2,005
State	69,703	50
Deferred:		
Federal	383,106	236,060
State	53,099	74,420
	\$ 532,242	\$ 312,535

The Company's effective income tax rate varies from the current federal tax rate primarily because of state income tax, net of federal benefit, and book to tax adjustments.

TABLE TOP TELEPHONE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 11 – INCOME TAXES (CONTINUED)

The net deferred tax liability at June 30, 2003 and 2002, consists of the following:

	<u>2003</u>	<u>2002</u>
Deferred tax liabilities:		
Property – accelerated depreciation	\$ 1,350,362	\$ 1,561,995
Deferred tax assets:		
Net operating losses	<u>-</u>	<u>(647,838)</u>
Net deferred tax liability	<u>\$ 1,350,362</u>	<u>\$ 914,157</u>

Deferred income taxes for 2002 include the expected future benefit of net operating loss carryforwards of approximately \$2,769,000 expiring through 2019 that were available to offset future taxable income. The net operating loss carryforwards were utilized in 2003.