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October 7, 2002

VIA FEDERAL EXPRESS

Docket Control Center
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007-2927

Arizona Corporation Commission
DOCKETED

OCT 08 2002

DOCKETED BY	
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Re: Docket No.: T-03453A-970595
Our File: 1614-52

Dear Sir or Madam:

I am enclosing for filing, an original and ten copies of Rural Network Services, Inc.'s responses to Mr. Anthony Gatto's letter of September 6, 2002, in the above referenced case.

I am enclosing a self-addressed stamped envelope and a copy of the letter. Please date stamp the copy and return it to me to acknowledge receipt.

Sincerely,

Tina N. Smith
Assistant to Conley E. Ward

Enclosures
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October 7, 2002

VIA FEDERAL EXPRESS

Mr. Anthony Gatto
Public Utility Analyst IV
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007-2927

Re: Rural Network Services: Docket Number T-03453A-970595
Our File: 1614

Dear Mr. Gatto:

On behalf of Rural Network Services, Inc. ("RNS"), I am responding to your letter of September 6, 2002 seeking information regarding RNS's application in the above-entitled docket. In each case, RNS's answer appears following the restatement of the enumerated questions in your letter.

1. Provide the projected total revenue expected to be generated by the provision of telecommunications services to Arizona customers for the first twelve months following certification, adjusted to reflect the maximum rates for which the Applicant requested approval. Adjusted revenues may be calculated as the number of units sold times the maximum charge per unit.

Response: RNS's projected total Arizona revenue for the first twelve months following certification is \$553,000. For details please see the attached Proforma Income Statement prepared by Travis Jeffries, P.A.

2. Provide the operating expenses expected to be incurred during the first twelve months of providing telecommunications services to Arizona customers following certification.

Mr. Anthony Gatto

October 7, 2002

Page 2

Response: RNS's projected total Arizona expense for the first twelve months following certification is \$455,000. For details please see the attached Proforma Income Statement prepared by Travis Jeffries, P.A.

3. Provide the net book value (original cost less accumulated depreciation) of all Arizona jurisdictional assets expected to be used in the provision of telecommunications service to Arizona customers at the end of the first twelve months of operation. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.

Response: RNS's projected total Arizona net book value at the end of the first twelve months following certification is \$118,555. For details please see the attached Proforma Income Statement prepared by Travis Jeffries, P.A.

4. If the projected value of all assets is zero, please specifically state this in your response.

Response: Not applicable.

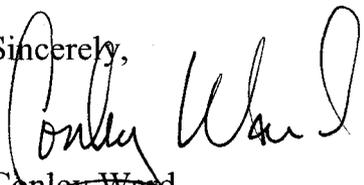
5. If the projected fair value of the assets is different than the projected net book value, also provide the corresponding projected fair value amounts.

Response: Not applicable.

In response to your unnumbered request, I am also enclosing a copy of RNS's most recent Financial Statements, which includes both a balance sheet and income statement.

I am also sending an original and ten copies of this response to Docket Control. If you have any questions about this response, please do not hesitate to call me at the number listed above.

Sincerely,



Conley Ward

CEW/tns

Enclosure

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RURAL NETWORK SERVICES, INC.
PROFORMA INCOME STATEMENT
PROJECTED 12 MONTH PERIOD FOLLOWING CERTIFICATION
AS REQUESTED BY THE ARIZONA CORPORATION COMMISSION
DOCKET NUMBER T-03453A-970595

Income

FED USF CHG - AZ	\$ 4,000
TOLL INCOME - INTERSTATE	30,000
TOLL INCOME - INTRASTATE	84,000
UNCOLLECTIBLE REVENUES	(5,000)
INTERNET INCOME	<u>440,000</u>

Total Income 553,000

Expense

PLANT SPECIFIC OPERATIONS	40,000
PLANT NONSPECIFIC OPERATIONS	8,000
DEPRECIATION & AMORTIZATION	18,000
CUSTOMER OPERATIONS	14,000
REV ACCT/OTHER BILL & COLLECT	48,000
CORPORATE OPERATIONS	60,000
INTEREST EXPENSE	22,000
LONG DISTANCE EXPENSE	65,000
AP - ANPI	10,000
LOCAL SERVICE EXPENSE	26,000
INTERNET EXPENSE	<u>144,000</u>

Total Expense 455,000

Net Income Before Income Taxes \$ 98,000

CAPITAL INVESTMENT AT END OF PROJECTED 12 MONTHS	\$ 177,500
ACCUMULATED DEPRECIATION AND AMORTIZATION	<u>(58,945)</u>
BOOK VALUE OF ARIZONA ASSETS	<u><u>\$ 118,555</u></u>



Travis-Jeffries, P.A.
Certified Public Accountants

John C. Travis, CPA
Larry A. Jeffries, CPA
Lucinda L. Reinke, CPA

RURAL NETWORK SERVICES, INC.

FINANCIAL STATEMENTS

JUNE 30, 2002



Travis-Jeffries, P.A.
Certified Public Accountants

ACCOUNTANT'S REPORT

Rural Network Services, Inc.
Midvale, Idaho

We have compiled the accompanying balance sheet of Rural Network Services, Inc. as of June 30, 2002 the related statement of income and retained earnings for the six months then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures and the statement of cash flows required by generally accepted accounting principles. If the omitted disclosures and the statement of cash flows were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Travis-Jeffries, P.A.

Boise, Idaho
September 25, 2002

RURAL NETWORK SERVICES, INC.

BALANCE SHEET

June 30, 2002

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 39,736
Accounts receivable	353,393
Inventory	5,555
Prepaid expenses	<u>36,979</u>

Total Current Assets 435,663

PROPERTY AND EQUIPMENT

Less accumulated depreciation and amortization	<u>750,645</u>
	<u>356,069</u>

Total Property and Equipment 394,576

Total Assets \$ 830,239

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 656,654
Accrued other taxes	9,367
Accrued interest payable	13,993
Current portion of long-term debt	<u>34,097</u>

Total Current Liabilities 714,111

LONG-TERM DEBT

415,214

STOCKHOLDERS' EQUITY

Capital stock	62,000
Retained deficit	<u>(361,086)</u>

Total Stockholders' Deficit (299,086)

Total Liabilities and Stockholders' Deficit \$ 830,239

See accountant's report.

RURAL NETWORK SERVICES, INC.

STATEMENT OF INCOME AND RETAINED EARNINGS (DEFICIT)

For the Six Months Ended June 30, 2002

OPERATING REVENUE	
Basic local network services	\$ 60,550
Network access services	181,934
Internet services	367,787
Other operating services	7,712
Uncollectible revenue	<u>(6,412)</u>
Total Operating Revenue	<u>611,571</u>
OPERATING EXPENSES	
Plant specific operations	117,152
Plant non-specific operations	30,386
Customer operations	93,223
Internet operations	200,024
Corporate operations	25,870
Depreciation and amortizations	<u>55,744</u>
Total Operating Expenses	<u>522,399</u>
Total Operating Income	89,172
FIXED CHARGES	
Interest on debt	17,149
OTHER INCOME	
	<u>3,307</u>
Net Income	75,330
RETAINED EARNINGS (DEFICIT), Beginning of Period	<u>(436,416)</u>
RETAINED EARNINGS (DEFICIT), End of Period	<u>\$ (361,086)</u>

See accountant's report.