

**CANADIAN ALLIANCE OF PUBLICLY-OWNED
TELECOMMUNICATIONS SYSTEMS**

February 3, 2003

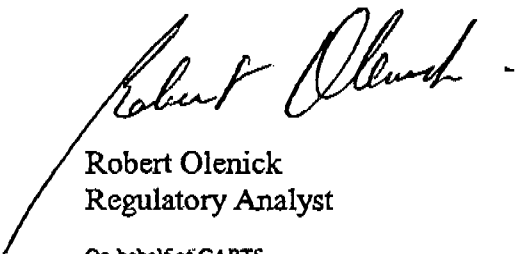
Ms. Donna K. Malliff
Manager
Independent Telephone Companies
Efficiency and Expenditure Analysis
Canadian Radio-television and
Telecommunications Commission
Ottawa, Ontario
K1A 0N2



Dear Ms. Malliff:

Re: Revised 2000 Phase III Results

1. The Canadian Alliance of Publicly-Owned Telecommunications Systems ("CAPTS"), is submitting on behalf of Bruce Municipal Telephone System, Dryden Municipal Telephone System, Kenora Municipal Telephone System and TBayTel (Thunder Bay Telephone) responses to the Commission's interrogatories that were addressed to CAPTS by letter on January 20, 2003.
2. For further information regarding these responses, please contact me by telephone at (807) 684-2908, fax at (807) 346-0909 or email at rolenick@tbaytel.com.
3. Respectfully submitted this 3rd day of February 2003.



Robert Olenick
Regulatory Analyst
On behalf of CAPTS

CC: Bell Canada

**CANADIAN ALLIANCE OF PUBLICLY-OWNED
TELECOMMUNICATIONS SYSTEMS**

**CAPTS
February 3, 2003**

**Response to Interrogatory
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**INFORMATION REQUESTED BY
CANADIAN RADIO-TELEVISION AND
TELECOMMUNICATIONS COMMISSION
JANUARY 20, 2003**

Q.1

According to CAPTS, Kenora Municipal Telephone System's Phase III calculations were revised because expenses related to Employee Future Benefits were understated in the Phase III calculation as compared to its Financial Statements. The financial statements submitted to the Commission on 24 May 2001 and the original Phase III calculations provided to the Commission on 31 October 2001 do not show any discrepancy. Provide the Financial Statements that reflect a change in the amount of Employee Future Benefits.

A.1

Please find following, Financial Statements as requested.

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**The Corporation of the
City of Kenora
Kenora Municipal Telephone
System (KMTS)
Financial Statements
For the year ended December 31, 2001**

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Auditors' Report

**To the Members of Council, Inhabitants and Ratepayers
The Corporation of the City of Kenora**

We have audited the statement of financial position of Kenora Municipal Telephone System (KMTS) of the Corporation of the City of Kenora as at December 31, 2001 and the statements of accumulated surplus, operations, and cash flows for the year then ended. These financial statements are the responsibility of the KMTS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the KMTS as at December 31, 2001 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles as described in the Summary of Significant Accounting Policies.

BDO Dunwoody LLP
Chartered Accountants

Kenora, Ontario
May 6, 2002

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**The Corporation of the City of Kenora
 Kenora Municipal Telephone System (KMTS)
 Statement of Financial Position**

<u>December 31</u>	<u>2001</u>	<u>2000</u>
Assets		
Current		
Cash	\$ 400	\$ 400
Short term investment	8,800	34,053
Accounts receivable	1,364,952	480,979
Due from City of Kenora Revenue Fund	-	632,007
Prepaid expenses	<u>91,749</u>	<u>88,387</u>
	1,465,901	1,235,826
Capital assets (Note 1)	<u>8,317,579</u>	<u>7,654,870</u>
	<u>\$ 9,783,480</u>	<u>\$ 8,890,696</u>
Liabilities and Accumulated Surplus		
Current		
Accounts payable	\$ 665,335	\$ 986,357
Current portion long term debt	65,641	-
Due to City of Kenora Revenue Fund	<u>653,442</u>	<u>-</u>
	1,384,418	986,357
Employee future benefits payable (Note 3)	153,192	141,404
Long term debt (Note 4)	<u>161,188</u>	<u>-</u>
	1,698,798	1,127,761
Accumulated surplus	<u>8,084,682</u>	<u>7,762,935</u>
	<u>\$ 9,783,480</u>	<u>\$ 8,890,696</u>

The accompanying summary of accounting policies and notes are an integral part of these financial statements.

The Corporation of the City of Kenora
Kenora Municipal Telephone System (KMTS)
Statement of Accumulated Surplus

<u>For the year ended December 31</u>	<u>2001</u>	<u>2000</u>
Accumulated surplus, beginning of year	\$ 7,762,935	\$ 7,894,181
Operating surplus (deficit) for the year	<u>321,747</u>	<u>(131,246)</u>
<u>Accumulated surplus, end of year</u>	<u>\$ 8,084,682</u>	<u>\$ 7,762,935</u>

The accompanying summary of accounting policies and notes are an integral part of these financial statements.

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**The Corporation of the City of Kenora
Kenora Municipal Telephone System (KMTS)
Statement of Operations**

<u>For the year ended December 31</u>	<u>2001</u>	<u>2000</u>
Operating Income		
Local service revenue	\$ 3,207,943	\$ 3,024,957
Long distance contribution	1,341,370	1,011,625
Other toll service revenues	789,112	546,837
Miscellaneous income	<u>497,741</u>	<u>492,957</u>
	<u>5,836,166</u>	<u>5,076,376</u>
Operating Expenses		
Maintenance	738,251	851,323
Amortization	1,366,676	1,299,818
Traffic	68,931	84,993
Commercial	1,679,080	1,109,094
General office salaries and expenses	383,317	323,029
Other operating expenses	<u>668,164</u>	<u>719,365</u>
	<u>4,904,419</u>	<u>4,387,622</u>
Operating surplus before undernoted item	931,747	688,754
Contribution to City of Kenora Revenue Fund	<u>(610,000)</u>	<u>(820,000)</u>
Operating surplus (deficit) for the year	<u>\$ 321,747</u>	<u>\$ (131,246)</u>

The accompanying summary of accounting policies and notes are an integral part of these financial statements.

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**The Corporation of the City of Kenora
Kenora Municipal Telephone System (KMTS)
Statement of Cash Flows**

For the year ended December 31	2001	2000
Cash flows from operating activities		
Operating surplus (deficit) for the year	\$ 321,747	\$ (131,246)
Adjustment for Amortization	<u>1,366,676</u>	<u>1,299,818</u>
	1,688,423	1,168,572
Changes in non-cash working capital balances		
Accounts receivable	(883,973)	(480,979)
Due from City of Kenora Revenue Fund	1,285,449	(632,007)
Prepaid expenses	(3,362)	(88,387)
Accounts payable	<u>(321,022)</u>	<u>986,357</u>
	<u>1,765,515</u>	<u>953,556</u>
Cash flows from investing activities		
Net additions to capital assets	<u>(2,029,385)</u>	<u>(1,060,507)</u>
Cash flows from financing activities		
Proceeds from long term debt	226,829	-
Increase in employee future benefits	<u>11,788</u>	<u>141,404</u>
	<u>238,617</u>	<u>141,404</u>
Increase (decrease) in cash and cash equivalents during the year	(25,253)	34,453
Cash and cash equivalents, beginning of year	<u>34,453</u>	-
Cash and cash equivalents, end of year	\$ 9,200	\$ 34,453
Represented by		
Cash	\$ 400	\$ 400
Short term investments	<u>8,800</u>	<u>34,053</u>
	\$ 9,200	\$ 34,453

The accompanying summary of accounting policies and notes are an integral part of these financial statements.

**The Corporation of the City of Kenora
Kenora Municipal Telephone System (KMTS)
Summary of Significant Accounting Policies**

For the year ended December 31, 2001

Financial Statements

The assets, liabilities, surplus, revenues and expenditures of the KMTS are accounted for in accordance with accounting principles generally accepted in the telephone industry. The accounting principles, policies and procedures are regulated by the Canadian Radio-Television and Telecommunications Commission (CRTC)

Revenue Recognition

Customers are billed on a monthly basis and revenue is recognized as earned.

Capital Assets

Amortization is provided on a straight line basis, at various rates, as follows:

Buildings	- 5%
Central office equipment	- 10%
Station apparatus and connections	- 7.5%
Cable and conduit	- 7.5%
Furniture and equipment	- 7.5%, 10%, 15%, 20% and 25%

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from management's best estimates as additional information becomes available in the future.

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**The Corporation of the City of Kenora
Kenora Municipal Telephone System (KMTS)
Notes to Financial Statements**

December 31, 2001

1. Capital Assets

	2001		2000	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	\$ 1,817,323	\$ 1,361,881	\$ 1,781,513	\$ 1,317,086
Central office equipment	10,889,002	7,258,034	10,309,176	6,555,265
Station apparatus and connections	5,892,460	3,656,233	5,089,526	3,375,728
Cable and conduit	3,186,792	2,254,551	2,971,690	2,113,083
Furniture and equipment	2,354,785	1,292,084	1,959,072	1,094,945
	<u>\$ 24,140,362</u>	<u>\$ 15,822,783</u>	<u>\$ 22,110,977</u>	<u>\$ 14,456,107</u>
Net book value		\$ 8,317,579		\$ 7,654,870

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**The Corporation of the City of Kenora
Kenora Municipal Telephone System (KMTS)
Notes to Financial Statements**

December 31, 2001

2. Employee Future Benefits

KMTS pays certain health and dental benefits on behalf of its retired employees. Effective January 1, 2000, KMTS adopted The Canadian Institute of Chartered Accountants new accounting standards for employee future benefits. KMTS recognizes these post-retirement costs in the period in which the employees rendered the services. The change in accounting policy was applied retroactively. The accrued benefit liability was \$110,000 at January 1, 2001 and the expense for the twelve months ended December 31, 2001 was \$11,000, resulting in a future employee benefit liability of \$121,000 at December 31, 2001.

The main assumptions employed for the valuations are as follows:

- a) **General Inflation**
Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 3.5% in 2001 and thereafter.
- b) **Interest (discount) Rate**
The obligation as at January 1, 2001 was determined using a discount rate of 6.0%. This corresponds with the assumed CPI rate plus an assumed real rate of return of 2.5%.
- c) **Salary Levels**
Future general salary and wage levels were assumed to increase at 2% per annum.
- d) **Medical Costs**
Medical costs were assumed to increase at the CPI rate plus a further increase of 5% in 2001 graded down to 1% in 2004 and thereafter.
- e) **Dental Costs**
Dental costs were assumed to increase at the CPI rate plus a further increase of 1% in 2001 and thereafter.

3. Employee Benefits Payable

	<u>2001</u>	<u>2000</u>
Employee Future Benefits (Note 2)	\$ 121,000	\$ 110,000
Vested sick leave	<u>32,192</u>	<u>31,404</u>
	<u>\$ 153,192</u>	<u>\$ 141,404</u>

The Corporation of the City of Kenora
Kenora Municipal Telephone System (KMTS)
Notes to Financial Statements

December 31, 2001

4. Long Term Debt

Loan payable to the Northern Ontario Heritage Fund Corporation, repayable \$65,641 annually plus interest at prime rate payable quarterly. Matures January 2005	2001	2000
	\$ 226,829	\$ -
Current portion	65,641	-
	\$ 161,188	\$ -

Principal payments due in the next 4 years are as follows:

2002	\$ 65,641
2003	65,641
2004	65,641
2005	29,906

5. Prior Period Adjustment

- a) The comparative figures have been revised to reflect the actual Carrier Access Tariff (CAT) Contribution for 2000 as follows:
- The 2000 CAT Contribution has been reduced in accordance with the CAPTS filing of October 31, 2001 and the related CRTC ruling of March 9, 2001. The effect on the 2000 financial statements is an increase in accounts payable and a reduction in long distance contribution revenue, operating surplus and the accumulated surplus of \$530,323.
- b) The comparative figures have been adjusted to reflect the employees future benefit liability of \$110,000, as at December 31, 2000. The effects on the 2000 financial statements is an increase in accounts payable, a decrease in both operating surplus and accumulated surplus of \$110,000.

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The Corporation of the City of Kenora
Kenora Municipal Telephone System (KMTS)
Notes to Financial Statements

December 31, 2001

6. Pension Agreements

The KMTS makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 16 members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement to be received by the employees based on the length of service and rates of pay. The amount contributed to OMERS for 2001 was \$nil.

**CANADIAN ALLIANCE OF PUBLICLY OWNED
TELECOMMUNICATIONS SYSTEMS****CAPTS
February 3, 2003****Response to Interrogatory
CAPTS(CRTC)20January03-2
Page 1 of 2****INFORMATION REQUESTED BY
CANADIAN RADIO-TELEVISION AND
TELECOMMUNICATIONS COMMISSION
JANUARY 20, 2003****Q. 2**

According to CAPTS, revenues allocated to the Network category for all companies have been calculated on the basis of average Network Access Tariff (NAT) circuits. Provide detailed calculations of average NAT circuits and total NAT revenues. Provide the results of these calculations, including the number of circuits and the rate for the years 1999, 2000, and 2001.

A. 2

The circuits from the equipment records at the end of 1999 and the companies' Network Broad Service Category information from the supporting calculations of their Final 1999 Carrier Access Tariffs (CATs) were used to determine the Network Access Tariff (NAT) rates filed and subsequently approved by the Commission by Order CRTC 2001-57 on January 26, 2001.

Following, as requested, is a schedule of the calculations of the average number of circuits used for each of the years 2000 and 2001 and the resulting NAT revenues. It had been originally presumed that Order CRTC 2001-643 (August 13, 2001) superceded the need for the truing-up mechanism for the Network Broad Service Category.

Unfortunately, the information provided in the CAPTS filing of Actual 2001 Phase III Results on December 18, 2002 did not recognize the work done by Bruce Municipal Telephone System. Bruce MTS, for the year 2001 was able to undertake and complete the task of identifying the monthly circuits and the appropriate related revenues and therefore it is only Dryden MTS, Kenora MTS, and Thunder Bay Telephone that have relied on the previously described method of calculation.

CANADIAN ALLIANCE OF PUBLICLY OWNED TELECOMMUNICATIONS SYSTEMS

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February 3, 2003

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INFORMATION REQUESTED BY CANADIAN RADIO-TELEVISION AND TELECOMMUNICATIONS COMMISSION JANUARY 20, 2003

For the year 2000

Circuits	Bruce MTS	Dryden MTS	Kenora MTS	TbayTel
Actual - 12/31/01	663(a)	762(a)	576(a)	7,700(a)
For NAT -1999	491(b)	471(b)	279(b)	3,575(b)
24 Month Increase	172(c) = (a)-(b)	291(c) = (a)-(b)	297(c) = (a)-(b)	4,175(c) = (a)-(b)
12 Month Increase (24 Mnth incr / 2)	86(d) = (c)/2	146(d) = (c)/2	149(d) = (c)/2	2,063(d) = (c)/2
12/31/00 Balance	577(e) = (b) +(d)	617(e) = (b) +(d)	428(e) = (b) +(d)	5,638(e) = (b) +(d)
2000 Average	534(f)=[(b)+(e)]/2	544(f)=[(b)+(e)]/2	354(f)=[(b)+(e)]/2	4,606 (f)=[(b)+(e)]/2
Revenues				
NAT Rate	\$ 41.17(g)	\$ 4.16(g)	\$ 34.75(g)	\$ 16.26(g)
NAT Revenue	\$ 263,817 (h)=(f)x(g)	\$ 27,156 (h)=(f)x(g)	\$ 147,618 (h)=(f)x(g)	\$ 898,723 (h)=(f)x(g)
Other Revenue (ie. Service Charges	(i)	(i)	(i)	\$ 75,972(i)
Total NAT Revenues	\$263,817 (h) +(i)	\$27,156 (h) +(i)	\$147,618 (h) +(i)	\$ 974,695 (h) +(i)

For the year 2001

Circuits	Bruce MTS	Dryden MTS	Kenora MTS	TbayTel
Actual - 12/31/01		762(a)	576(a)	7,700(a)
12/31/00 Balance as calculated above		617(b)	428(b)	5,638(b)
2000 Average		691(c)=[(a)+(b)]/2	505(c)=[(a)+(b)]/2	6,669 (c)=[(a)+(b)]/2
Revenues				
NAT Rate		\$ 4.16(d)	\$ 34.75(d)	\$ 16.26(d)
NAT Revenue		\$ 34,495 (e)=(c)x(d)	\$ 210,585 (e)=(c)x(d)	\$ 1,301,255 (e)=(c)x(d)
Other Revenue (ie. Service Charges		\$ 115(f)	\$ 646(f)	\$ 18,263(f)
Total NAT Revenues		\$ 34,610 (e) +(f)	\$ 211,231 (e) +(f)	\$ 1,319,518 (e) +(f)

**CANADIAN ALLIANCE OF PUBLICLY OWNED
TELECOMMUNICATIONS SYSTEMS**

CAPTS
February 3, 2003

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INFORMATION REQUESTED BY
CANADIAN RADIO-TELEVISION AND
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JANUARY 20, 2003

Q.3

A comparison of the original Phase III calculations and the revised Phase III calculations show a \$ 5,037 change in Thunder Bay Telephone's Average Net Investment Base (ANIB). Explain the reason for this change and provide any accompanying calculations.

A.3

For Thunder Bay Telephone, the revised filing of September 13, 2002 showed an increase of \$ 5,037 in its Average Net Investment Base (ANIB) over the original filing of October 31, 2001. The revised ANIB calculation incorporated in error a higher amount for Billed Toll Revenue, thereby reducing the amount of excess working capital. The original calculation for the working capital adjustment was correct at \$ 10,250,507.

Pages 10 and 12 of Attachment 1 to the September 13, 2002 filing have been revised and are included with this response.

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CAPTS(CRTC)20January03-3
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ATTACHMENT 1 - PAGE 10R OF 12

RATE OF RETURN

2/5/03

2000R	ACCESS	LOCAL	TOLL	NETWORK	OTHER	TOTAL
THUNDER BAY TELEPHONE						Revised
Net Income	(7 585,283)	17,455,962	5,475,469	510,746	400,669	16,257,563
ANIB	73,716,755	44,679,465	7,124,387	2,308,312	2,218,249	130,047,168
Achieved Rate of Return						12.501%
Allowed Rate of Return						12.125%
Amount to be Refunded						489,344

THUNDER BAY TELEPHONE						Revised
Net Income	(7,585,283)	17,455,962	5,475,469		400,669	15,746,817
ANIB	73,716,755	44,679,465	7,124,387		2,218,249	127,738,856
Achieved Rate of Return						12.327%
Allowed Rate of Return						12.125%
Amount to be Refunded						258,481

THUNDER BAY TELEPHONE						Revised
Net Income				510,746		510,746
ANIB				2,308,312		2,308,312
Achieved Rate of Return						22.126%
Allowed Rate of Return						12.125%
Amount to be Refunded						230,863

Response to Interrogatory
CAPTS(CRTC)20January03-3
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ATTACHMENT I - PAGE 12R OF 12

2/3/2003

THUNDER BAY TELEPHONE
AVERAGE
YEAR - 2000 ACTUALS

2/3/2000

AVERAGE NET INVESTMENT BASE

COMPETITIVE

		ACCESS	LOCAL	TOLL	NETWORK	COMPETITIVE TERMINAL	OTHER	COMMON	TOTAL
1	Telephone Plant (including Plant under Construction)	109,448,608	70,551,650	10,086,773	3,198,386	20,990,082	2,970,498	1,764,412	219,010,409
2	Less: Accumulated Depreciation	40,712,966	29,220,002	4,074,573	1,078,539	12,901,957	1,075,658	875,086	89,938,761
3	Net Plant (Line 1 - Line 2)	68,735,642	41,331,648	6,012,200	2,119,847	8,088,125	1,894,840	889,346	129,071,648
4	Less: Deferred Taxes	0	0	0	0	0	0	0	0
5	Sub Total (Lines 3 - Line 4)	68,735,642	41,331,648	6,012,200	2,119,847	8,088,125	1,894,840	889,346	129,071,648
6	Material and Supplies	1,623,375	38,667	11,445	37,292	287,697	1,085	645	2,000,206
7	Working Capital	6,515,688	6,842,743	2,392,699	308,575	1,481,196	698,650	74,531	18,314,082
8	Long Term Assets	0	0	0	0	0	0	0	0
9	Other Deferred Charges - Net	0	0	0	0	0	0	0	0
10	Sub Total (Line 6 through Line 9)	8,139,063	6,881,410	2,404,144	345,867	1,768,893	699,735	75,176	20,314,288
11	Donated Capital	0	0	0	0	0	0	0	0
12	Adjustment	(3,646,872)	(3,829,926)	(1,339,209)	(172,711)	(829,035)	(391,039)	(41,715)	(10,250,507)
13	Sub Total (Line 11 + Line 12)	(3,646,872)	(3,829,926)	(1,339,209)	(172,711)	(829,035)	(391,039)	(41,715)	(10,250,507)
14	Average Net Investment Base (Line 5 + Line 10 + Line 13)	73,227,833	44,383,132	7,077,135	2,293,003	9,027,983	2,203,536	922,807	139,135,429
15	Allocation of Common ANIB	488,922	296,334	47,252	15,310	60,277	14,712	-922,807	(0)
16	Adjusted Average Net Investment Base	73,716,755	44,679,465	7,124,387	2,308,312	9,088,261	2,218,249		139,135,429