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## Telephone Utilities, Inc.

### Notes to Consolidated Financial Statements

December 31, 1972

#### 1. *Basis of consolidation and significant accounting policies*

**Basis of consolidation** — The consolidated financial statements include accounts of the parent company, Telephone Utilities, Inc., and its subsidiaries, all majority-owned. All intercompany transactions have been eliminated.

**Materials and supplies** — Utility materials and supplies are recorded at cost, principally at identified cost.

**Property, plant and equipment** — Depreciation is provided over the service lives of the various classes of depreciable assets on the straight-line method. Average composite rates used for telephone plant were 5.3% in 1972 and 5.3% in 1971 and for other plant, 5% in 1972 and 4.7% in 1971. Maintenance and repairs are charged to income as incurred. Betterments and renewals of items considered to be identifiable units of property are charged to plant accounts. Retirements are charged to accumulated depreciation, which is also credited with the proceeds of sales or salvage except losses arising from extraordinary retirements, of which there were none during the two years ended December 31, 1972. Extraordinary retirements are deferred and amortized over periods approved by regulatory authorities.

**Cost of acquisitions in excess of equity in net assets of subsidiaries** — The cost in excess of the carrying value of net assets of purchased subsidiaries of \$9,261,835 applicable to acquisitions entered into prior to November 1, 1970, is not being amortized since in the opinion of management there has been no diminution in its value.

**Pension plan** — The company and its subsidiaries participate in an employees' non-contributory pension plan. Pension costs were \$183,645 in 1972 and \$148,996 in 1971 including the provision for unfunded past service costs which are

being funded and amortized over twenty-five years. At December 31, 1972, unfunded past service costs approximate \$130,000.

**Income taxes** — in 1972 the company has determined that in order to increase future operating revenues, it will either obtain approval to include provision for deferred taxes applicable to depreciation for rate-making purposes and for toll settlement purposes with the Bell System or, in the alternative, it will forego accelerated depreciation on 1972 additions for income tax purposes. For financial reporting purposes, depreciation has been consistently provided on the straight-line basis. The effect of this decision and the decision to convert to the cost method of toll settlement in 1972 has been to increase operating revenues by approximately \$419,000 and the provision for deferred income tax by approximately \$149,000.

The company has applied to state regulatory authorities for permission to include the provision for deferred income tax for rate-making purposes. Seven of the company's 22 subsidiaries have received such permission. It is the opinion of management that permission will be granted for the remaining subsidiaries, therefore, \$214,000 has been recorded as deferred income tax.

In 1970, a new subsidiary began to provide deferred income tax, allowed for rate-making purposes, for the tax effect on the excess of accelerated over straight-line depreciation.

The company deducts certain taxes and payroll-related construction costs and interest during construction for income tax purposes which are capitalized in the financial statements. Deferred federal income taxes have not been provided for timing differences resulting from this



election and from the election to use accelerated depreciation applicable to plant additions for certain subsidiaries for years prior to 1972, because state regulatory authorities have not granted approval to permit deferred tax as an allowable expense for rate-making purposes for such years.

Investment tax credit — Provisions for income tax have been reduced by the following investment tax credits: 1972 — \$53,930 and 1971 — \$61,932. In accordance with regulatory requirements, the company accounted for the investment tax credit in 1971 on the flow-through method for subsidiaries using accelerated depreciation for tax purposes and on the deferral and amortization method, over the useful property life, for subsidiaries using straight-line depreciation for tax purposes. The deferral and amortization method has been followed on 1972 additions based on the company's decision to seek additional operating revenue as discussed above. At December 31, 1972, \$341,763 of investment tax credit is deferred in the accompanying financial statements which will be amortized, over the useful property life, as a reduction in future years' provision for income taxes. Also, investment tax credits of \$295,000 are available through 1979 to reduce future federal income tax payable representing \$12,000 and \$283,000 which are available on a flow-through basis and deferral and amortization basis, respectively, to reduce future years' provision for income taxes.

Net income per share — Net income per common share, after preferred dividend requirements of \$31,290 in 1972 and \$33,525 in 1971, was based on the weighted average number of common shares outstanding during the year (2,459,006 in 1972 and 2,444,259 in 1971), after giving effect to a 5% stock dividend in 1972. The dilutive effect of stock options was not material.

## 2. Long-term debt

Long-term debt at December 31, 1972 and 1971 consisted of the following:

	<u>1972</u>	<u>1971</u>
2% First Mortgage notes payable to Rural Electrification Administration — maturities 1990-1999	\$ 1,032,052	\$ 1,087,530
4½% - 10¼% Mortgage notes payable — maturities 1973-1993	15,859,282	11,162,793
5¾% - 9¾% Unsecured notes — maturities 1978-1985	3,309,772	1,705,891
1½% - 2% Over New York City Bank prime rate Unsecured notes: To be converted to long-term debt	2,288,771	8,209,760
Committed to be refinanced	8,500,000	
	<u>30,989,877</u>	<u>22,165,974</u>
Interim Construction loans under commitment for long-term notes payable	4,201,330	7,308,520
	<u>35,191,207</u>	<u>29,474,494</u>
Less current maturities	<u>1,132,083</u>	<u>799,657</u>
	<u>\$34,059,124</u>	<u>\$28,674,837</u>



Substantially all telephone plant is pledged as collateral for the above long-term debt. The loan agreements provide, among other matters, restrictions on the payment of dividends on the stock of the subsidiaries. As a result, substantially all of the retained earnings are restricted as to payment of dividends, except as to the payment of stock dividends. The company has a commitment to refinance the \$8,500,000 unsecured notes as 8% debentures due in 1998.

### 3. *Stock options*

At December 31, 1971, options to purchase 43,948 shares of common stock at \$9.08 per share (aggregate \$399,000) under the 1965 stock purchase plan and options to purchase 23,273 shares of common stock at \$6.46 — \$6.76 per share (aggregate \$150,663, of which \$107,340 had been paid) under the 1970 stock purchase plan were outstanding. During 1972, options to purchase 53,722 shares under the above plans were exercised and the remaining options were cancelled. The market value for the shares exercised on the date of exercise was \$10.12 — \$12.00 (aggregate \$602,959). The number of shares and prices per share for the above plans have been adjusted to give effect to stock splits and/or stock dividends through the date of exercise. No options were outstanding at December 31, 1972.

### 4. *Prior year adjustments*

The accompanying financial statements for 1971 have been restated from those previously published, principally to reflect corrections of the tax return filed for 1971; to provide deferred taxes allowed for rate-making purposes by a subsidiary for 1970 and 1971 and to provide for taxes on certain deductions claimed for tax purposes but not for financial reporting purposes. The effect was to decrease

previously reported net income as follows: 1970 — \$191,219 (\$.08 per share) and 1971 — \$483,212 (\$.20 per share); and to decrease previously reported retained earnings as follows: December 31, 1970 — \$191,219 and December 31, 1971 — \$674,431.

### 5. *Contingencies*

An overcharge from 1971 to 1972 has been claimed against a subsidiary operating an electronic switch for the Defense Communications Agency of the U.S. Department of Defense. It is the opinion of management and counsel for the company that no retroactive charge will be incurred; however, future tariffs will be adjusted which amount would not be material to the consolidated results of operations.

A claim against a subsidiary for cancelling an order to purchase electronic switching equipment was submitted by a supplier in the amount of \$362,000, including \$288,000 for unutilized factory capacity and lost profits. The company has rejected and returned the invoice denying any liability. Counsel for the company states that if a lawsuit is filed, discovery proceedings will be required before an evaluation can be made of either the validity or the amount of the claim. It is the opinion of management that the amount, if any, would not have a material effect on the consolidated financial statements.

Federal income tax returns of the company for 1971 and 1970 are currently being examined by the Internal Revenue Service. In management's opinion, no significant adjustments will be made as a result of this examination after the 1971 tax return is amended, see Note 4.



16 The Board of Directors  
Telephone Utilities, Inc.

We have examined the accompanying consolidated balance sheet of Telephone Utilities, Inc. at December 31, 1972 and the related consolidated statements of income, retained earnings, capital in excess of par value and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures

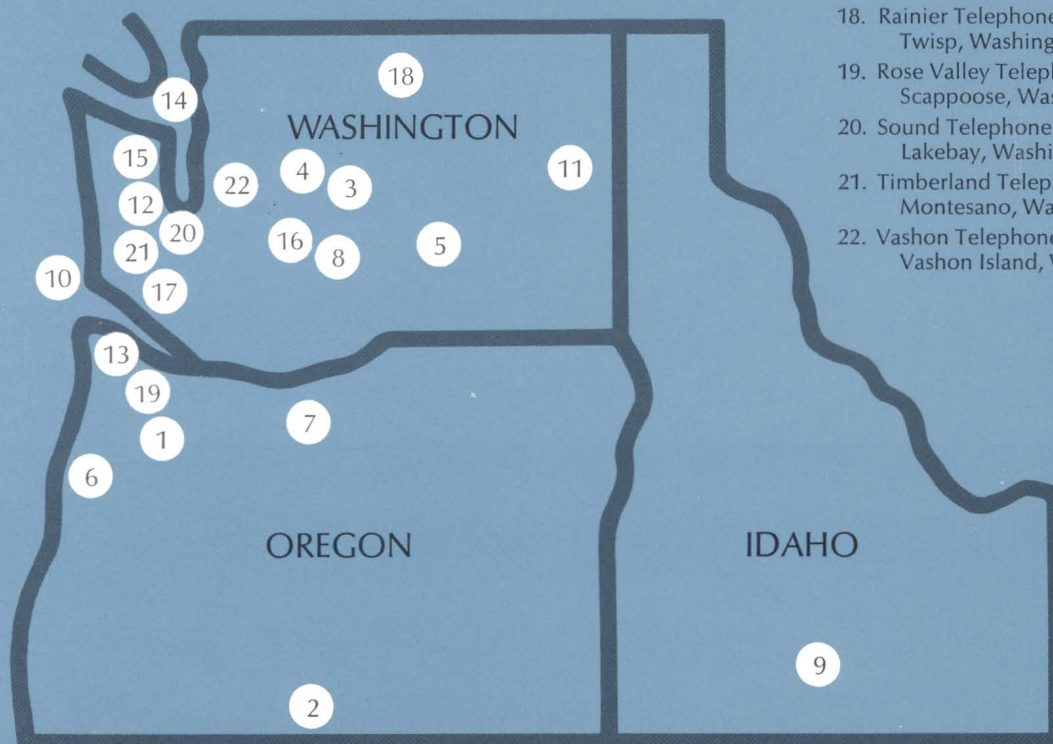
as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Telephone Utilities, Inc. at December 31, 1972 and the consolidated results of operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The financial statements for the prior year were examined by other independent public accountants.

*Arthur Young & Company*

Seattle, Washington  
March 8, 1973



1. Aurora Telephone Company  
Aurora, Oregon
2. Beaver State Telephone Company  
Lakeview, Oregon
3. Cascade Autovon Company  
North Bend, Washington
4. Cascade Telephone Company  
North Bend, Washington
5. Columbia Basin Telephone Company  
Connell, Washington
6. Depoe Bay Telephone Company  
Depoe Bay, Oregon
7. Deschutes Telephone Company  
Maupin, Oregon
8. Evergreen Telephone Company  
Morton, Washington
9. Gem State Utilities Corporation  
Grand View, Idaho
10. Ilwaco Telephone Company  
Ilwaco, Washington
11. Inland Empire Telephone Company  
Cheney, Washington
12. Island Empire Telephone Company  
Gig Harbor, Washington
13. Knappa Telephone Company  
Knappa, Oregon
14. Lopez Telephone Company  
Lopez Island, Washington
15. Olympic Telephone Company  
Kingston, Washington
16. Orting Telephone Company  
Orting, Washington
17. Puget Island Telephone Company  
Puget Island, Washington
18. Rainier Telephone Company  
Twisp, Washington
19. Rose Valley Telephone Company  
Scappoose, Washington
20. Sound Telephone Company  
Lakebay, Washington
21. Timberland Telephone Company  
Montesano, Washington
22. Vashon Telephone Company  
Vashon Island, Washington



## Officers and Management

NORMAN A. HOWERTON  
*Chairman of the Board*

RAYMOND C. BRUMBACH  
*President and  
Chief Executive Officer*

LEWIS C. NEACE, M.D.  
*Senior Vice President*

A. W. POWELL  
*Vice President and  
General Manager*

ROBERT E. UNRUH  
*Vice President for  
Corporate Planning*

VERN K. DUNHAM  
*Assistant Vice President,  
Revenue Requirements*

BRIAN M. WIRKKALA  
*Secretary-Treasurer*

JACK M. REYNOLDS  
*Controller*

JAMES E. AYDELOTT  
*Chief Engineer*

RICHARD H. HAYDEN  
*General Plant Manager*

DIANE T. TIMSON  
*Assistant Secretary*

MARVA J. WIRKKALA  
*Assistant Treasurer*

## Directors

NORMAN A. HOWERTON  
*Chairman of the Board*

RAYMOND C. BRUMBACH  
*President of the Company*

HARRY L. CLARK  
*Controller and Assistant Treasurer,  
Portland General Electric Company*

B. LAMAR GAINES  
*Manager,  
Cascade Autovon Company*

A. R. GATELY  
*Retired Manager,  
Island Empire Telephone Company*

HARRY E. MORGAN, JR.  
*Senior Vice President,  
Weyerhaeuser Company*

LEWIS C. NEACE, M.D.  
*Senior Vice President  
of the Company*

CARL J. RONNING  
*Director of Internal Audit,  
The TI Corporation of California*

HUBERT A. TONDREAU  
*Assistant Vice President,  
Standard Insurance Company*

ROBERT E. UNRUH  
*Vice President of the Company*

## Transfer Agents and Registrars

First National City Bank,  
New York, New York  
First National Bank of Oregon,  
Portland, Oregon

## Legal Counsel

Loucks & Lamb,  
Seattle, Washington

## Special Counsel

Bogle, Gates, Dobrin, Wakefield & Long,  
Seattle, Washington

## Auditors

Arthur Young & Company,  
Seattle, Washington



## Telephone Utilities, Inc.

Ilwaco, Washington 98624  
(206) 642-2311

*The Annual Meeting of shareholders of  
Telephone Utilities, Inc., will be held at 2 P.M.  
on Monday, April 23, 1973, at the American  
Legion Hall, Ilwaco, Washington.*







## Financial Highlights

	1972	1971	1970	1969	1968
Property, plant and equipment, net . . . . .	\$51,149,029	\$45,108,776	\$34,261,999	\$26,571,241	\$17,376,117
Operating revenues . . . . .	\$12,153,884	\$ 9,838,089	\$ 7,487,783	\$ 5,702,940	\$ 4,247,543
Net income applicable to common stock . . . . .	\$ 1,358,950	\$ 1,524,638 <sup>(2)</sup>	\$ 1,357,113 <sup>(2)</sup>	\$ 953,971	\$ 745,341
Net income per average common share <sup>(1)</sup> . . . . .	\$.55	\$.62 <sup>(2)</sup>	\$.56 <sup>(2)</sup>	\$.56	\$.49
Common stock dividend . . . . .	5%	5%	3%	3%	3%
Average common shares outstanding <sup>(1)</sup> . . . . .	2,459,006	2,444,259	2,439,375	1,712,981	1,507,632
Telephones end of year . . . . .	61,322	57,091	46,860	40,002	30,669

<sup>(1)</sup>as restated for 1972 stock dividend

<sup>(2)</sup>as restated, see Note 4 of Notes to Consolidated Financial Statements

### COVER —

*The rising sun glints through a stand of trees above Ilwaco, Washington, headquarters of Telephone Utilities, Inc. This is the Pacific Northwest, land of beauty, resources and growth.*



## To Our Shareholders

The year 1972 was marked by corporate reorientation, an infusion of new management and the development of new operating priorities and financial policies. The effect of these changes has been a significant internal strengthening of Telephone Utilities, Inc. for the years ahead.

For the twelve months ended December 31, 1972, your company had operating revenues of \$12,153,884 and net income of \$1,390,240, equal to 55 cents per share. For the prior year, restated to correct errors in the calculation of provisions for federal income taxes applicable to 1971 earnings, net income amounted to \$1,558,163, or 62 cents per share, on operating revenues of \$9,838,089. The restatement resulted in a decrease in net income of \$483,212, or 20 cents per share, after giving effect to a 5 percent common stock dividend declared in early 1972. The restatement reflects correction of the company's 1971 income tax return, provision for deferred taxes available for rate-making purposes by a subsidiary in 1970 and 1971, and provision for taxes on certain deductions claimed in the tax returns but not in the financial statements. Despite the restatement, your company has not incurred any additional liability for taxes not previously paid.

It was the decision of your new corporate management to institute new financial policies in 1972. These policies, while temporarily reducing income reported, permanently contributed to a significant improvement in the quality of earnings for last year as well as the future.

As you know, 1972 earnings were less than expected for several reasons. Federal income taxes applicable to 1972 were more than originally anticipated because the company changed from the "flow-through" method of accounting for depreciation for income tax purposes, which was

not available for all subsidiaries (see Note 1 of Notes to Consolidated Financial Statements), to the normalization method; that is, deferring the current income tax reduction relating to the amount by which accelerated depreciation exceeded straight-line depreciation. The change requires that the tax expense be recorded and the liability deferred. The tax recorded is then allowed for rate-making and toll settlement purposes and the company gains the use of this interest-free capital, thereby reducing borrowing requirements.

Additionally, increased maintenance and interest costs and greater depreciation expense adversely influenced your company's earning performance in 1972. These increased costs resulted substantially from approximately \$14 million of new telephone plant which became operational in 1972 but will not produce appreciable revenue for the company until 1973 and later years.

Another key factor was the delay experienced in rate proceedings. At year's end, the company had approximately \$200,000 in rate increases pending before regulatory agencies. We anticipate filing for additional increases totalling at least \$500,000 during the current year.

We are moving on a number of fronts toward more effective operating controls and profit performance in our operating subsidiaries. In this connection, we have developed a plan for consolidation of Telephone Utilities' operating subsidiaries into semi-autonomous districts. The district management will replace the separate operating and management organizations that have existed within our 22 subsidiary telephone companies.





## To Our Shareholders

Since the last annual report to shareholders, major management changes have occurred within your company, including my assuming the office of President last July. My association with the company began in 1960 when I became a member of the Board of Directors and General Counsel through my partnership in a Seattle law firm. Later, the post of Secretary was added to these responsibilities. My background includes experience as a Certified Public Accountant and 22 years as a practicing attorney in Seattle. For eight years during that period, I also served as President of Security Savings and Loan Association in Seattle and Kent, Washington.

To direct the operations of your company we were fortunate to attract Mr. A. W. (Al) Powell as Vice President and General Manager, effective January 2, 1973. Mr. Powell has a highly successful background as an operating executive with several leading independent telephone companies and as a consultant on toll revenue settlements with the Bell System.

As a result of his recommendations, we have now converted from the use of nationwide average cost schedules for settling toll revenues with the Bell System to the actual cost method. Based on preliminary estimates, we anticipate the new settlement program will increase our toll revenue 12 to 15 percent. The toll picture is a most significant one for your company. Last year approximately 52 percent of the company's total revenues resulted from Bell System toll charges.

The financial resources of your company are strong as we move into 1973. Substantial additional cash revenues will be generated as a result of our new toll settlement method with the Bell System

and the new posture with regard to federal income tax. Further, the company reduced its original 1973 construction budget from \$12 million to \$6 million without impairing facility and equipment requirements.

Through our investment bankers, Blyth Eastman Dillon & Co., Telephone Utilities expects to complete in early 1973 a private placement for \$8.5 million of 25-year unsecured debentures at an annual interest rate of 8 percent. The debentures will be used to repay the company's short-term bank loans.

We are pleased to report one other important change in our financial posture — the appointment as your company's auditors of the national certified public accounting firm of Arthur Young & Company.

Since your new President and Chief Executive Officer assumed his posts on July 1, 1972, the company has pursued a dual objective — development of a long-term plan for growth and fulfillment of necessary short-term goals. Probably most important to the success of this plan is the strong base from which we start. With the direction of professional management, we look forward to increasing success of Telephone Utilities in the years ahead.

Sincerely,

Raymond C. Brumbach  
President and Chief Executive Officer  
March 26, 1973

*Operating management of the company (l. to r.)  
Vern K. Dunham, Assistant Vice President-Revenue Requirements;  
A. W. Powell, Vice President and General Manager;  
Raymond C. Brumbach, President; and  
Brian M. Wirkkala, Secretary-Treasurer.*





## Report on Operations

Changing technology in the communications business together with dynamic population and economic growth in the Pacific Northwest — the company's area of operations — mean new opportunities and new challenges for Telephone Utilities, Inc.

A foundation was established in 1972 for near and long-term accomplishment by increasing the depth of management and by formulating a new set of operational techniques. The result will be a more responsive organizational structure in 1973.

Telephone Utilities' 22 operating subsidiaries serve a population area of 170,000 persons that is growing annually at a rate of 7 to 8 percent; in 1972 telephones in use increased 7.41 percent. Economic development within the communities of Telephone Utilities is expanding even more rapidly. As a result, over the next five years the company expects to increase through internal growth the number of telephones in service from 61,322 to nearly 90,000.

This is a direct benefit of the reverse trend of population growth impacting on the nation — the move back to smaller cities and outlying communities. All of the company's subsidiaries are located in non-metropolitan areas, with nine of the independent companies gaining a double benefit by being located in truly suburban communities.

Recreation is another positive factor on the growth and operation of Telephone Utilities. Several subsidiaries serve resort communities — where skiing, boating and fishing are economic mainstays. These recreational activities attract many thousands to the areas each year as regular, repeat visitors.

Early in 1973, the company began developing a major consolidation of its 22 subsidiaries into approximately five

operational groups. The new organizational concept is scheduled for implementation before the end of the year. The groups will be organized essentially along natural geographic lines that lend themselves to centralized management and control.

Along with the consolidation move, a major program is under way to redefine operating cost centers within the company to establish new management effectiveness.

One significant result of the operating consolidation will be standardization, wherever possible, of local rate patterns throughout the company system. The present tariff program is based on 24 local rate structures.

The standardization will be in line with the philosophy taking hold in the telephone industry which places emphasis on cost pricing of services. It means that one-time charges such as installation and relocation will be priced to more nearly cover actual costs. This approach will enable Telephone Utilities to be more responsive to new equipment needs of customers. It also will place the company in a more competitive posture to provide some of the more advanced equipment being developed by the industry.

Telephone Utilities' pending applications for rate increases are being pursued vigorously. The company will make every possible effort to obtain prompt hearings on rate increase applications to be filed during 1973. Relations with regulatory agencies are excellent and there is no reason for the company to believe that this climate of mutual respect and understanding will change.

*A microwave tower beams Telephone Utilities toll signals across the mouth of the Columbia River.*





## Report on Operations

A new toll ticketing system was installed at the Island Empire Telephone subsidiary at Gig Harbor, Washington, facilitating long distance service to customers and record-keeping for the company. The equipment, representing the first such installation of its kind by an operating telephone company, made Island Empire toll operations virtually 100 percent computer controlled.

The company began service in California for the first time in 1972, providing telephones for residents of Modoc County from its Beaver State Telephone Company in Lakeview, Oregon.

These improvements and others helped provide increased telephone service to Washington, Oregon, Idaho, California and Nevada and aided in structuring a new profit potential for the company.

When Raymond C. Brumbach became President of Telephone Utilities in mid-1972, he began assembling a new management team, attracting executive skills from inside and outside the company. A. W. (Al) Powell became Vice President and General Manager at the beginning of 1973. He had been connected with the company for several months as a consultant on management requirements and toll revenue settlements. Mr. Powell is responsible for overall operations of Telephone Utilities and its subsidiaries, including engineering, local tariffs and rate settlements.

Vern K. Dunham joined the company in October as Assistant Vice President for Revenue Requirements. Mr. Dunham spent 10 years with Northwest Telephone Co., and Citizens Utilities in accounting and comptroller positions. His responsibilities with the company include cost studies and toll settlements, the review and filing of local tariffs and overall supervision of accounting.

Brian M. Wirkkala was promoted to Secretary of the corporation in mid-1972, succeeding Mr. Brumbach. He now holds the dual offices of Secretary-Treasurer.

Mr. Wirkkala has been associated with the company for more than eight years in various corporate and accounting positions. He was appointed Assistant Secretary and Treasurer in 1969.

A new position, General Plant Manager, was created and was filled by Richard H. Hayden, formerly a plant engineer. James E. Aydelott, who had been an equipment engineer, was appointed Chief Engineer. Both men have been associated with the company for more than 11 years.

A major portion of the growth of Telephone Utilities in the past has been by the acquisition method. The company will continue to look for profitable acquisitions. However, new emphasis will be placed on internally generated growth which can be accommodated with nominal additional investment.

The merger and acquisition program will be utilized to extend the company into new geographic areas and into related service opportunities. Although attractive acquisition opportunities in other regions will be studied, priorities will be centered on independent telephone companies in the Pacific Northwest which meet the service and growth criteria established by Telephone Utilities. Under close scrutiny are several of the operating companies which the General Telephone System may be required to divest under recent anti-trust rulings.

Telephone Utilities' operations have expanded substantially over the past five years. The development of the operating organization through the implementation of new policies and under the direction of a strengthened management team is designed to improve profitability while anticipating and fulfilling the needs of customers and communities served by Telephone Utilities.

*A Telephone Utilities service truck at dusk on the Fox Island Bridge of Puget Sound.*



**Telephone Utilities, Inc.**  
**Consolidated Balance Sheet**

December 31, 1972 and 1971

1972

1971

**Assets**

Property, plant and equipment, at cost (Notes 1 and 2):

Telephone . . . . .	\$58,752,870	\$52,617,640
Other . . . . .	874,326	815,407
	<u>59,627,196</u>	<u>53,433,047</u>
Less accumulated depreciation . . . . .	8,478,167	8,324,271
	<u>51,149,029</u>	<u>45,108,776</u>

Cost of acquisitions in excess of equity  
in net assets of subsidiaries (Note 1) . . . . .

9,261,835 9,484,850

**Current assets:**

Cash . . . . .	2,072,685	1,765,692
Accounts receivable . . . . .	2,811,350	1,913,614
Materials and supplies . . . . .	964,897	1,579,960
Claim for refund of federal income taxes . . . . .	175,867	66,307
Prepayments . . . . .	<u>72,679</u>	<u>82,683</u>
Total current assets . . . . .	6,097,478	5,408,256

Unamortized debt expense and other

deferred charges . . . . .	206,637	371,088
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\$66,714,979 \$60,372,970

See accompanying notes.

**Capitalization and Liabilities**

Stockholders' equity:

Common stock, authorized 12,000,000 shares of \$1.00 par value, 2,499,506 shares outstanding (2,329,273 shares in 1971) . . . . .	\$ 2,499,506	\$ 2,329,273
Preferred stock, 6% cumulative, authorized 72,000 shares of \$25.00 par value, 23,628 shares outstanding less 2,947 shares of treasury stock at par value (2,231 shares in 1971) . . . . .	517,025	534,925
Capital in excess of par value (Note 3) . . . . .	19,102,487	17,809,598
Retained earnings (Note 4) . . . . .	<u>3,207,684</u>	<u>2,999,280</u>
Total stockholders' equity . . . . .	25,326,702	23,673,076

Minority interest in subsidiaries:

Common stock and retained earnings . . . . .	139,158	137,006
Preferred stock . . . . .	<u>163,950</u>	<u>165,000</u>
Total minority interest in subsidiaries . . . . .	303,108	302,006

Long-term debt (Note 2) . . . . . 34,059,124 28,674,837

Current liabilities:

Notes payable . . . . .	1,875,834	4,164,938
Accounts payable . . . . .	1,420,799	1,238,972
Income taxes payable (Note 1) . . . . .	140,633	55,041
Accrued liabilities . . . . .	874,629	627,280
Advance billings . . . . .	337,783	301,466
Current maturities on long-term debt (Note 2) . . . . .	<u>1,132,083</u>	<u>799,657</u>
Total current liabilities . . . . .	<u>5,781,761</u>	<u>7,187,354</u>

Deferred income taxes (Note 1) . . . . .	582,609	189,608
Deferred investment tax credit (Note 1) . . . . .	341,763	187,040
Other deferred credits . . . . .	319,912	159,049
Contingencies (Note 5) . . . . .		

\$66,714,979 \$60,372,970

See accompanying notes.



**Telephone Utilities, Inc.**
**Consolidated Statement of Income**

Years ended December 31, 1972 and 1971

1972

1971

**Operating revenues:**

Local service . . . . .	\$ 3,721,826	\$ 3,131,247
Toll service . . . . .	6,354,987	4,926,418
Government communication service . . . . .	1,677,853	1,446,483
Miscellaneous . . . . .	399,218	333,941
	<u>12,153,884</u>	<u>9,838,089</u>

**Operating expenses:**

Maintenance . . . . .	1,777,726	1,347,904
Depreciation . . . . .	2,390,329	1,825,175
Traffic . . . . .	464,005	481,909
Commercial . . . . .	885,842	721,516
General office salaries and expense . . . . .	988,726	713,133
Other operating expenses . . . . .	288,699	204,066
Operating taxes . . . . .	1,117,314	912,377
Federal income tax (Note 1) . . . . .	236,872	165,762
Provision for deferred income tax (Note 1) . . . . .	393,001	167,450
	<u>8,542,514</u>	<u>6,539,292</u>

Operating income . . . . .	3,611,370	3,298,797
Other income (expense) . . . . .	1,318	(181,035)
Interest expense . . . . .	<u>2,197,523</u>	<u>1,538,565</u>
Income before minority interest . . . . .	1,415,165	1,579,197
Minority interest in net income and preferred stock dividends . . . . .	<u>24,925</u>	<u>21,034</u>
Net income . . . . .	<u>\$ 1,390,240</u>	<u>\$ 1,558,163</u>
Net income per share (Note 1) . . . . .	<u>\$ .55</u>	<u>\$ .62</u>

See accompanying notes.

**Telephone Utilities, Inc.**
**Consolidated Statement of Retained Earnings**

Years ended December 31, 1972 and 1971

1972

1971

**Balance at beginning of year:**

As previously reported . . . . .	\$ 3,673,711	\$ 2,690,909
Adjustments (Note 4) . . . . .	<u>(674,431)</u>	<u>(191,219)</u>
As restated . . . . .	2,999,280	2,499,690
Net income . . . . .	<u>1,390,240</u>	<u>1,558,163</u>
	<u>4,389,520</u>	<u>4,057,853</u>

**Deduct:**

5% common stock dividend (116,511 shares in 1972 and 110,817 shares in 1971) at market value at date of issue . . . . .	1,150,546	1,025,048
Cash dividends on preferred stock . . . . .	<u>31,290</u>	<u>33,525</u>
	<u>1,181,836</u>	<u>1,058,573</u>

Balance at end of year . . . . .	<u>\$ 3,207,684</u>	<u>\$ 2,999,280</u>
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**Capital in Excess of Par Value**

Years ended December 31, 1972 and 1971

Balance at beginning of year . . . . .	\$17,809,598	\$16,880,288
Excess of market value over par value of common stock dividend . . . . .	1,034,035	914,231
Excess over par value on 53,722 shares (2,476 shares in 1971) issued on stock purchase plans (Note 3) . . . . .	<u>258,854</u>	<u>15,079</u>
Balance at end of year . . . . .	<u>\$19,102,487</u>	<u>\$17,809,598</u>

See accompanying notes.



# Telephone Utilities, Inc.

## Consolidated Statement of Changes in Financial Position

Years ended December 31, 1972 and 1971

1972

1971

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### Source of working capital:

#### From operations:

Net income . . . . .	\$ 1,390,240	\$ 1,558,163
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#### Items not involving working capital:

Depreciation and amortization . . . . .	2,418,949	1,854,350
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Minority interest . . . . .	13,664	6,765
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Deferred income tax (Note 1) . . . . .	393,001	167,450
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Total from operations . . . . .	4,215,854	3,586,728
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Additions to long-term debt . . . . .	7,740,782	11,723,733
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Salvage from plant and equipment retired . . . . .	1,051,620	694,088
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Depreciation charged to other accounts . . . . .	154,180	131,842
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Common stock issued under stock purchase plans . . . . .	312,576	17,555
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Other . . . . .	361,892	346,485
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	<u>\$13,836,904</u>	<u>\$16,500,431</u>
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### Application of working capital:

Additions to property, plant and equipment (Note 1) . . . . .	\$ 8,922,662	\$ 8,658,599
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Cost of exchanges acquired . . . . .		4,579,406
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Payments on long-term debt . . . . .	2,356,495	438,194
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Cost of removal of plant and equipment . . . . .	431,642	275,194
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Dividends paid on preferred stock . . . . .	31,290	33,525
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Increase (decrease) in working capital . . . . .	2,094,815	2,515,513
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	<u>\$13,836,904</u>	<u>\$16,500,431</u>
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### The increases (decreases) in the elements of working capital are as follows:

Cash . . . . .	\$ 306,993	\$ 1,213,325
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Accounts receivable . . . . .	897,736	88,451
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Materials and supplies . . . . .	(615,063)	919,753
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Claim for refund of federal income taxes . . . . .	109,560	66,307
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Prepayments . . . . .	(10,004)	(20,380)
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Notes payable . . . . .	2,289,104	535,062
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Accounts payable . . . . .	(181,827)	(189,710)
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Current maturities on long-term debt . . . . .	(332,426)	(512,457)
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Other current liabilities . . . . .	(283,666)	470,203
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Income taxes payable . . . . .	(85,592)	(55,041)
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	<u>\$ 2,094,815</u>	<u>\$ 2,515,513</u>
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See accompanying notes.