

2009 WTA Fall Annual Meeting

A Bean Counter's View of Stimulus Funding:
Accounting & Cost Separations Implications

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Accounting Implications

- There is no specific accounting guidance/rules that we are aware of related to stimulus funding
 - No GAAP/GAGAS/Part 32/Etc.
- Consult with your financial advisors & experts
 - Auditors
 - Tax Preparers
 - Cost Consultants
 - NECA/USAC
 - Other

Accounting Implications

- Grant Funds
 - Offset purchase of assets w/ grant funds
 - Accounting entry is net of actual cost less grant
 - Under the presumption of 80% grant funds, the book entry would be 20% of the cost of the asset
 - In the event that the net is \$0, recommend that book entry still be made
 - » Provides for audit trail

Accounting Implications

- Grant Funds
 - Depreciate net entry over the useful life of the asset at approved rates
 - You don't get to depreciate what you didn't pay for
 - Make sure that all depreciation rates are approved
 - Continuing Property Records
 - Record at net of cost less grant
 - Include all assets, even if net is \$0

Accounting Implications

- Allocation of grant funds among assets
 - Actual investments not likely to tie to grant application and grant application not likely to identify allocation of grant and loan/equity investments
 - Requires that grant funds be allocated to assets in order to book entries
 - Single project – pro rata allocation
 - Multiple projects – allocate across projects based on application
 - Allocations must be reasonable (auditable)

Accounting Implications

- RUS Funding & Federal Grants come with additional audit requirements
 - Financial auditors will look at cost allocations
 - RUS borrowers are subject to additional financial auditing standards (GAGAS or “Yellow Book”)
 - >\$500K in Federal Grants requires A-133 financial audit standards
 - Funds likely subject to FCC/OIG audit/review

Tax Implications

- Certain types of grants may be considered taxable income
 - Initial thought is that stimulus grants are likely to be non-taxable
 - Cooperative tax implications
 - 85% test
 - Talk to your tax advisor!

Tax Implications

- Property tax impacts
 - Should assets be assessed at actual cost or net of grant funds?
 - Each taxing authority may approach it differently
 - If at actual cost, subsidiary records will be required
 - Consult with your tax advisor!
 - State & Local Tax Department

Cost Separations Implications

- NECA's Cost Issues Task Group has formed a subcommittee to analyze
 - Likely to issue a FAQ by EOY 2009 – nothing yet
 - Currently compiling a list of ?s
 - Many more questions than answers at this point
 - Specific scenarios may not be addressed at first
 - Send ?s to Kathy McNary @ kmcnary@neca.org

Cost Separations Implications

- General thoughts on cost separations
 - Cost recovery on net cost
 - Rate of return on loan/equity funds only
 - Including gross up for taxes
 - Not likely to recover income taxes if grants are deemed taxable
 - Recovery of all associated expenses
 - Including property taxes
 - USF should be treated the same

Cost Separations Implications

- General thoughts on cost separations
 - Expense allocations when booked cost is \$0
 - Expense allocation follows associated asset
 - Most classes of assets will already be recorded on the books, so allocation factors should exist
 - ? is what to do with expenses associated with a new class of asset
 - » New traffic factor/special study
 - » General allocator (TPIS?)
 - » Direct assignment

Cost Separations Implications

- General thoughts on cost separations
 - Allocation of grant or loan/equity funds to accounts & categories likely to be scrutinized due to potential for arbitrage
 - Financial auditors
 - NECA/USAC
 - FCC/OIG auditors
 - Part 64 allocations for regulated & non-regulated costs likely to be reviewed as well

Questions?

- Thank You!