

Revisit of EA-CAM Requirements & Grant Accounting Considerations

OTA Accounting Conference
November 7th-8th, 2024

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Agenda

1. EA-CAM RECAP of Requirements
2. Cybersecurity & Supply Chain Plans
 - Follow up/ Audits
3. Location Challenges and Updates
 - Recent release
4. Grant Accounting
 - Considerations/ common questions



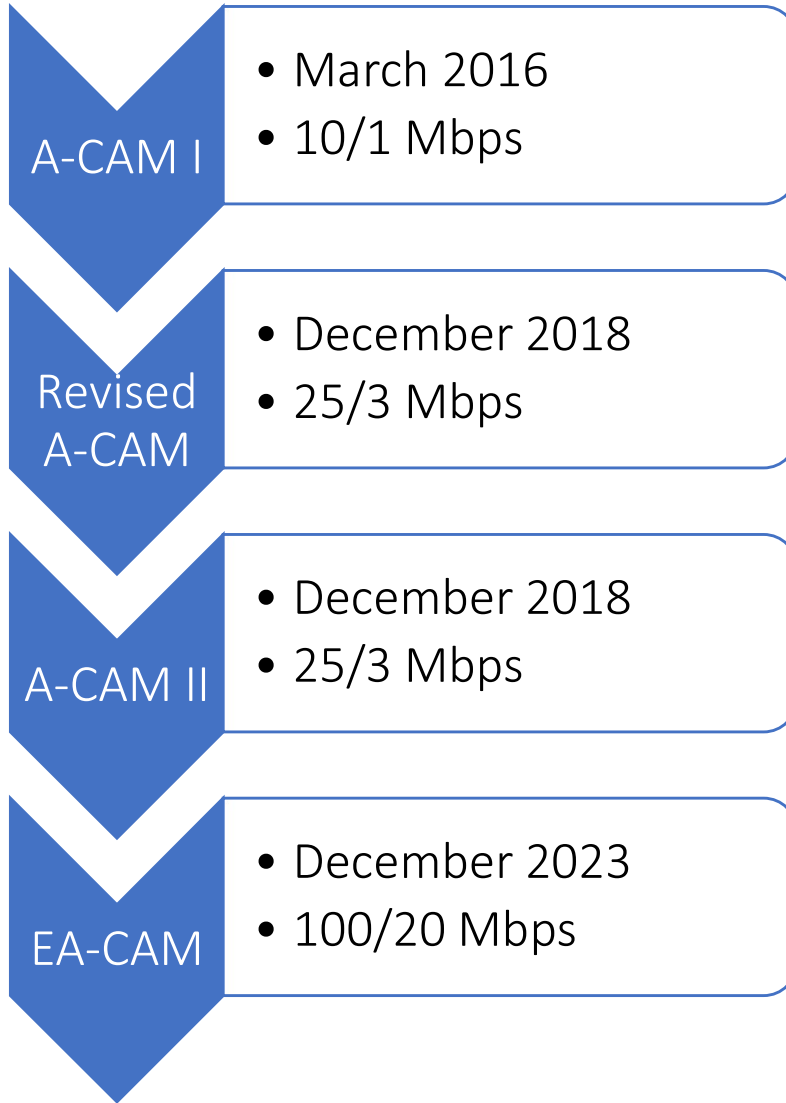


USF Broadband Funding

ACAM I	Sunsets 12-31-2026
ACAM I Revised & ACAM II	Sunsets 12-31-2028
Alaska Plan	Sunsets 12-31-2026
EA-CAM*	Sunsets 12-31-2038
Legacy (CAF-BLS, HCLS)	Needs proceeding to Sunset
Legacy → EA-CAM*	Sunsets 12-31-2038

* Would commence 1-1-2024 if elected

Program Results





Current events of Rural USF

USF High-Cost Program	Number of Study Areas	Expire Date (if applicable)	Annual Support Amount (2Q:2024 projection annualized)
CAF-ICC	1,099		\$354.2M
A-CAM I	10	Dec 2026	\$169.0M
A-CAM I Rev	106	Dec 2028	
A-CAM II	84	Dec 2028	\$219.8M
Enhanced A-CAM I	551	Dec 2038	\$1,260.5M
Alaska Connect	15	Reform pending	\$128.3M
Legacy HCLS	285		\$228.2M
Legacy CAF-BLS	314		\$879.7M

Total High-Cost Fund Program 2Q:2024 annualized = \$4,403.6M



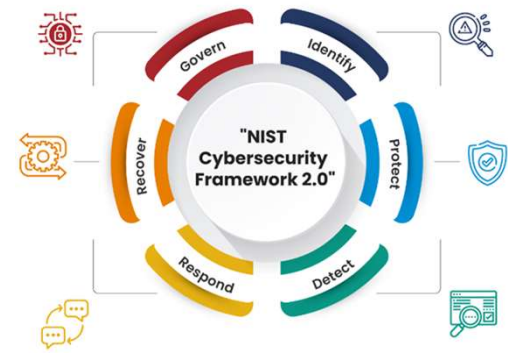
The Enhanced A-CAM Offer – Compliance Requirements

- Identification of technology Intended to Use to meet program requirements
- Offer Broadband and Standalone facility-based voice service to 100% of locations in study area
- Speeds of at least 100/20 Mbps and roundtrip Latency of 100 milliseconds or less
- Offer service at rates that are reasonably comparable to rates for comparable offerings in urban areas
- Subject to the same performance testing requirements as all other high-cost support recipients
- May not receive or use BEAD Program funding or other future federal grant funding, unless otherwise specified by the Commission or Wireline Competition Bureau, that supports broadband deployment for those locations for which they are receiving Enhanced A-CAM support
- Must participate in ACP (or other Program) and make available Lifeline service to qualifying low-income consumers
- Enhanced A-CAM carriers had to implement operational cybersecurity and supply chain risk management plans by January 1, 2024
- Enhanced A-CAM recipients remain subject to all other reporting and record retention requirements currently applicable to all high-cost support recipients, including the requirement to retain all records for at least 10 years from receipt of funding. *CPR's remain a requirement*
- Subject to random compliance audits and other investigations

Cybersecurity & Supply Chain Requirements

The requirement for EA-CAM electors is to:

- Have operational cybersecurity and cyber supply chain risk management plans
- Implement those plans by January 1, 2024
- Submit the plans to Universal Service Administrative Company (USAC) before January 2, 2024 (or within 30 days of approval under the Paperwork Reduction Act, whichever is later)
- Certify by January 2, 2024 (or within 30 days of approval under the Paperwork Reduction Act, whichever is later) that they have implemented the plans and submitted them to USAC



Cybersecurity Risk Management Plan

- Risk Management Strategy Section
- Risk Assessment Section
- Policies
- Appendices
- Excel Risk Assessment Template with Responsive Cells



Supply Chain Risk Management Plan

- Risk Management Strategy Section
- Appendix – Supplier Risk Assessment Example
- Appendix – Master Requirements List for Critical Vendor
- Appendix – Vendor Review Form
- Excel Risk Assessment Template with Responsive Cells





Supply Chain Audits in progress..



Available for Public Use

Supply Chain – Documentation for Auditors Checklist

General

Documentation to support general audit requirements

Documentation demonstrating that Universal Service Fund (USF) monies were not used to purchase, obtain, maintain, improve, modify, or otherwise support equipment or services produced or provided by covered companies. This includes:

- Master Vendor List applicable to USF funding (E-Rate, RHC, and High Cost filings) and related vendor review/approval process documentation
- Telecommunication asset listing
- USF expenditure details
- Details of transactions with providers of telecom equipment and services
- Bookkeeping and other financial records to verify the flow of USF funds and certain federal subsidies spent and received.



Supply Chain Audits in progress..

Network

Documentation to support compliance with the FCC's supply chain rules related to network expenditures

- For network and data centers, provide:
 - A list of locations, type (co-lo, private, etc.), size (number of equipment racks/sq ft.)
 - Architecture diagrams
 - Physical diagrams
 - Equipment inventory
- For network asset inventory documentation, provide:
 - Commercial and Government Entity (CAGE) codes
 - Original Equipment Manufacturer (OEM) numbers
 - Serial numbers
 - Radio frequency identification tags or unique identifiers
- Network/infrastructure equipment inventory
- Network monitoring and tool reports
- Network maintenance and service policies and plans
- Network procurement policies and lists of approved equipment



Supply Chain Audits in progress..

High Cost

Documentation to support the certification of the FCC Form 481

- Documentation supporting any internal review of compliance with the FCC's supply chain order and submission of the FCC Form 481 with the necessary supply chain certification language for the applicable funding year
- Written policies and procedures related to compliance with High Cost program requirements
- Company organizational chart, showing parent and affiliate relationships, as well as the individuals responsible for processing, reviewing, and approving data submitted in High Cost program filings
- Audit reports for financial, internal control, or any other audits that have a direct or indirect impact on data submitted in High Cost program filings
- Annual reports including audited financial statements and trial balances
- General Ledger (G/L), including account names and the identification of regulated and non-regulated accounts
- Expense sub-ledgers, including account names, amounts recorded, transaction descriptions, and vendor names for each expense transaction reported in Part 64 data
- Detailed list of affiliate/related-party transactions, including account names, amounts recorded, transaction descriptions, and vendor names for each affiliate/related-party transaction reported in Part 64 data (leases, contracts, management agreements, etc.)
- Continuing Property Records (CPRs)
- All supporting documentation related to all legacy and modernized High Cost program filings



Supply Chain Audits in progress..

E-Rate

Documentation to support the certification of the FCC Form 473

- Documentation supporting any internal review of compliance with the FCC's supply chain order for the submission of the FCC Form 473 with the supply chain certification language for the applicable funding year
- Lists of underlying bills that reconcile to the SPI/BEAR forms reimbursed by USAC for the applicable period
- General Ledger (G/L) account details for vendor payments related to the E-Rate program for the applicable year
- Internal policies and procedures for the E-Rate program for the applicable funding year
- Detailed inventory list of equipment provided to each E-Rate beneficiary for the applicable funding year
- Annual reports, including audited financial statements and trial balances (as well as any management letters and reports on Internal Controls Over Financial Reporting (ICOFR)) related to the E-Rate program for the applicable funding year



Deployment Milestones

Milestone Date	Deployment Requirement
Dec 31, 2023	2023 A-CAM milestone met*
Dec 31, 2025	None
Dec 31, 2026	50% of required (unserved) locations
Dec 31, 2027	75% of required (unserved) locations
FCC to determine if a one-year extension for final milestone is appropriate	
Dec 31, 2028	100% of required (unserved) locations

* A-CAM or Legacy 2023 deployment milestones are required to be met, otherwise, EA-CAM support will be held until prior compliance is satisfied



EA-CAM Location Adjustments – Interim Data

- ****APPLIES TO EA-CAM ELECTED COMPANIES ONLY****

- **FCC's Broadband Serviceable Location (BSL) data as of 12/31/2023 and competitive overlap information as of 6/30/2023 has been released.**
 - These datasets, once finalized, will be used to calculate any required adjustments to the final EA-CAM payments and buildout obligations.
 - While this information can be used to **estimate** and project the impacts of a potential EA-CAM update, it has not been officially summarized or finalized by the FCC. The FCC has until December of 2025 to release the final EA-CAM obligations and payments.
 - If there is a reduction in obligated locations of less than 5% then no changes to EA-CAM payments are applied.
 - If there is a reduction in obligated locations of greater than 5% and the model results in lower support, then payments would be adjusted downward.
 - If there is an increase in obligated locations and a resulting projected increase in support, the FCC has not committed to an increase carrier support. Any increase in carrier support is subject to the overall budget for EA-CAM.

EA-CAM Location Adjustments – Interim Data

- JSI notes that these results do not include the effects of the following items that the FCC will incorporate when calculating the final EA-CAM payments and obligations, nor does it include any other changes the FCC may alter when finalizing carrier support:
 - Some Federal enforceable commitments to deploy 100/20 Mbps or faster broadband that were made by August 30, 2023, but have not yet been entered into the Broadband Funding Map;
 - All State enforceable commitments to deploy 100/20 Mbps or faster broadband that were made by August 30, 2023;
 - Successful challenges to the Fabric that would add or remove locations from the December 2023 version;
 - Successful challenges to the June 2023 availability data (or later availability data, as applicable to locations for which there is no June 2023 availability data) that were not resolved in time for inclusion in the May 2024 National Broadband Map; or
 - Tribal locations removed from Enhanced A-CAM by mutual agreement of the Tribal entity and the Enhanced A-CAM recipient



EA-CAM Location Adjustments – Interim Data

- Legacy Companies that Elected EA-CAM:
 - Payments are based on frozen levels for first 11 years of the plan so any change will not impact payments until 2035
- ACAM 1 and ACAM 2 companies that elected EACAM:
 - These companies will see payments adjusted when the final adjustments are approved.

Data can be mapped to show areas impacted, competitive areas and areas covered by grants.

EA-CAM INTERIM DATA PRELIMINARY IMPACT
12-31-2023 FABRIC & 6-30-2023 AVAILABILITY

Provider: [REDACTED]
 State: [REDACTED]
 Prior Funding Mechanism: **ACAM**
 Type of Glide Path Support: **None**

Preliminary Support Change \$ -
 (Based on the change in broadband serviceable obligated locations)

*Change in Broadband Serviceable Obligations 0.24%
 (This is the difference of all locations not including competitive only between versions)

*Change in Required Locations -77.27%
 (This is the difference in required deployment locations between versions)

*The FCC has not confirmed which method will be used for 5% reduction thresholds

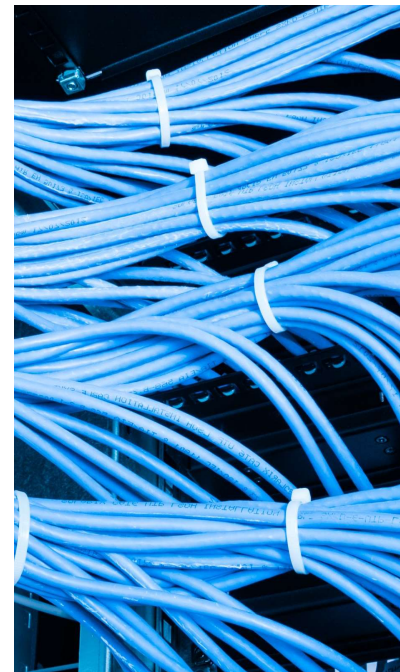
			Locations														
			Required Locations			Non-Tribal Areas						Tribal Areas					
						Unsupported Locations			Supported Locations			Unsupported Locations			Supported Locations		
EA-CAM Version	Current Funding Mechanism	Total Locations	Total	Non-Tribal	Tribal	Unserved Below \$63.69	Served Below \$52.50 *Including Competitive Only	Competitive-Only Served Above \$52.50	ILEC-Only Served Locations	ILEC and Competitively Served Locations	Unserved Locations	Unserved Below \$47.76	Served Below \$39.38 *Including Competitive Only	Competitive-Only Served Above \$39.38	ILEC-Only Served Locations	ILEC and Competitively Served Locations	Unserved Locations
2023 EA-CAM Offer	ACAM	1,719	22	22	-	-	637	26	1,034	-	22	-	-	-	-	-	-
2024 Interim EA-CAM Update		1,702	5	5	-	-	615	14	1,039	29	5	-	-	-	-	-	-
IMPACT		(17)	(17)	(17)	-	-	(22)	(12)	5	29	(17)	-	-	-	-	-	-
		-0.99%	-77.27%	-77.27%	0.00%	0.00%	-3.45%	-46.15%	0.48%	0.00%	-77.27%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

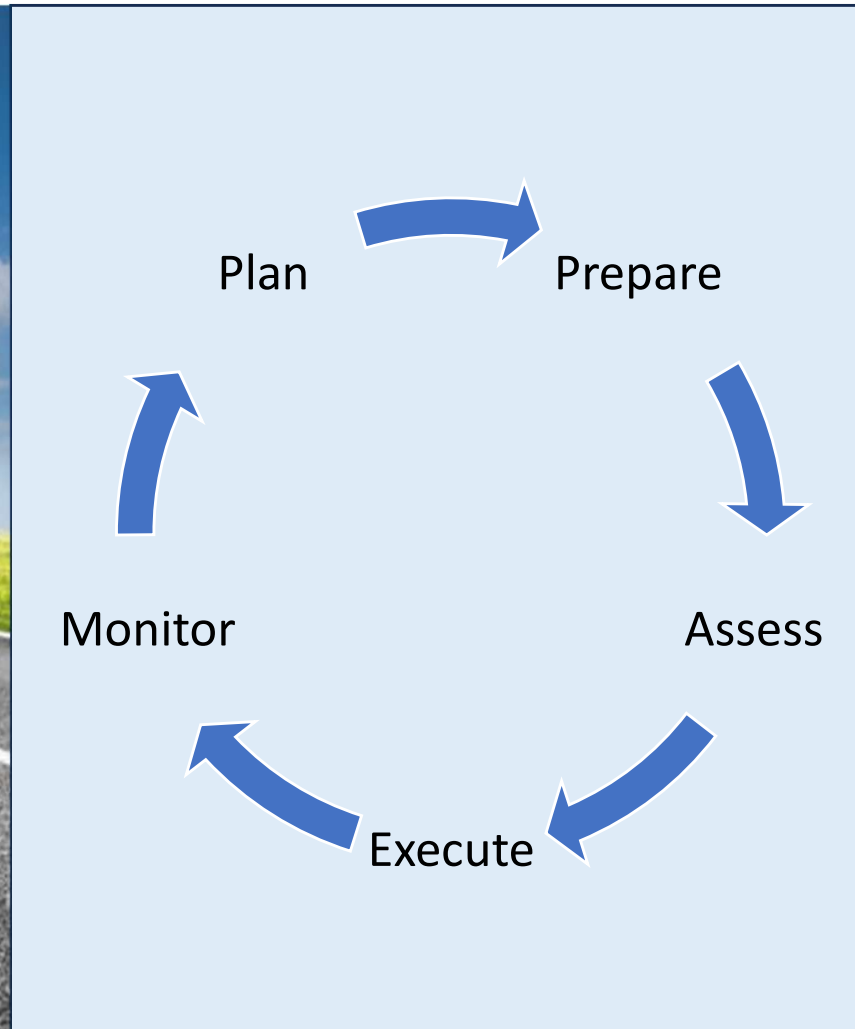
			Support					
			All Areas		Non-Tribal Areas		Tribal Areas	
EA-CAM Version	Current Funding Mechanism	Total Locations	Total Enhanced A-CAM Support Amount, Annual \$	Total Enhanced A-CAM Supported Locations	Enhanced A-CAM Support Amount for Non-Tribal Locations, Annual \$	Non-Tribal Enhanced A-CAM Supported Locations	Enhanced A-CAM Support Amount for Tribal Locations, Annual \$	Tribal Enhanced A-CAM Supported Locations
2023 EA-CAM Offer	ACAM	1,719	\$ 637,663	1,056	\$ 637,663	1,056	\$ -	-
2024 Interim EA-CAM Update		1,702	\$ 624,793	1,073	\$ 624,793	1,073	\$ -	-
IMPACT		(17)	\$ (12,870)	17	\$ (12,870)	17	\$ -	-
		-0.99%	-2.02%	1.61%	-2.02%	1.61%	0.00%	0.00%



Strategic Considerations – Engineering

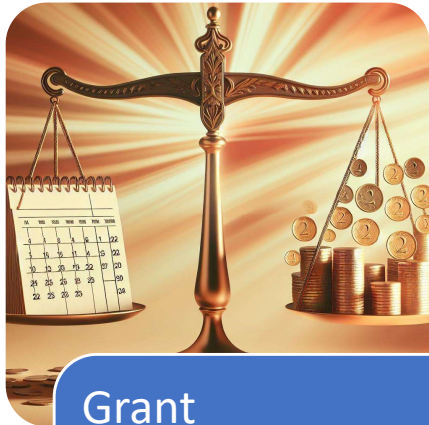
- Understand build-out obligation and milestone requirements
- Items to consider for engineering:
 - Miles of fiber needed to be built
 - Number of locations to service
 - Timing of contractor availability
 - Timing of material availability





Grant Accounting





Grant Compliance

- Company financials to fund government agency reporting



Grant Accounting for Tax purposes

- Taxable Grants
- Bonus Depreciation



Grant Accounting per part 32 books

- Work orders
- Asset booking
- Expenses
- Part 64 implications

General Accounting Processes

First Principle is that everything associated with Grant Awards must be separate from other accounting info:

- GL Asset and Reserve Accounts
- CPR Data
- Depreciation Records
- Direct OPEX, including pre-application and application costs



Regulated LECs vs. Others

- Generally speaking, FCC Part 32 Accounting Rules will dictate the booking of Grant related Activity.
- General Principle is that Grant funding is used to reduce or eliminate the Costs associated with Assets purchased or expenses incurred.
- Reductions in Work Order Cost Accumulations – potentially to \$0 is the preferred treatment.
- Costs may still be reflected based on the ratio of the Grant to the overall cost of the project.
- Separate Cost ledgers will likely be required for income tax purposes. (Tax vs. book)



Example of Separate Accounts

10	2411.100	D A J N	POLES	1,327.00	0.00	5,288,216.43
10	2411.110	D A R N	POLES RECONNECT MATCHING FUNDS	0.00	0.00	0.00
10	2411.120	D A R N	POLES RECONNECT GRANT FUNDS	0.00	0.00	0.00
10	2411.200	D A J N	TOWERS	0.00	0.00	242,172.70
10	2420.100	D A R N	SERVICE DROPS	0.00	0.00	0.00
10	2421.100	D A J N	AERIAL CABLE	1,027,314.96	0.00	52,106,368.86
10	2421.110	D A R N	AERIAL CABLE RC MATCH FUNDS	0.00	0.00	1,434,949.58
10	2421.120	D A R N	AERIAL CABLE RC GRANT FUNDS	0.00	0.00	320,706.82
10	2421.130	D A R N	AERIAL CABLE-ARPA GRANT FUNDS	423,464.58	0.00	523,464.58
10	2421.150	D A R N	AERIAL CABLE-NEW	0.00	0.00	0.00
10	2421.320	D A D N	OUTSIDE PLANT-COMCAST ETC	0.00	0.00	0.00
10	2422.100	D A R N	UNDERGROUND CABLE	0.00	15,396.12	11,021,257.93
10	2422.130	D A R N	UNDERGRND CBL-ARPA GRANT FUNDS	119,559.83	0.00	119,559.83
10	2422.150	D A R N	UNDERGROUND CABLE-NEW	0.00	0.00	0.00
10	2423.100	D A R N	BURIED CABLE	70,475.91	0.00	17,830,778.16
10	2423.130	D A R N	BURIED CABLE-ARPA GRANT FUNDS	0.00	0.00	0.00
10	2423.150	D A R N	BURIED CABLE-NEW	0.00	0.00	0.00
10	2431.100	D A R N	AERIAL WIRE	0.00	0.00	5,359.50
10	2441.100	D A R N	CONDUIT SYSTEMS	0.00	152,269.88	7,484,360.41
10	2441.130	D A R N	CONDUIT SYSTEMS-ARPA GRANT FUN	283,457.10	0.00	283,457.10

Taxable Status of Federal and Other Grants

- Another provision of the 2017 Tax Act was to make most government grants awarded after 12/22/2017 subject to federal tax in the year granted
- While this represents a change in tax law, it does not allow/require a change in book treatment of grants, which **Part 32 continues to indicate should be treated as a contribution to capital and as a reduction of the cost basis of the assets obtained by the grant**

NECA and USF Treatment of Grants

JH0

- Legacy “Cost” based companies receive USF and other reimbursements for Costs incurred in network construction.
- Equipment provided at no or reduced costs are only included in cost-based settlements to the extent that the ILEC actually pays for them – via cash or debt financing.
 - This includes any “matching” requirements or funding pertaining to both capital as well as potential expense recovery, including application costs for approved grants.
- NECA released a Cost Issue in July 2022 dealing with these issues.

JH0

formatting issues

Jenn Holtz, 2023-08-15T18:51:38.416



Highlights of NECA Paper:

- As noted previously costs that are reimbursed from grant funds are not eligible for USF inclusion.
 - Includes ongoing depreciation on grant assets.
- Grant/Loan Combination projects must pro-rate the Grant component across regulated/non-regulated operations.
 - **Example:** Outside ILEC area/Inside ILEC area, the overall grant/loan percentage would be applied to both portions on a pro-rata basis – the loan or cash component cannot be applied to the regulated area differently than the non-regulated area.
- This applies to all companies that participate in NECA pooling or legacy USF funding and are subject to Part 32 requirements.



Grant Compliance Considerations/ Q&A

32.12 Records

- The commission (RUS) shall require a company to maintain financial and other subsidiary records in such a manner that specific information, of a type not warranting disclosure as an account or subaccount, will be readily available
 - **Subsidiary Loan Budget Records** (reconcile amounts paid to contractors, invoice amounts, and amounts approved, advanced and disbursed from the pledged deposit account)
 - **Pledged Deposit Account Reimbursement Schedule** (shows by advance, deposit, and disbursement the budget purpose from the financial requirement statement that have been disbursed to the general fund cash account)
 - **Continuing Property Records** (detailed....)
 - **Labor, Material, and Overhead** subsidiary ledgers



32.13 Accounts- General

- Continuing Property Records
 - Subsidiary Fixed Asset Listing that reconciles to the amounts within the classified plant accounts
 - Details must include Date installed, specific location installed, serial numbers if applicable, PFSA or non-PFSA designation, capitalized cost, accumulated depreciation, net cost, and for disposition purposes should have some indicator if grant funds were used
 - Plant accounts should be divided into classified plant accounts based on uniform system of accounts and standard retirement units



- §200.404 Reasonable costs

- A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded.

- **i.e. Must have direct relationship and necessary for construction at a reasonable rate.**

- §200.404 Reasonable costs

- a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award

- **i.e. Administrative Assistant's labor not necessary for construction**

- b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award

- **Affiliated Transactions must be pre-approved and at cost with no profit margin and must provide evidence of true cost from affiliate's records**



- §200.404 Reasonable costs

- c) Market prices for comparable goods or services for the geographic area

- A CEO performing an install and recording his/her salary as the cost rather than the cost of an installer not reasonable. Increasing salaries for work performed under ReConnect not reasonable

- d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government

- Buying state of the art construction equipment when renting would have resulted in savings to taxpayer, federal government not reasonable



- §200.404 Reasonable costs

- e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost

Changing overtime policy to increase amount charged to Federal award would not be reasonable

Must employ conservatism, prudent person, third-party, arms length and geographic market considerations in all transactions

When in doubt do not capitalize and do not finance

- §200.420 Considerations for selected items of cost

- Title 2 CFR 200 specifically covers eligibility of certain items of cost
- For the most part the Telephone Uniform System of Accounts, Work Order Procedures, and ReConnect Construction procedures outline the costs of construction that meet the eligibility criteria
- It is important to review this section though for any costs that might be deemed ineligible within other costs

- §200.423 Alcoholic beverages

- Costs of alcoholic beverages are unallowable



Grant Compliance Audit Requirements

- Section 6.3 Annual Audit
 - Effective after an Advance has been made, one hundred twenty (120) days from the end of the Awardee's current fiscal year and, thereafter, one hundred twenty (120) days from the close of each subsequent fiscal year, the Awardee must submit annual audited financial statements along with a report on compliance and on internal control over financial reporting, and a management letter in accordance with the requirements of 7 CFR 1773

Note for Non-Federal Entities under .200 which have 9 months to submit an audit this date

- §1773.3 Annual audit
 - a) Each auditee must have its financial statements audited annually by an auditor selected by the auditee and approved by RUS as set forth in §1773.4. All auditees must submit audited financial statements on a comparative basis covering two consecutive 12-month periods
 - b) Each auditee must establish an annual audit date within 12 months of the date of the first advance and must prepare annual financial statements for the audit date established. Each auditee must notify the AA-PARA of the audit date at least 90 days prior to the selected audit date
 - c) In addition to the requirements of this part, certain auditees may be subject to the Single Audit Act



Internal Controls

REA Bulletin 1770-1 Work Order Procedure

ReConnect work orders will also have to be segregated further to comply with the construction procedures and differentiate between PFSA and non-funded service areas

- 8) Job Orders: usually refers to maintenance activities chargeable to expense. The term, however, may be used to identify small construction jobs that are not considered large enough to require a separate work order. Under a blanket work order system, job order numbers may be assigned to individual projects covered by one blanket work order

Customer install might be handled by blanket work order as long as individual job numbers are recorded and the job number can be associated with a specific site location. Blanket work orders cannot not violate the approved ReConnect construction procedures

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Thank You.

Do You Still Have Questions?
Connect with Us.

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