Subpart C—Accounting Interpretations

SOURCE: 61 FR 39847, July 31, 1996, unless otherwise noted.

§ 1770.26 General.

(a) The standard provisions of the security instruments utilized by the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB) for all telecommunications borrowers require borrowers to at all times keep and safely preserve, proper books, records, and accounts in which full and true entries will be made of all of the dealings, business, and affairs of the borrower in accordance with the methods and principles of accounting prescribed by the state regulatory body having jurisdiction over the borrower and by the Federal Communications Commission (FCC) in its Uniform System of Accounts for telecommunications companies (47 CFR part 32), as those methods and principles of accounting are supplemented from time to time by RUS.

(b) This subpart implements those standard provisions of the RUS and RTB security instruments by prescribing accounting principles, methodologies, and procedures applicable to all telecommunications borrowers for particular situations.

§ 1770.27 Definitions.

As used in this part:

Borrower is an RUS telecommunications borrower.

Cushion of Credit Account is a 5 percent interest bearing account established by RUS in which all voluntary payments or overpayments on Rural Electric and Telephone Revolving Funds after October 1, 1987, are deposited.

FCC is the Federal Communications Commission.

Part 32 is 47 CFR part 32, Uniform System of Accounts, issued by the Federal Communications Commission.

RAO is the Responsible Accounting Officer of the Federal Communications Commission.

RE Act is the Rural Electrification Act of 1936, as amended (7 U.S.C. 901 et seq.).

RETRF is the Rural Electric and Telephone Revolving Fund.

RTB is the Rural Telephone Bank.

RUS is the Rural Utilities Service, an agency of the United States Department of Agriculture, or its predecessor or successor.

§§ 1770.28–1770.45 [Reserved]

APPENDIX TO SUBPART C OF PART 1770—ACCOUNTING METHODS AND PROCEDURES REQUIRED OF ALL BORROWERS

All borrowers shall maintain and keep their books of accounts and all other books and records which support the entries in such books of accounts in accordance with the accounting principles prescribed in this appendix.

Numerical Index

Number and Title

Subject Matter Index *Number*

101 Postretirement Benefits

A. Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other than Pensions (Statement No. 106), requires reporting entities to accrue the expected cost of postretirement benefits during the years the employee provides service to the entity. For purposes of applying the provisions of Statement No. 106, members of the board of directors are considered to be employees of the cooperative. Prior to the issuance of Statement No. 106, most reporting entities accounted for postretirement benefit costs on a ''pay-as-you-go'' basis; that is, costs were recognized when paid, not when the employee provided service to the entity in exchange for the benefits. (Statement 106 is available from the Financial Accounting Standards Board, 401 Merritt 7, P.O. Box 5116, Norwalk, CT. 06856–5116.)

B. As defined in Statement No. 106, a postretirement benefit plan is a deferred compensation arrangement in which an employer promises to exchange future benefits for an employee's current services. Postretirement benefit plans may be funded or unfunded. Postretirement benefits include, but are not limited to, health care, life insurance, tuition assistance, day care, legal services, and housing subsidies provided outside of a pension plan.

C. Statement No. 106 applies to both written plans and to plans whose existence is implied from a practice of paying postretirement benefits. An employer's practice of providing postretirement benefits to selected employees under individual contracts with specific terms determined on an employee-by-employee basis does not, however, constitute a postretirement benefit plan under the provisions of this statement.

D. Postretirement benefit plans generally fall into three categories: single-employer defined benefit plans, multiemployer plans, and multiple-employer plans.

E. A single-employer plan is a postretirement benefit plan that is maintained by one employer. The term may also be applied to a plan that is maintained by related parties such as a parent and its subsidiaries. A multiemployer plan is a postretirement benefit plan in which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. One characteristic of a multiemployer plan is that the assets contributed by one participating employer may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer.

F. A multiple-employer plan is a postretirement benefit plan that is maintained by more than one employer but is not a multiemployer plan. A multiple-employer plan is generally not collectively bargained and is intended to allow participating employers to pool their plan assets for investment purposes and reduce the cost of plan administration. A multiple-employer plan maintains separate accounts for each employer so that contributions provide benefits only for employees of the contributing employer.

G. The accounting requirements set forth in this interpretation focus on single- and multiple-employer plans. The accounting requirements set forth in Statement No. 106 for multiemployer plans or defined contribution plans shall be adopted for borrowers electing those types of plans.

H. Under the provisions of Statement No. 106, there are two components of the postretirement benefit cost: the current period cost and the transition obligation. The transition obligation is a one-time accrual of the costs resulting from services already provided. Statement No. 106 allows the transition obligation to be deferred and amortized on a straight-line basis over the average remaining service period of the active employees. If the average remaining service period of the active employees is less than 20 years, a 20-year amortization period may be used.

I. Accounting Requirements

A. All borrowers shall adopt the accrual accounting provisions and reporting requirements as set forth in Statement No. 106. The transition obligation and accrual of the current period cost must be based upon an actuarial study. This study must be updated to allow the borrower to comply with the measurement date requirements of Statement No. 106; however, the study must, at a minimum, be updated every five years. Borrowers may not account for postretirement benefits on a ''pay-as-you-go'' basis.

B. Under the provisions of Statement No. 106, an entity may recognize the transition obligation, in its entirety, when Statement No. 106 is first adopted or the entity may elect to delay the recognition of the transition obligation. On December 26, 1991, however, the FCC issued 6 FCC Rcd 7560, which requires telecommunications carriers to recognize the transition obligation on a delayed basis. RUS reviewed this issuance and has determined that borrowers must comply with this ruling and recognize the transition obligation on a delayed basis.

C. The deferral and amortization of the transition obligation on a delayed basis is considered to be an off balance sheet item. As a result, an accounting entry is not required at the time of adoption of Statement No. 106. Instead, the transition obligation is recognized as a component of postretirement benefit cost as it is amortized. The amount of the unamortized transition obligation must be disclosed in the notes to the financial statements.

D. In accordance with the provisions of Responsible Accounting Officer (RAO) Letter 20, released by the FCC on April 24, 1992, Account 4310, Other Long-Term Liabilities, shall be used to record the liability accrued for postretirement benefits. (RAO Letter 20 is available from the Federal Communications Commission, 1919 M Street, NW., Washington, DC 20554.) Borrowers shall credit this account for the net periodic cost of postretirement benefits for the current year and shall debit this account for any fund payments made during the current year.

E. Net periodic postretirement benefit cost includes current period service cost, interest cost, return on plan assets, amortization of prior service cost, gains and losses, and amortization of the transition obligation. If fund payments create a debit balance in the postretirement benefits portion of Account 4310, the debit balance applicable to postretirement benefits shall be reported in Account 1410, Other Noncurrent Assets. Account 1410 shall also be used to record any prepaid postretirement benefit cost.

F. The benefits portion of the expense matrix for the appropriate Part 32 expense accounts shall be used to record the current period service cost component of the current year's net periodic postretirement benefit cost. The interest cost component, return on plan assets, amortization of prior service cost, gains and losses, and amortization of the transition obligation shall be charged to the benefits portion of the expense matrix of Account 6728, Other General and Administrative.

II. Effective Date and Implementation

A. For plans outside the United States and for defined benefit plans of employers that (a) are nonpublic enterprises and (b) sponsor defined benefit postretirement plans with no more than 500 plan participants in the aggregate, Statement No. 106 is effective for fiscal years beginning after December 15, 1994. For all other plans, Statement No. 106 is effective for fiscal years beginning after December 15, 1992.

102 Rural Telephone Bank Stock

A. Capital stock issued by the Rural Telephone Bank consists of Class A, Class B, and Class C stock. Class A stock is issued only to the Administrator of RUS on behalf of the United States in exchange for capital furnished to RTB.

B. Class B stock is issued only to recipients of loans under Section 408 of the Rural Electrification Act (RE Act). Borrowers receiving loan funds pursuant to Section 408(a) (1) or (2) of the RE Act are required to invest 5 percent of the amount of loan funds approved in Class B stock. No dividends are payable on Class B stock. All holders of Class B stock are entitled to patronage refunds in the form of Class B stock under the terms and conditions specified in the bylaws of the RTB.

C. Class C stock is available for purchase by borrowers, corporations, and public bodies eligible to borrow under Section 408 of the RE Act, or by organizations controlled by such borrowers, corporations and public bodies. The payment of dividends is in accordance with the bylaws of the RTB.

Accounting Requirements

A. The purchase of RTB stock required by the RE Act shall be debited to Account 1402.1, Investments in Nonaffiliated Companies—Class B RTB Stock. Patronage refunds in the form of additional shares of RTB Class B Stock shall be debited to Account 1402.1 and credited to Account 1402.11, Investments in Nonaffiliated Companies—Class B RTB Stock—Cr.

B. Purchases of Class C RTB stock shall be debited to Account 1402.2, Investments in Nonaffiliated Companies—Class C RTB Stock. Cash dividends received on Class C RTB stock shall be credited to Account 7310, Dividend Income.

C. Once a borrower has repaid all of its RTB loans, it may request that its Class B stock be converted to Class C stock. When the conversion is made, Account 1402.2 shall be debited and Account 1402.1 shall be credited for the face value of the stock converted. Account 1402.21, Investments in Nonaffiliated Companies—Class C RTB Stock—Cr., shall be credited and Account 1402.11 shall be debited for the face value of the Class B stock that has been received as patronage refunds.

103 Cushion of Credit Investments

A. The RUS Cushion of Credit account is an investment account bearing an interest rate of 5 percent. All voluntary payments or overpayments on Rural Electric and Telephone Revolving Fund (RETRF) loans made after October 1, 1987, are deposited into this account in the appropriate borrower's name.

Accounting Requirements

A. The following journal entries shall be used by RUS borrowers to record the transactions associated with cushion of credit payment:

1. Dr. 4210.18, RUS Notes—Advance Payments, Dr. Cr. 1130.1/1120.11, Cash—General Fund. To record the cushion of credit payment.
2. Dr. 4210.18, RUS Notes—Advance Payments, Dr. Cr. 7320/7300.2, Interest Income. To record interest earned on cushion of credit deposits.
3. Dr. 4210.12, RUS Notes, Cr. 4210.18, RUS Notes—Advance Payments, Dr. To apply cushion of credit payments (and interest) to the RUS note.

104 Rural Economic Development Loan and Grant Program

A. On December 21, 1987, Section 313, Cushion of Credit Payments Program (7 U.S.C. 901 et seq.), was added to the RE Act. Section 313 establishes a Rural Economic Development Subaccount and authorizes the Administrator of the RUS to provide zero interest loans or grants to RE Act borrowers for the purpose of promoting rural economic development and job creation projects. Effective December 5, 1994, this authority was assigned to the Administrator, Rural Business and Cooperative Development Service.

B. 7 CFR part 1703, Subpart B, Rural Economic Development Loan and Grant Program, sets forth the policies and procedures relating to the zero interest loan program and for approving and administering grants.

Accounting Requirements

A. The accounting journal entries required to record the transactions associated with a Rural Economic Development grant are as follows:

1. Dr. 1130.4/1120.14, Cash—General Fund—Economic Development Grant Funds. Cr. 4210.25, RUS Notes—Economic Development Grant; Cr. 4540.41, Other Capital—Miscellaneous; or Cr. 7360/7300.6, Other Nonoperating Income. To record grant funds disbursed by RUS. If the grant agreement requires repayment of the funds upon termination of the revolving loan program, Account 4210.25 shall be credited. If the grant agreement states that there is absolutely no obligation for repayment upon termination of the revolving loan program, the funds shall be accounted for as a permanent infusion of capital by crediting Account 4540.41. If, however, the grant agreement is silent as to the final disposition of the grant funds, Account 7360/7300.6 shall be credited.
2. Dr. 1401.1, Other Investments in Affiliated Companies—Federal Economic Development Grant Loans or Dr. 1402.4, Other Investments in Nonaffiliated Companies—Federal Economic Development Grant Loans Cr. 1130.4/1120.14, Cash—General Fund—Economic Development Grant Funds. To record a Federal revolving loan to an economic development project.
3. Dr. 1130.1/1120.11, Cash—General Fund. Cr. 7360/7300.6, Other Nonoperating Income. To record payment of loan servicing fees charged to the economic development project.
4. Dr. 1130.5/1120.15, Cash—General Fund—Economic Development Non-Federal Revolving Funds. Cr. 1401.1, Other Investments in Affiliated Companies—Federal Economic Development Grant Loans or Cr. 1402.4, Other Investments in Nonaffiliated Companies—Federal Economic Development Grant Loans. To record the repayment, by the project, of the Federal revolving loan.
5. Dr. 1401.2, Other Investments in Affiliated Companies—Non-Federal Economic Development Grant Loans or Dr. 1402.5, Other Investments in Nonaffiliated Companies—Non-Federal Economic Development Grant Loans. Cr. 1130.5/1120.15, Cash—General Fund—Economic Development Non-Federal Revolving Funds. To record a Non-Federal revolving loan to an economic development project.
6. Dr. 1210, Interest and Dividends Receivable Cr. 7320/7300.2, Interest Income. To record the interest earned on a Non-Federal revolving loan to an economic development project.
7. Dr. 1130.5/1120.15, Cash—General Fund—Economic Development Non-Federal Revolving Funds. CR. 1401.2, Other Investments in Affiliated Companies—Non-Federal Economic Development Grant Loans or Cr. 1402.5, Other Investments in Nonaffiliated Companies—Non-Federal Economic Development Grant Loans. To record the repayment, by the project, of the Non-Federal revolving loan.

B. The accounting journal entries required to record the transactions associated with a Rural Economic Development loan are as follows:

1. Dr. 4210.26, Economic Development Notes—Unadvanced, Fr. Cr. 4210.25, Economic Development Notes. To record the contractual obligation to RUS for the Economic Development Notes.
2. Dr. 1130.6/1120.16, Cash—General Fund—Economic Development Loan Funds Cr. 4210.26, Economic Development Notes—Unadvanced, Dr. To record the receipt of the economic development loan funds.
3. Dr. 1401.3, Other Investments in Affiliated Companies—Federal Econmic Development Loans or Dr. 1402.6, Other Investments in Nonaffilitated Companies—Federal Economic Development Loans. Cr. 1130.6/1120.16, Cash—General Fund—Ecoomice Development Loan Funds. To record the discursement of economci development loand funds to the project.
4. Dr. 1130.1/1120.11, Cash—General Fund. Cr. 7360/7300.6, Other Nonoperating Income.

To record payment of loan servicing fees charged to the economic development project.

5. Dr. 1210, Interest and Dividends Receivable Cr. 7320/7300.2, Interest Income. To record the interest earned on the investment of rural economic development loan funds.
6. Dr. 7370, Special Charges. Cr. 1130.1, Cash—General Funds. To record the payment of interest earned in excess of $500 on the investment of rural economic development loan funds. NOTE: Interest earned in excess of $500 must be used for the rural economic development project for which the loan funds were received or returned to RUS.
7. Dr. 1130.6/1120.16, Cash—General Fund—Economic Development Loan Funds. Cr. 1401.3, Other Investments in Affiliated Companies—Federal Economic Development Loans or Cr. 1402.6, Other Investments in Nonaffiliated Companies—Federal Economic Development Loans. To record repayment, by the project, of the economic development loan.
8. Dr. 4210.25, Economic Development Notes. Cr. 1130.6/1120.16, Cash—General Fund—Economic Development Loan Funds. To record the repayment, to RUS, of the economic development loan funds.

105 Satellite and Cable Television Services

A. Many RUS borrowers have become involved in providing either satellite or cable television services to their members and others through subsidiaries, joint ventures, or as segments of their current operations.

Accounting Requirements

A. This section outlines the accounting to be followed when recording transactions involving satellite or cable television services.

1. Separate Subsidiary. If a borrower provides satellite or cable television services through a separate subsidiary, the investment in the subsidiary shall be debited to Account 1401, Investments in Affiliated Companies. The net income or loss of the subsidiary shall be debited or credited to Account 1401, as appropriate, with an offsetting entry to Account 7360, Other Nonoperating Income.

2. *Joint Venture*. i. If a borrower provides satellite or cable television services through a joint venture, the borrower's ownership interest dictates the accounting methodology. If the borrower has less than a 20 percent ownership interest in the joint venture, the investment is accounted for under the cost method of accounting in Account 1402, Investments in Nonaffiliated Companies. Under the cost method, the joint venture's net income or loss is not recorded in the borrower's records. Income is recognized only to the extent of any dividends declared by the joint venture. When a dividend is declared, the borrower shall debit Account 1210, Interest and Dividends Receivable, and credit Account 7310, Dividend Income. When the dividend is received in cash, the borrower shall debit Account 1130.1, Cash—General Fund, and credit Account 1210.

ii. If a borrower has a 20-percent or more ownership interest in the joint venture, the investment is accounted for under the equity method in Account 1401, Investments in Affiliated Companies. The borrower's proportionate share of the joint venture's net income or loss shall be debited or credited to Account 1401, as appropriate, with an offsetting entry to Account 7360, Other Nonoperating Income.

3. *Segment of Current Operations*.i. If a borrower provides satellite or cable television service as a segment of its current operations and there are no shared assets between this activity and the regulated telecommunications activities of the borrower, the investment shall be debited to Account 1406.1, Nonregulated Investments—Permanent Investment. The net income or loss from providing such service shall be debited or credited, as appropriate, to Account 1406.3, Nonregulated Investments—Current Net Income, with an offsetting entry to Account 7990, Nonregulated Net Income.

ii. If a borrower provides satellite or cable television service as a segment of current operations and shares assets between this activity and the regulated telecommunications activities of the borrower, the franchise and application fees shall be debited to a subaccount of Account 2690, Intangibles. The cost of the satellite or cable television equipment shall be debited to a subaccount of Account 2231, Radio Systems. Revenues earned from providing satellite or cable service shall be credited to Account 5280, Nonregulated Operating Revenue, while the associated expenses shall be recorded in a subaccount of the applicable regulated expense accounts.

4. *Sale and Installation of Satellite or Cable Television Equipment*.i. If a borrower sells or installs satellite or cable television equipment as a segment of its current operations and there are no shared assets between this activity and the regulated telecommunications activities of the borrower, the purchase of the equipment shall be debited to Account 1406.1, Nonregulated Investments—Permanent Investment. The net income or loss from providing such services shall be debited or credited, as appropriate, to Account 1406.3, Nonregulated Investments—Current Net Income, with an offsetting entry to Account 7990, Nonregulated Net Income.

ii. If a borrower sells or installs satellite or cable television equipment as a segment of its current operations and shares assets between this activity and the regulated telecommunications activities of the borrower, the purchase of the equipment shall be debited to Account 1220.2, Property Held for Sale or Lease. Revenues received for the sale or installation of the equipment shall be credited to Account 5280, Nonregulated Operating Revenue, while the associated expenses shall be debited to a subaccount of the applicable regulated expense accounts.

106 Consolidated Financial Statements

A. In October 1987, FASB issued Statement of Financial Accounting Standards No. 94, Consolidation of All Majority-Owned Subsidiaries (Statement No. 94). (Statement 94 is available from the Financial Accounting Standards Board, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856–5116.) For purposes of reporting to RUS, Statement No. 94 shall be applied as follows:

1. A borrower that is a subsidiary of another entity shall prepare and submit to RUS separate financial statements even though this financial information is presented in the parent's consolidated statements.

2. In those cases in which a borrower has a majority-ownership in a subsidiary, the borrower shall prepare consolidated financial statements in accordance with the requirements of Statement No. 94. These consolidated statements must also include supplementary schedules presenting a Balance Sheet and Income Statement for each majority-owned subsidiary included in the consolidated statements.

B. Although Statement No. 94 requires the consolidation of majority-owned subsidiaries, the RUS Form 479, Financial and Statistical Report for Telecommunications Borrowers, shall be prepared on an unconsolidated basis by all borrowers.

107 Allowance for Funds Used During Construction

A. Statement of Financial Accounting Standard No. 34, Capitalization of Interest Cost, established the standards for capitalizing interest cost as a part of the historical cost of acquiring certain assets. In order to capitalize interest, the asset must require a period of time to complete or to get it ready for its intended use. This standard applies to all entities that construct facilities for their own use and should be applied by RUS Telecommunications borrowers as follows:

1. Only actual interest costs incurred on external borrowings qualify to be capitalized. The interest rate used to calculate the amount of interest to be capitalized is based on the companies external borrowings. If a construction project is associated with specific debt, the interest rate on that debt is used to calculate interest cost to be capitalized. If the project is not associated with a specific debt, a weighted average of the rates of all existing debt shall be applied to expenditures for the project. There is no materiality threshold for adoption of this standard (47 CFR 32.26).

2. If a borrower is involved in a joint construction project, all determinations as to the amount of interest incurred and qualified for capitalization must be based on individual financing arrangements with regard to the Interest During Construction rules.

3. The capitalization period shall end when the asset is substantially complete and ready for its intended use.

Disclosures

A. The following information with respect to interest cost shall be disclosed in the financial statements or related notes:

1. For an accounting period in which no interest cost is capitalized, the amount of interest cost incurred and charged to expense during the period.

2. For an accounting period in which some interest cost is capitalized, the total amount of interest cost incurred during the period and the amount thereof that has been capitalized.

108 Reporting Comprehensive Income

A. In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income. This statement requires that all items that meet the definition of the components of comprehensive income be reported in the financial statements for the period in which they are recognized. Statement 130 establishes a distinction between *comprehensive income* and *other comprehensive income*.

1. *Comprehensive income* is composed of net income and *other comprehensive income*. The net income is the result of operations resulting from the aggregation of revenues, expenses, gains and losses that are not items that comprise other comprehensive income.

2. *Other comprehensive income* is composed of the following:

(a) Foreign currency items,

(b) Minimum pension liability adjustments, and

(c) Unrealized gains and losses on certain investments in debt and equity securities. Gains or losses on investment securities included in the net income of the current period that also had been included in other comprehensive income as unrealized holding gains or losses in a prior period must be adjusted (called reclassification adjustments) in the presentation of other comprehensive income in the current period.

B. *Comprehensive income* expressed as a formula would be:

Net Income ± items of *other comprehensive income = comprehensive income*

While Statement 130 requires that comprehensive income should be divided into two broad display classifications, net income and other comprehensive income, it does not prescribe a specific format for displaying comprehensive income in the financial statements.

C. RUS Telecommunications borrowers that present a single Statement of Operations and Patronage Capital should present the components of *other comprehensive income* below the total for net income and then present the reconciliation of patronage capital (Retained Earnings). Borrowers that present a separate Statement of Patronage Capital (or Retained Earnings) should display the beginning balance of patronage capital (or retained earnings), net income for the period, other items of comprehensive income and total comprehensive income before the presentation of other items of patronage capital (or retained earnings) for the period.

109 Disclosures about Pensions and Other Postretirement Benefits

A. Statement of Financial Accounting Standards (SFAS) No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits, issued in February 1998, is effective for fiscal years beginning after December 15, 1998. This statement revises employers' disclosure requirements for pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. The statement also permits reduced disclosures for nonpublic entities, which are defined as any entity other than one:

1. Whose debt or equity securities trade in a public market either on a domestic or foreign stock exchange or in the over-the-counter market, including securities quoted only locally or regionally,

2. That makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market, or

3. That is controlled by an entity covered by 1 or 2 above.

Public Entities and Those Controlled by Public Entities

A. A commercial RUS Telecommunications borrower that meets the definition of a public entity and sponsors one or more defined benefit pension or postretirement benefit plan shall provide the following information on a comparative basis for the statements presented:

1. A reconciliation of beginning and ending balances of the benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:

(a) Service cost,

(b) Interest cost,

(c) Contributions by plan participants,

(d) Actuarial gains and losses,

(e) Foreign currency exchange rate changes,

(f) Benefits paid,

(g) Plan amendments,

(h) Business combinations,

(i) Divestitures,

(j) Curtailments,

(k) Settlements, and

(l) Special termination benefits.

2. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following:

(a) Actual return on plan assets,

(b) Foreign currency exchange rate changes,

(c) Contributions by the employer,

(d) Contributions by plan participants,

(e) Benefits paid,

(f) Business combinations,

(g) Divestitures, and

(h) Settlements.

3. The funded status of the plans, the amounts not recognized in the statement of financial position, and the amounts recognized in the statement of financial position, including:

(a) The amount of any unamortized prior service cost.

(b) The amount of any unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value).

(c) The amount of any remaining unamortized, unrecognized net obligation or net asset existing at the initial date of application of SFAS No. 87, Employers' Accounting for Pensions, or SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions.

(d) The net pension or other postretirement benefit prepaid assets or accrued liabilities.

(e) Any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of SFAS No. 87, as amended.

4. The amount of net periodic benefit cost recognized, showing separately:

(a) The service cost component,

(b) The interest cost component,

(c) The expected return on plan assets for the period,

(d) The amortization of the unrecognized transition obligation or transition asset,

(e) The amount of recognized gains and losses, the amount of prior service cost recognized, and

(f) The amount of gain or loss recognized due to a settlement or curtailment.

5. The amount included within other comprehensive income for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 37 of SFAS No. 87, as amended.

6. On a weighted-average basis, the following assumptions used in the accounting for the plans:

(a) Assumed discount rate,

(b) Rate of compensation increase (for pay-related plans), and

(c) Expected long-term rate of return on plan assets.

7. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved.

8. The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on (for purposes of this disclosure, all other assumptions shall be held constant, and the effects shall be measured based on the substantive plan that is the basis for the accounting):

(a) The aggregate of the service and interest cost components of net periodic postretirement health care benefit cost, and

(b) The accumulated postretirement benefit obligation for health care benefits.

9. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period.

10. If applicable, any alternative amortization method used to amortize prior service amounts or unrecognized net gains and losses pursuant to paragraphs 26 and 33 of SFAS No. 87 or paragraphs 53 and 60 of SFAS No. 106.

11. If applicable, any substantive commitment, such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation.

12. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event.

13. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures.

B. RUS Telecommunications borrowers that sponsor two or more pension or postretirement plans may aggregate the required disclosures. If the disclosures are aggregated, the aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets must be disclosed.

C. RUS Telecommunications borrowers sponsoring defined contribution plans shall disclose the amount of cost recognized for defined contribution pension or other postretirement benefit plans during the period separately from the amount of cost recognized for defined benefit plans. The disclosures shall include a description of the nature and effect of any significant changes during the period affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture.

Nonpublic Entities

A. RUS commercial and cooperative type borrowers that meet the definition of a nonpublic entity, as previously defined, may elect to meet the following reduced disclosure requirements:

1. The benefit obligation.
2. Fair value of plan assets.
3. Funded status of the plan.
4. Employer contributions.
5. Participant contributions.
6. Benefits paid.
7. The amounts recognized in the statement of financial position, including the net pension and other postretirement benefit prepaid assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of SFAS No. 87, as amended.
8. The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of SFAS No. 87, as amended.
9. On a weighted-average basis, the following assumptions used in the accounting for the plans: Assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets.
10. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved.
11. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period.
12. The nature and effect of significant nonroutine events, such as amendments, combinations, divestitures, curtailments, and settlements.

B. The majority of RUS Telecommunications borrowers will fall within the definition of nonpublic entities with exception of those held by publicly traded holding companies.

Multiemployer Plans

A. An RUS Telecommunications borrower shall disclose the amount of contributions to multiemployer plans during the period. The borrower may disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pensions and other postretirement benefits. The disclosures shall include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture.

B. In some cases, withdrawal from a multiemployer plan results in an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation. If it is either probable or reasonably possible that (a) an employer would withdraw from the plan under circumstances that would give rise to an obligation or (b) an employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage, the employer shall apply the provisions of SFAS No. 5, Accounting for Contingencies.

DISCLOSURE MATRIX

	Public entities	Nonpublic entities
Change in benefit obligation:		
Benefit obligation beginning of year	X	....
Service Cost	X	....
Interest Cost	X	....
Actuarial Gain	X	....
Plan Amendments	X	....
Benefits Paid	X	....
Benefit obligation at end of year	X	X
Change in plan assets:		
Fair value of plan assets beginning of year	X	....
Actual return on plan assets	X	....
Employer Contribution	X	X
Contributions by plan participants	X	X
Benefits Paid	X	X
Fair value of plan assets at end of year	X	X
Funded status:		
Unrecognized net actuarial loss (gain)	X	X
Unamortized prior service cost	X	X
Unrecognized transition obligation	X	X
Prepaid (Accrued) benefit cost	X	X
Weighted-average assumptions as of December 31:		
Discount rate	X	X
Expected return on plan assets	X	X
Rate of compensation increase	X	X
Components of net periodic benefit cost:		
Service cost	X	....
Interest cost	X	....
Expected return on plan assets	X	....
Amortization of prior service cost	X	X
Amortization of transition obligation	X	X
Recognized net actuarial loss	X	X
Net periodic benefit cost	X	X

[61 FR 39847, July 31, 1996, as amended at 70 FR 25758, May 16, 2005]

PART 1773—POLICY ON AUDITS OF RUS BORROWERS

Subpart A—General Provisions

Subpart B—RUS Audit Requirements

Subpart C—RUS Requirements for the Submission and Review of the Auditor's Report, Report on Compliance and on Internal Control Over Financial Reporting, and Management Letter

Subpart D—RUS Reporting Requirements