

The image is a promotional graphic for a seminar. It features a background of a utility pole with power lines against a light blue sky. The text is arranged in several sections: a logo in the top left, a title in the center, a presenter line, and a welcome message at the bottom. The MOSS-ADAMS logo is in the bottom right corner.

100 years THAT COUNTS 1913-2013

2013
SEMINARS
FOR THE RURAL TELECOM INDUSTRY

Presented by the Moss Adams Communications & Media Practice and COBANK

Welcome To: Budgeting,
Forecasting & Benchmarking

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants
Acumen. Agility. Answers.

- The material appearing in this presentation is for informational purposes only and is not legal or accounting advice. Communication of this information is not intended to create, and receipt does not constitute, a legal relationship, including, but not limited to, an accountant-client relationship. Although these materials may have been prepared by professionals, they should not be used as a substitute for professional services. If legal, accounting, or other professional advice is required, the services of a professional should be sought.

Housekeeping

- Moss Adams Telecom Group Seminars
- Completion certificate for CPA continuing education credit
- Fill out evaluations as you go – in booklet
- Do you have your scorecard??
- Talk and use phones in elevator area
- Schedule

3

MOSS-ADAMS_{LLP}

Introductions

- Class
 - Name, Company and State, Job title or function
 - Size of company (# lines; # employees)
 - Why are you here???
 - Do you budget, forecast all statements, use benchmarks?
 - If you budget – do you use Excel or Forecasting software?
- Presenters
 - Expect the class to be specific for ILEC telcos
 - We will be more practical than theoretical
 - Geared for the inexperienced

4

MOSS-ADAMS_{LLP}

- Let's start with the philosophical issues !!
-This intro section is the most important?

5

MOSS-ADAMS_{LLP}

Accountant – What do we do best

(Betts definition)

- Monitors internal controls and transactions
- Reports on past activities
 - General ledger
 - Financial Statements
 - Other reports
- Budgets
- Analyzes financial data
- Financial strategy
 - Sets goals
 - Implements goals

6

MOSS-ADAMS_{LLP}

This class is about priorities!!!

- Accountants tend to care about:
 - Quantifying the past
 - Compliance work - reports
 - Deadlines
- Owners/General Managers/CEO's care about:
 - The future
 - Analysis
 - Strategy

7

MOSS-ADAMS_{LLP}

How do you spend your time?

- X %
 - Quantifying the past
 - Compliance work
 - Deadlines
- Y %
 - The future
 - Analysis
 - Strategy

8

MOSS-ADAMS_{LLP}

Survey

85% of management teams spend less than 1 hour per month discussing strategy

Why CEO's Fail
Ram Charan and Geoffrey Colvin
Fortune 6/21/99

9

MOSS-ADAMS_{LLP}

Accountants earn respect

- Focus on strategy
 - Identify the issues (not on the details)
 - Find solutions (not point out problems)
 - Manage the effort (rather than do the work)
 - Discover the new thing (not trapped in routine)
 - Be a strong communicator

10

MOSS-ADAMS_{LLP}

RLEC accounting more vulnerable to a compliance focus

1. More reporting requirements
2. Traditional heavy role of consultants
3. Lack of competition (minimizes incentive to be strategic)
4. Interstate settlements is has been the ultimate safety net

11

MOSS-ADAMS_{LLP}

Telergee survey, June 2012

- 78% of companies do an expense, capital expenditures budget
- 39% of companies do a multi-year forecast of BS, IS & CF
- BUT only 180 out of 232 companies responded to the question

12

MOSS-ADAMS_{LLP}

So remember.....

- This is first an issue of
 - Priority
 - Commitment
 - Our view of our own role in the company
- Then, as a distant second, it's a technical “how to” topic

13

MOSS-ADAMS_{LLP}

This is version 7 (at least) of this class

- Old: forecast, then budget, then demo some Excel templates and forecasting software
- Version 7.0 – simultaneously present:
 1. Budget vs. Forecast
 2. 11 step process – general comments and observations
 3. Class discussion of your internal approach, tips, etc
 4. Demonstration of Moss Adams excel application
 5. Class questions and suggestions
- Finish with benchmarking

14

MOSS-ADAMS_{LLP}

This is not a pitch for Moss Adams forecasting template

- We will discuss forecasting software
- But will use Excel model (MAPS - linked to our cost study allocator) as a basis for demonstrating the 11 step process, including formulas

Let's start with the negative

What's wrong with Budgeting?

What's wrong with Budgeting?

- **Takes too long to prepare**

17

MOSS-ADAMS_{LLP}

What's wrong with Budgeting?

- **Takes too long to prepare**

Opportunity cost

Things that matter the most

***Must never be at the mercy of things
that matter the least***

– Johann Wolfgang von Goethe

18

MOSS-ADAMS_{LLP}

What's wrong with Budgeting?

- Takes too long to prepare
- **Internally focused**

19

MOSS-ADAMS_{LLP}

What's wrong with Budgeting?

- Takes too long to prepare
- Internally focused
- **It's a weak control**

20

MOSS-ADAMS_{LLP}

What's wrong with Budgeting?

- Takes too long to prepare
- Internally focused
- It's a weak control
- **Becomes out-of-date**

21

MOSS-ADAMS_{LLP}

What's wrong with Budgeting?

- Takes too long to prepare
- Internally focused
- It's a weak control
- Becomes out-of-date
- **Too much detail**

22

MOSS-ADAMS_{LLP}

What's wrong with Budgeting?

- Takes too long to prepare
- Internally focused
- It's a weak control
- Becomes out-of-date
- Too much detail
- **Tendency to “game the numbers”**

23

MOSS-ADAMS_{LLP}

What's wrong with Budgeting?

- Takes too long to prepare
- Internally focused
- It's a weak control
- Becomes out-of-date
- Too much detail
- Tendency to “game the numbers”

24

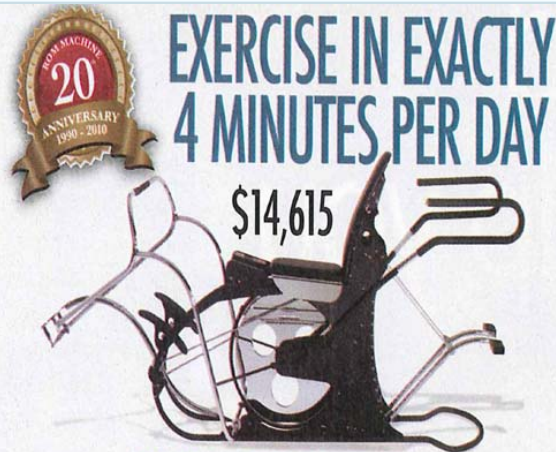
MOSS-ADAMS_{LLP}

***The budget is a tool of
repression rather than
innovation***

- Bob Lutz, former CEO, Chrysler

25

MOSS-ADAMS LLP



**EXERCISE IN EXACTLY
4 MINUTES PER DAY**

\$14,615

EXPENSIVE BUT FANTASTIC!

Same or better results in exactly 4 minutes on the ROM Machine as from 60 to 90 minutes in a gym... unbelievable but true!

That's why over 97% of people who try the ROM for a 30 day rental buy it.

26

MOSS-ADAMS LLP

What would it be like to Budget on the ROM?

- Exhilarating
- No disruptive process – efficient use of time
- Reliable, accurate
- Respected
- Always up to date
- Utilized in decision making

27

MOSS-ADAMS_{LLP}

Think about “the Dream” as Forecasting not budgeting

28

MOSS-ADAMS_{LLP}

Contrast

BUDGET

- **1 year**

FORECAST

- **5 years**

Contrast

BUDGET

- 1 year
- **Control**

FORECAST

- 5 years
- **Strategy**

Contrast

BUDGET

- 1 year
- Control
- **Income statement**

FORECAST

- 5 years
- Strategy
- **Multi dimensional**

31

MOSS-ADAMS_{LLP}

Contrast

BUDGET

- 1 year
- Control
- Income statement
- **Detailed**

FORECAST

- 5 years
- Strategy
- Multi dimensional
- **High level**

32

MOSS-ADAMS_{LLP}

Contrast

BUDGET

- 1 year
- Control
- Income statement
- Detailed
- **Static**

FORECAST

- ✓ • 5 years
- ✓ • Strategy
- ✓ • Multi dimensional
- ✓ • High level
- ✓ • **Dynamic**

So to be more precise.....

**The budget should be the 1st
year of a 5 year forecast**

Before you start.....3 prerequisites...

1. Believe in the value - what are the costs and benefits
2. Get CEO/Board buy-in and commitment
3. It all starts with understanding your financial statements and expecting them to be accurate.....

35

MOSS-ADAMS_{LLP}

Indicators accounting is not accurate

1. Adjustments in the current month that relate to previous months
2. Large NECA adjustments
3. Failure to record subsidiary income/loss at the parent each month
4. Significant year end audit adjustments

36

MOSS-ADAMS_{LLP}

Indicators accounting is not accurate

5. Depreciation doesn't reflect current year additions
6. Work orders not closed until the end of the year
7. Plant retirements done half heartedly
8. Pervasive problems with subsidiary accounting
9. Income tax liability estimates not current
10. Reg / non-reg allocations not booked

37

MOSS-ADAMS LLP

If your accounting is in arrears

- Fix this first
- ?? – Are you in arrears by days or months



38

MOSS-ADAMS LLP

Modify G/L accounts

- Disaggregate significant accounts – for example
 - Carrier accounts receivable
 - Access revenues (access billings, USF, end user, CLEC, settlements, true-up's)
- Aggregate insignificant accounts
 - Generally we see too few balance sheet accounts and too many income statement accounts
 - Don't try to fit deregulated operations into Part 32 functional accounting (maybe, maybe not)



39

MOSS-ADAMS LLP

Understand drivers of each account

- Assets
- Liabilities
- Revenues
- Expenses

Seems simple, but in practice many accountants don't think this way.



40

MOSS-ADAMS LLP

Restated

1 2 3

- Get the books in order
- Make sure you understand them completely
- What should the number be – you develop an “expectation”
 - If you find that you spot problems just by looking at the data, you are probably in good shape on steps 1, 2 & 3
 - Don’t underestimate the importance of this concept, if you do your forecasts will suffer

41

MOSS-ADAMS LLP

Understand your company’s strengths and weaknesses

- Many accountants don’t really have a handle on this – benchmarking is critical
- How can you set goals and be strategic if you don’t?
- Our benchmarking section is a start
- But SWOT analysis and strategic planning is really beyond the scope of this class
- Examples:
 - Equity is too low
 - Inventory is too high

4

42

MOSS-ADAMS LLP

Consider Report Reformatting

- Your report format should mean something to the users – not just the accountants
- Consider the following

Revised Format			Old School Format
	2012	2011	
Operating revenues			Operating revenues
Wireline	\$ 20,500,000	\$ 21,200,000	Local network services
		See detail in reveune footnote	Interstate access revenue
Internet	3,000,000	2,500,000	Intrastate access revenue
Television	4,500,000	3,000,000	Long distance network services
Wireless	2,500,000	2,300,000	Miscellaneous
Miscellaneous	1,310,000	1,800,000	Billing and collection
			Nonregulated
			Uncollectible
	31,810,000	30,800,000	
Operating expenses			Operating expenses
Plant specific operations	4,200,000	4,400,000	Plant specific operations
Plant nonspecific operations	1,800,000	1,700,000	Plant nonspecific operations
Depreciation and amortization	5,300,000	5,500,000	Depreciation and amortization
Customer operations	2,000,000	2,200,000	Customer operations
Corporate operations	2,900,000	3,100,000	Corporate operations
Other operating taxes	700,000	900,000	Other operating taxes
Nonregulated	11,300,000	9,300,000	Nonregulated
	28,200,000	27,100,000	
Operating margins	3,610,000	3,700,000	Operating margins
Nonoperating income (expense)			Nonoperating income (expense)
Interest and dividend income	600,000	400,000	Interest and dividend income
Loss on disposal and impairment of assets	(200,000)	-	Loss on disposal and impairment of assets
Amortization	(100,000)	-	Amortization
Interest expense	(2,000,000)	(2,000,000)	Interest expense
Allowance for funds used during construction	20,000	50,000	Allowance for funds used during construction
Other nonoperating expense	(220,000)	(80,000)	Other nonoperating expense
	(1,900,000)	(1,630,000)	
Margins before income taxes	1,710,000	2,070,000	Margins before income taxes
Income tax expense	(70,000)	(70,000)	Income tax expense

	2012	2011	
Operating Revenue detail			
Wireline - Incumbent lines			
Customer	\$ 6,000,000	\$ 6,300,000	Includes local, features, long distance and recip comp
Interstate access revenue	6,920,000	7,230,000	
Intrastate access revenue	1,750,000	1,460,000	
Universal service support - Federal	4,980,000	5,480,000	High cost fund (HCLS) and LSS, ICLS, etc.
Universal service support - State			
	<u>19,650,000</u>	<u>20,470,000</u>	
Wireline - Competitive lines			
Customer	\$ 700,000	\$ 600,000	
Interstate access revenue	80,000	70,000	
Intrastate access revenue	50,000	40,000	
Universal service support - Federal	20,000	20,000	High cost fund (HCLS) and LSS, ICLS, etc.
Universal service support - State			
	<u>850,000</u>	<u>730,000</u>	
Total Wireline revenues	<u>20,500,000</u>	<u>21,200,000</u>	
Wireless			
Customer	\$ 1,250,000	\$ 1,150,000	includes plans, data plans, minutes, texting, long distance, roaming from customers
Roaming	500,000	600,000	roaming from carriers
Handset sales, net	(250,000)	(300,000)	Sales, net of equipment costs
Universal service support - Federal	1,000,000	850,000	
Universal service support - State			
Total Wireless revenues	<u>2,500,000</u>	<u>2,300,000</u>	
Miscellaneous			
Equipment sales, net	\$ 1,000,000	\$ 1,500,000	Sales, net of equipment costs
Rent	100,000	90,000	
Billing and collecting	155,000	155,000	
Other	75,000	75,000	
Uncollectible	(20,000)	(20,000)	
Total Wireless revenues	<u>1,310,000</u>	<u>1,800,000</u>	

45

MOSS-ADAMS LLP

ASSETS		Explanation	ASSETS	
Revised format	Existing Format		Existing Format	
December 31,			2011	
	2012	2011		
CURRENT ASSETS				
Cash and cash equivalents	\$ 9,000,000	\$ 6,000,000	Cash and cash equivalents	\$ 6,000,000
Investments in certificates of deposits	3,000,000	1,500,000	Investments in certificates of deposits	1,500,000
Subscriber receivables	2,000,000	2,000,000	Subscriber receivables	2,000,000
Settlement and access accounts receivable	1,000,000	1,500,000	Settlement and access accounts receivable	1,500,000
Other accounts receivable	700,000	500,000	Other accounts receivable	500,000
Material and supplies	800,000	1,500,000	Material and supplies	1,500,000
Deferred tax asset	40,000	30,000	Deferred tax asset	30,000
Other current assets	300,000	300,000	Other current assets	300,000
Total current assets	<u>16,840,000</u>	<u>13,330,000</u>	Total current assets	<u>13,330,000</u>
NONCURRENT ASSETS				
Investment in nonaffiliates	2,300,000	2,500,000	Investment in nonaffiliates	2,500,000
Investments in certificates of deposits	100,000	700,000	Investments in certificates of deposits	700,000
Available for sale securities	1,100,000	300,000	Available for sale securities	300,000
Intangible assets	2,100,000	1,500,000	Intangible assets	1,500,000
Goodwill	8,000,000	8,000,000	Nonregulated investments	5,700,000
Deferred charges	-	10,000	Deferred charges	10,000
	<u>13,600,000</u>	<u>13,010,000</u>		<u>10,710,000</u>
PROPERTY, PLANT, AND EQUIPMENT				
Telecommunications plant in service	100,000,000	101,000,000	Telecommunications plant in service	101,000,000
Telecommunications plant under construction	2,000,000	1,800,000	Telecommunications plant under construction	1,800,000
Nonregulated plant in service	16,500,000	15,200,000	Goodwill	8,000,000
Nonregulated plant under construction	300,000	700,000		
	<u>118,800,000</u>	<u>118,700,000</u>		<u>110,800,000</u>
Less accumulated depreciation and amortization	65,000,000	64,000,000	Less accumulated depreciation and amortization	53,800,000
	<u>53,800,000</u>	<u>54,700,000</u>		<u>57,000,000</u>
	\$ 84,240,000	\$ 81,040,000		\$ 81,040,000

46

MOSS-ADAMS LLP

Now you are ready to implement

- Define a process
 - Who is involved
 - Timeline
 - What is the end product
 - How will it be used
- Obtain buy-in by establishing the benefit
 - Top down strategy
 - Bottom up involvement from the departments
 - Don't underestimate the importance of obtaining the mandate to forecast and set strategic goals

47

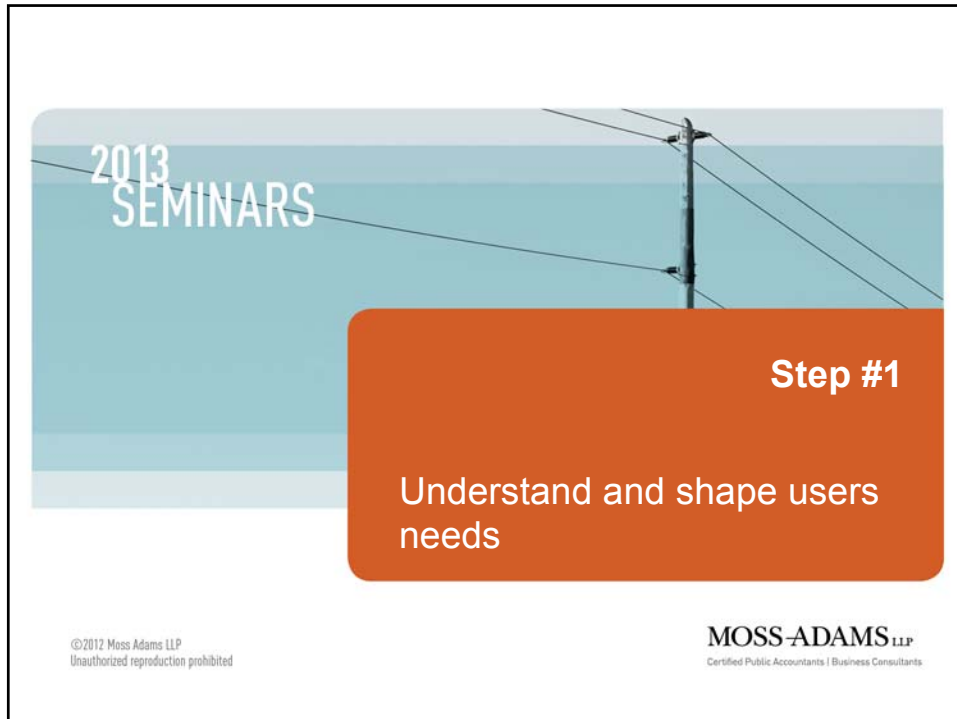
MOSS-ADAMS_{LLP}

Forecasting - 11 step Process

1. Understand and "shape" users needs
2. Plan (High level or detailed - Excel vs. Forecasting software)
3. Establish preventive controls where needed
4. Design forms and input historical data
5. Develop capital expenditures budget
6. Develop labor and expense assumptions
7. Develop revenue assumptions
8. Balance sheet assumptions
9. Run initial drafts of financial statements – kick the tires
10. Document assumptions, risks & issues to be resolved
11. Consensus, publish, present and take action steps

48

MOSS-ADAMS_{LLP}

A presentation slide with a background image of a utility pole and power lines against a blue sky. The text '2013 SEMINARS' is in the top left. A large orange rounded rectangle on the right contains the text 'Step #1' and 'Understand and shape users needs'. At the bottom left is a copyright notice, and at the bottom right is the 'MOSS-ADAMS LLP' logo.

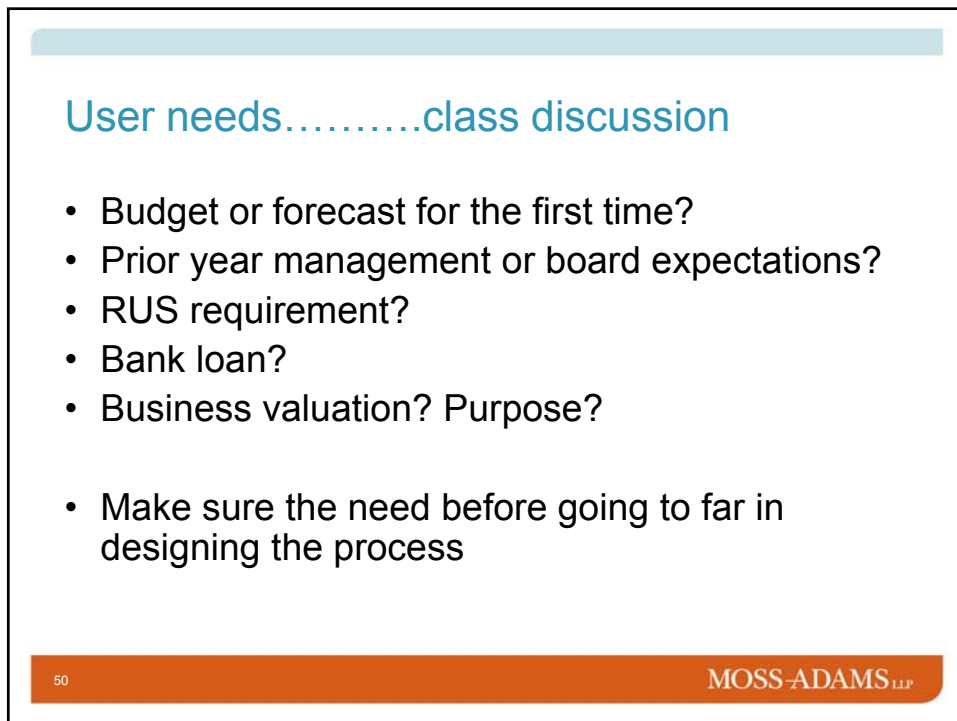
2013
SEMINARS

Step #1

Understand and shape users
needs

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

A presentation slide with a light blue header bar. The title 'User needs.....class discussion' is in blue. Below is a bulleted list of questions. At the bottom left is the number '50', and at the bottom right is the 'MOSS-ADAMS LLP' logo.

User needs.....class discussion

- Budget or forecast for the first time?
- Prior year management or board expectations?
- RUS requirement?
- Bank loan?
- Business valuation? Purpose?

- Make sure the need before going to far in designing the process

50

MOSS-ADAMS LLP

2013
SEMINARS

Step #2

High level or detailed level
Excel or Forecasting software

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

High level or detailed traditional approach

- Point already has been made
- Class discussion related to areas of detail that are valuable or not from your experience?
- Discussion on Activity codes

Deciding on the tool

- Excel
 - Easy, everyone is comfortable with the software basics
 - Formulas are difficult to reverse engineer
 - Turnover can wreak havoc with complex spreadsheets
 - Lack of documentation
 - Designing reports is a hassle
 - Problems overriding formulas with data
- Forecasting software
 - Can be costly to achieve flexibility
 - Great reporting and scenario planning
 - Integrate with GL for monthly updated rolling forecast
 - Built in controls to avoid mistakes
 - The more functionality, the more complex to operate requiring internal knowledge of the software

53

MOSS-ADAMS LLP

2013
SEMINARS

Step #3

Establish preventative
controls

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

Will the budget be used as a control?

1. Preventative control vs. explanation after the fact?
2. Reality – most companies only use the budget to prevent certain expenses and generally guide capital expenditures.
3. Know the answer to this question before designing the budget
4. Make sure the control is effective
5. Or – develop other controls related to cost control
 - Overtime, travel expense, etc

55

MOSS-ADAMS_{LLP}

2012 class attendee “I care about controlling 5 costs”

1. Labor and overtime
2. Marketing costs
3. Bandwidth/special circuits
4. Capital expenditures
5. Video programming

56

MOSS-ADAMS_{LLP}

2013
SEMINARS

Step #4

Design forms
Input historical data

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

Process tips

1. Limit the amount of data, especially in non-important areas
2. Standardize forms and the document the process
3. Share the data broadly
4. Only add complexity to your models if you can maintain it in the future and it is cost justified to the use of the model
 - Test – is there someone other than the developer that can run the model

58

MOSS-ADAMS LLP

Process tips

5. Streamline reviews and approvals
6. Tie strategy to the forecast
7. Revise the forecast regularly, not the budget
8. Tie compensation to strategy and industry performance – not to the budget

59

MOSS-ADAMS LLP

Annual Timeline

- Timeline for an approved budget needs to consider
 - Strategic Plan
 - Lender's requirement
 - New financing needs
 - External reporting needs such as cost study forecasts
 - Audit needs, such as impairment of goodwill, investment, or fixed assets.

60

MOSS-ADAMS LLP

3 components to a Budget

- Salaries & Wages - by November 1
- Capital Expenditures - by November 1
- Revenues and Expenses with all three Financial Statements - by December 1

61

MOSS-ADAMS LLP

2013
SEMINARS

Step #5

Capital budget

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

Capital Budget - User Needs

- The Board
- The General Manager
- Department Managers
- Accounting
- The Accounting Information System
- External Users

63

MOSS-ADAMS LLP

Capital Budget Development

- Cash flow is projected using previous year budget.
- Work from previous year is reviewed and brought to the current budget effort.
- **What can REASONABLY be achieved?**
- Develop a team of all capital players so all participate and understand in the setting of priorities.

64

MOSS-ADAMS LLP

Capital Budget Development

- Wish list is trimmed to meet cash expectations.
- Priorities are set and timing of expenditures planned.
- All parties gain an understanding of entire company needs.

65

MOSS-ADAMS LLP

Capital Budget Development

- Decide what happens if projects for a specific group's responsibility comes in under budget.
 - Does that group by default have the authority to spend the dollars on projects not planned or budget?
 - Do the dollars come back to management to reassign based on needs determined by management?
- The following worksheets is one way to force the process of future thinking of Asset Management.

66

MOSS-ADAMS LLP

FURNITURE & COMPUTERS

DESCRIPTION	REQUEST BY	Note	QTR	Priority	2013	2014	2015	2016	2017
SOFTWARE	KLS		3	1	15,000	10,000	10,000	10,000	10,000
COPIER REPLACEMENTS	KLS	1	2	3	8,000	3,500	3,500	3,500	5,000
COMPUTER EQUIPMENT	KLS		1,2,3	2	15,000	15,000	20,000	20,000	20,000
LASER PRINTER	KLS			4	10,500			10,000	
MAIN COMPUTER UPGRADE							15,000		
	MST				include in contingency				
KVM Switcher	ENGR		4	2	2,400				
SOFTWARE	ENGR	1		1	15,000				
PLANT SOFTWARE	ENGR					15,000	5,000	10,000	5,000
ENGR Printer	ENGR	2		3	6,000				
NETWORK SERVER	ENGR					4,800		6,000	
Handheld devices for the Techs						6,800			
FURNITURE & COMPUTER CONTINGENCY	KLS			5	5,000		5,000	5,000	5,000
Total					76,900	60,100	58,500	64,500	45,000

(3) Two large copiers are getting to end of maintenance life per Xerox. Recommend we plan replacement with one large copier in 2009 and then replace one copier per year with smaller copiers.

Ties to depreciation schedule

CAPITAL BUDGET SUMMARY

	2013	2014	2015	2016	2017
<i>W/O Type</i>					
42 Central Office Switching	552,800	354,150	127,000	100,000	300,000
43 Transmission Equipment	227,300	246,800	262,000	213,600	222,700
22 Outside Plant	1,588,102	1,029,567	838,755	616,773	534,187
64 Vehicles	6,000	176,000	195,000	188,000	205,000
65 Land & Buildings	45,500	72,000	20,000	20,000	20,000
61 Pagers/Cellulars/Radios	21,735	3,000	3,000	3,000	3,000
63 Tools & Test Equipment	53,400	48,900	70,000	40,000	85,000
62 Furniture & Computers	76,900	60,100	58,500	64,500	45,000
50 Special Projects	1,584,706	1,456,879	3,817,434	1,216,965	1,370,862
	4,156,443	3,447,397	5,391,689	2,462,838	2,785,749

Priorities

W/O Type	#1	#2	#3	#4	#5	Contingency	TOTAL	Less #5
42 Central Office Switching	280,300	60,000	157,500	15,000	40,000	-	552,800	512,800
43 Transmission Equipment	65,300	105,000	38,000	9,000	10,000	-	227,300	217,300
22 Outside Plant	884,299	293,389	112,048	243,366	55,000	-	1,588,102	1,533,102
64 Vehicles	-	-	6,000	-	-	-	6,000	6,000
65 Land & Buildings	40,000	-	-	-	5,500	-	45,500	40,000
61 Pagers/Cellulars/Radios	11,125	-	7,610	-	3,000	-	21,735	18,735
63 Tools & Test Equipment	-	41,400	8,500	-	3,500	-	53,400	49,900
62 Furniture & Computers	30,000	17,400	14,000	10,500	5,000	-	76,900	71,900
50 Special Projects	1,250,000	43,106	-	291,600	-	-	1,584,706	1,584,706
Total	2,561,024	560,295	343,658	569,466	122,000	-	4,156,443	4,034,443

Priority Definitions

- 1 Essential
- 2 Increase Revenue or Decrease Cost
- 3 Mid term benefits (2-3 years)
- 4 Long term benefits (4-5 years)
- 5 Enhance workplace or make jobs easier

not included in depreciation calculation

Priorities #4, #5, & contingency need permission to be spent in current year.

Quarterly Spending Forecast

Priorities #1, #2, #3, Most of #4

W/O Type	1st	2nd	3rd	4th	Total	Priority #4 not included in quarter forecast
42 Central Office Switching	283,300	15,000	175,000	39,500	512,800	0
43 Transmission Equipment	57,050	62,083	49,083	40,083	208,300	9000
22 Outside Plant	164,543	695,009	389,749	283,801	1,533,102	
64 Vehicles	0	0	0	0	0	6000
65 Land & Buildings	40,000	0	0	0	40,000	
61 Pagers/Cellulars/Radios	0	14,930	3,805	0	18,735	
63 Tools & Test Equipment	36,900	8,000	5,000	0	49,900	
62 Furniture & Computers	20,000	19,000	20,000	2,400	61,400	10500
50 Special Projects	250,000	608,840	369,454	356,412	1,584,706	
Totals	851,793	1,422,862	1,012,091	722,196	4,008,943	25,500

This worksheet attempts to schedule projects to forecasted cash

- Reports are reviewed comparing actual costs to budgeted costs per project or workorder.
- Projects 10% over budget require specific General Manager review.

Depreciation Budget

- Calculated after Capital Budget is completed.
- Prepared in separate file then linked to main budget file.
- Use mid-year or quarterly convention for additions & retirements.
- Decide if low priority items are included in calculation.

ENTER RETIREMENTS AS A NEGATIVE!!!!

2009 - 2013 BUDGET

CALCULATION OF DEPRECIATION EXPENSE FOR ANNUAL BUDGET

ACCOUNT	ACCOUNT DESCRIPTION	ANNUAL DEPR RATE	ESTIMATED 12/31/2012 ASSET BALANCE	ESTIMATED 12/31/2012 ACCUM DEPR BALANCE	2013 ADDITION	2013 RETIRE	2013 DEPR EXPENSE	12/31/2013 ASSET BALANCE	12/31/2013 ACCUM DEPR BALANCE	2014 ADDITION	2014 RETIRE
2111.00	Land		0	127,573							
2112.00	Vehicles	schedule	945,912	735,500	Note B		112,009				176,000
2116.00	Other Work Equipment	19.40%	302,736	302,745	49,900		12,466	352,636	315,211		48,900
2121.00	Buildings	3.50%	1,772,705	857,202			62,045	1,772,705	919,247		30,000
2122.00	Furniture & Fixtures	11.40%	138,504	138,504			0	138,504	138,504		
2123.10	Office Support Equipment	20.00%	65,180	65,180			0	65,180	65,180		
2123.20	Company Communicatio	20.60%	52,956	47,013	104,779		16,305	157,736	63,318		3,000
2124.00	General Purpose Compl	11.50%	393,227	315,900	71,000		47,288	465,127	363,188		60,100
2210.00	c, c, c, Switching	8.00%	6,295,565	5,195,505	512,800		513,901	6,808,365	5,709,406		354,150
2231.10	MIS & Pager Systems	12.20%	63,910	63,910	11,125		2,751	75,035	66,691		
2231.20	Microwave Radio Teleph	12.20%	138,667	88,139			16,917	138,667	105,056		
2232.00	Circuit Equipment	8.00%	5,086,428	3,196,398	688,300		420,680	5,774,728	3,617,079		217,800
2351.00	Public Telephones Equipr	20.60%	81,598	76,296			5,300	81,598	81,598		
2411.10	Pole Lines	12.50%	124,097	124,380			(283)	124,097	124,097		
2411.20	Radio Towers	7.00%	14,190	13,264			507	14,190	14,190		
2421.00	Aerial Cable	11.00%	596,540	599,606			(3,066)	596,540	596,540		
2422.00	Underground Cable	5.00%	338,663	253,731	43,106		17,472	381,769	271,203		
2422.10	Underground Cable - fibr	7.00%	95,231	39,850			6,666	95,231	46,516		
2423.00	Buried Cable	5.00%	7,859,107	4,363,626	1,486,465		411,536	9,345,572	4,775,162		915,819
2423.10	Buried Cable - fiber	7.00%	2,643,633	1,090,383			185,054	2,643,633	1,275,438		80,748
2431.00	Aerial Wire	14.40%	26,566	26,566			0	26,566	26,566		
2441.00	Conduit Svstem	5.00%	1,131,835	443,803			56,592	1,131,835	500,395		
2690.00	TPS - Intangible	50.00%	14,413	14,413			0	14,413	14,413		
2121.90	BUILDINGS - C/LEC	3.50%	523,854	39,132	40000		19,034	563,634	58,156		42000
2210.90	SWITCHINGS - C/LEC	8.00%	7,204	913			576	7,204	1,489		
2232.90	CIRCUIT EQUIPMENT -	8.00%	1,069,896	156,456			85,592	1,069,896	242,048		
2421.90	AERIAL CABLE - C/LEC	11.00%	14,383	1,265			1,582	14,383	2,847		
2422.90	UNDERGROUND METE	5.00%	252,996	15,575			12,650	252,996	28,225		
2422.91	UNDERGROUND FIBER	7.00%	66,747	4,173			4,672	66,747	6,850		
2423.90	BURIED CABLE - C/LEC	5.00%	4,397,219	303,232	194431		224,722	4,591,650	527,953		607389
2441.90	CONDUIT SYSTEMS - C	5.00%	2,430,649	149,101			121,532	2,490,649	270,633		
2423.91	BURIED CABLE FIBER	7.00%	175,518	51,296			12,366	175,518	33,652		
2007.00	Goodwill	6.67%	641,780	42,784			42,807	641,780	85,591		
			37,890,451	18,786,266	3,202,806	0	2,409,694	40,019,771	20,348,451	2,535,906	0
			Note C								
NONREG ADDITIONS			6,427,489	1,663,597	75,637	0	469,667	6,503,126	2,133,254	469,400	0
					Note A	3,278,443			2,879,351		

Note A Ties to capital budget excluding priority 5 projects and investments not subject to depreciation and vehicles

Note B Vehicle depreciation comes from a separate schedule calculated by vehicle

Note C Ties to 6560 Depreciation in Budget excluding Goodwill

MOSS ADAMS LLP

Important Capital Budget points

1. Timing
 - Plant under construction and workorder closeouts
 - Additions/Retirements
 - Monthly, Quarterly, or Mid-year
2. Depreciation
 - By account or grouping
 - Account – more precise
 - Grouping – less precise
3. Categorization
 - Important for settlement calculations
4. Include labor
5. Calculate AFUDC
6. Tie out the additions worksheet to workorders

2013
SEMINARS

(MAPS - input of capital budget)

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

2013
SEMINARS

Step #6

The expense and labor
budget

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

Budgeting expenses – don't over do it!

1. Slash the number of expense accounts and the time you spend on preparing the budget
2. Focus on significant items (Payroll, Vendors, Large expense items), then budget expense groupings, rather than individual accounts
3. Use a department approach to more minor expense items to control expenditures
 - Plant, Engineering, Executive, Accounting, Commercial
 - Departmental catch all account with sub-accounts for travel, training and other expenses that are important to track – limit these

79

MOSS-ADAMS LLP

Budgeting expenses – don't over do it!

4. Suggest not using “activity codes” (too much detail although this can be a good idea to link capital expenditures to the budget)
5. Focus quarterly on budget analysis – monthly is usually too often
6. Typical assumptions
 - Plant accounts - % increase or % of plant account
 - Corporate and customer - % of revenues

80

MOSS-ADAMS LLP

Vendor Analysis – true story

Cash disbursements by Vendor	2008	
	\$	#
Debt Service	3,067,472	
Capital expenditures	3,843,612	
Payroll and taxes	3,017,519	
Other > \$100,000	5,396,852	16
Other \$50,000 to \$100,000	1,005,057	15
Other \$25,000 to \$50,000	630,107	18
Other \$10,000 to \$25,000	512,463	35
< \$10,000 (3.7% of total)	670,208	1205
	-	
	18,143,291	

81

MOSS-ADAMS_{LLP}

Vendor Analysis – true story

Cash disbursements by Vendor	2009	
	\$	#
Debt Service	3,134,519	
Capital expenditures	3,078,340	
Payroll and taxes	2,918,011	
Other >\$100,000	5,473,622	15
Other \$50,000 to \$100,000	850,919	13
Other \$25,000 to \$50,000	646,444	19
Other \$10,000 to \$25,000	617,589	41
< \$10,000 (3.9% of total)	684,050	1026
	17,403,493	

82


MOSS-ADAMS_{LLP}

Vendor Analysis – true story

Cash disbursements by Vendor	Change (08 to 09)		
	\$	#	%
Debt Service	67,047	-	2.2%
Capital expenditures	(765,273)	-	(19.9)%
Payroll and taxes	(99,508)	-	(3.3)%
Other >\$100,000	76,769	(1)	1.4%
Other \$50,000 to \$100,000	(154,138)	(2)	(15.3)%
Other \$25,000 to \$50,000	16,337	1	2.6%
Other \$10,000 to \$25,000	105,126	6	20.5%
< \$10,000	14,615	(179)	2.1%
Total change	(739,797)		(4.1)%


83

MOSS-ADAMS_{LLP}



EXERCISE IN EXACTLY 4 MINUTES PER DAY

\$14,615



EXPENSIVE BUT FANTASTIC!

Same or better results in exactly 4 minutes on the ROM Machine as from 60 to 90 minutes in a gym... unbelievable but true!

That's why over 97% of people who try the ROM for a 30 day rental buy it.

MOSS-ADAMS_{LLP}

Just kidding – it was close though

Cash disbursements by Vendor	Change (08 to 09)		
	\$	#	%
Debt Service	67,047	-	2.2%
Capital expenditures	(765,273)	-	(19.9)%
Payroll and taxes	(99,508)	-	(3.3)%
Other >\$100,000	76,769	(1)	1.4%
Other \$50,000 to \$100,000	(154,138)	(2)	(15.3)%
Other \$25,000 to \$50,000	16,337	1	2.6%
Other \$10,000 to \$25,000	105,126	6	20.5%
< \$10,000	13,843	(179)	2.1%
Total change	(739,797)		(4.1)%

85

MOSS-ADAMS_{LLP}

Salary Budget Development

- Total budget determined by employee
 - using wage, bonus, benefit, and overtime expectations.
- Allocated to specific accounts based on historical analysis and future expectations.
- REMEMBER:
 - Capitalized labor dollars, exclude from expenses and include in capital expenditures.
 - Payout of unused vacation
 - Pension adjustments at year end

86

MOSS-ADAMS_{LLP}

Salary Budget Development

- Input into System at account level.
- Questions:
 - Does the board review overall company wage increase or individuals?
 - What are the budget controls related to labor and overtime? What reports are generated?

87

MOSS-ADAMS^{LLP}

Expense points

Keep it simple

- Growth rates will likely be precise enough for forecasting purposes
- Possible to get more detailed with salaries, departments, etc., but benefit should outweigh the cost
- Develop a separate labor and other expense % change based on historical amounts for an account grouping

88

MOSS-ADAMS^{LLP}

2013
SEMINARS

MAPS – Step #6

(input of expense formulas)

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

2013
SEMINARS

Step #7

Revenue assumptions

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

Budgeting revenues – not as hard as you think!

1. Revenue forecasting is more important than expense budgeting!!
2. Most revenues are a simple customer count times a rate – get as detailed as you want
3. This is an opportunity to run “what-ifs”
4. Develop a deeper understanding of :
 - Universal Service
 - Intercarrier compensation

91

MOSS-ADAMS LLP

Revenue points

1. Subscriber count – flat rate driven
 - SIMPLE! - rate times subscriber count
 - Input changes in rates
 - Input growth factor for subscriber base
 - Good opportunity for “What if” scenarios
2. Usage driven
 - Minutes times rate vs. simple growth rate
 - Minutes – possibly more precise, but more time consuming to build
 - Simple growth rate – probably precise enough and more simple to build
3. USF and Settlements
 - No way to avoid this complexity – deal with it!

92

MOSS-ADAMS LLP

Current year

Key Settlement and USF drivers

1. Accurate input of current data
2. Part 64 and study adjustments to arrive at regulated balances
3. Development of allocation factors based on frozen factors and categorization of plant additions and retirements
4. Yearend accruals

Your are responsible – what are your controls?

• FAQ

Why is my settlement forecast off?

Or.....

How to accurately forecast Interstate revenues

GL accounts must detail the components of interstate access revenues

GL#	Description	Forecast	Actual	
5081	SLC	5.0	4.0	
5081	FUSC	1.0	1.0	
5082	CABS	5.0	4.0	
5082	NECA settlements	1.1	3.1	Actual NECA is based on actual pool rate of return
5083	Special access	1.0	2.0	
5082	ICLS/LSS	1.0	1.0	
		14.1	15.1	
			(1.0)	Difference should be booked to a payable
			14.1	

\$14.1
Consultant
estimate
@11.25%

95

MOSS-ADAMS_{LLP}

Why is my settlement forecast off?

1. Don't mix current year and prior year revenues
 - Set up separate GL accounts for prior year
2. Don't mix High Cost Fund revenues with Settlements
3. Current year variances from forecast relate to forecast assumptions

96

MOSS-ADAMS_{LLP}

Variations in forecasted Interstate revenues

1. NECA forecast
 - Expenses
 - Capital expenditures
2. Pool rate of return
3. Prior year accruals

97

MOSS-ADAMS_{LLP}

See NECA tie out
Handout

98

MOSS-ADAMS_{LLP}

Accurate Settlement Forecasting NECA Summary

PREPARED BY CLIENT

EC 3050 Reconciliation

EC 3050 Ln #	January	February	March	April	May	June	July	August	September	October	November	December	Total
Settlements													
2CCL Net Balance	327,938	356,330	355,926	358,231	357,055	355,578	354,810	353,061	354,972	389,844	385,489	349,993	4,299,227
3TS Net Balance	161,017	224,108	220,375	246,747	248,880	255,325	264,754	229,431	224,693	177,941	154,841	122,320	2,530,432
5CCL Prior	109,032	5,869	5,388	5,821	1,039	(1,074)	(1,939)	(58,915)	10,369	290,368	(40,044)	(350,342)	(24,428)
6TS Prior	283,337	(23,963)	(27,332)	(65,662)	(3,381)	(17,858)	(156,050)	259,890	(32,462)	(588,112)	(360,233)	(729,229)	(1,461,055)
8Total Settlement	881,324	562,344	554,357	545,137	603,593	591,971	461,575	783,467	557,572	270,041	140,053	(607,258)	5,344,176
NECA Distribution Notification													
High cost loop fund	327,461	324,629	324,629	309,641	320,759	320,759	332,017	332,425	332,425	355,367	332,693	332,693	3,945,498
Net balance/Prior data month - CCL	(2,474)			(30,144)			(3,765)	(3,771)	(3,776)	(3,795)	(6,556)	(1,346)	(55,627)
Net balance/Prior data month - TS													-
Lifeline	25,533	24,625	27,517	27,089	26,376	32,340	31,823	-	3,588	21,475	22,636	-	243,002
Link Up													-
Toll Limitation													-
Safety Net Additive	28,253	31,073	31,073	30,485	31,052	31,052	31,052	31,052	31,052	31,052	31,052	31,052	369,300
Other													-
Total amount due EC	1,260,097	942,671	937,576	882,208	981,780	976,122	852,702	1,143,173	920,861	674,140	519,878	(244,859)	9,846,349

99

MOSS-ADAMS LLP

Accurate Settlement Forecasting NECA Summary to Proper GL accounts

Reconciliation to 2.1	Linked To	Total	ICLS & CAF	2013	2012	2011
Net Balance		6,829,659		6,829,659		
Prior						
2013		(1,413,232)		(1,413,232)		
2012		9,636			9,636	
2011		(81,887)				(81,887)
Miscellaneous		(55,627)				(55,627)
Redistribute ICLS & CAF		-	5,199,649	(5,199,649)		
Settlements	2.1	5,288,549	5,199,649	216,778	9,636	(137,514)
High Cost Loop	5	3,945,498				
Safety Net	5	369,300				
Lifeline, Linkup, Toll Limitation	5	243,002				
Total		9,846,349	TRUE			

100

MOSS-ADAMS LLP

Accurate Settlement Forecasting Interstate Settlement Revenue Recap

Interstate Access Revenues by NECA Reporting Year						
Current NECA Year	To	GL YEAR			A/C #	
	From	2013	2012	2011		
Settlements						
NECA Settlements, TS and CCL	2.2	216,778	(324,992)	231,981	1.5081.1	
Support - ICLS, LSS, CAF	2.2	5,199,649	5,521,950	5,667,300	1.5081.2	
Client recorded true-up	3	-	381,406	87,027	1.5081.3	
Client recorded overearnings	3.2	(187,905)	(311,674)	(278,306)	1.5081.4	
True-up and overearnings AJE	3	-	-	(35,539)	1.5081.5	
Variance		-	859	2,345	1.5083.11	
End User						
End User Charge	3.1	1,370,945	1,369,147	1,577,667	1.5082.2	
FUSC	3.1	435,091	397,460	220,650	1.5082.21	
ARC - residential	3.1	27,182	-	-	1.5082.23	
ARC - single business	3.1	2,721	-	-	1.5082.3	
ARC - multi business	3.1	22,145	-	-	1.5082.4	
Access Revenues						
Interstate carrier access billings	3.1	2,234,583	2,382,945	2,583,727	1.5083.12	
Special access	3.1	2,830,589	3,423,893	2,111,306	1.5083.13	
DSL	3.1	1,228,858	1,259,762	1,156,753	1.5083.14	
Total current year revenues	2	13,380,637	14,100,756	13,324,909	1.5082.15	

101

MOSS-ADAMS LLP

Accurate Settlement Forecasting Analyze Trends

Interstate Access Revenues							
	NECA Year		Change from prior year		2013	2012	2011
	Total		\$	%			
2013 Settlements, gross	13,380,637		(660,023)	-4.70%	2.1	13,380,637	
2012 Settlements, gross	14,040,660		46,323	0.33%	2.1	(60,096)	14,100,756
2011 Settlements, gross	13,994,337				2.1	(9,212)	678,640
2010 Settlements, gross	150,056				2.1		51,381
2009 Settlements, gross	276,652				2.1		276,652
Total per NECA years	41,842,342					13,311,329	14,830,777
Total per G/L years	41,842,342					13,700,236	
			\$ Change			(1,519,448)	1,130,541
			% Change			-10.25%	8.25%
			Change			(1,519,448)	1,130,541
			Total g/l change			(660,023)	211,887
			NECA current year			(660,023)	211,887
			True-up/timing			(859,425)	918,654
Procedures							
Baseline revenues - interstate switched			Interstate revenues per cost study				
2012	2,138,711		Common Line			5,637,622	X:3.4
2013	2,031,775		Special access			5,397,713	X:3.4
2014	1,930,187		Switched baseline			2,021,776	
2015	1,833,677		Revenue requirement			13,067,110	
2016	1,741,993		Current revenues per g/l			13,380,637	
2017	1,654,894		Variance			313,526	
2018	1,572,149						
			2013 True-up		2012 Cost Study		
Part 64 Adjustments			Plant	X:2	(1,856,323)	(2,634,332)	
			Expenses	X:2	(267,020)	(448,524)	
Cost Study Adjustments			Plant	X:2	(753,690)	(753,690)	
			Expenses	X:2	(455,454)	(370,569)	

102

MOSS-ADAMS LLP

2013
SEMINARS

MAPS – Step #7

(input of revenue formulas)

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

2013
SEMINARS

Step #8

Balance sheet assumptions

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

Balance sheet accounts – pretty easy

- Cash – automatically calculated from cash flow (it's the plug)
- Accounts receivable – increases generally consistent with revenue increases (customer separate from NECA or Cabs)
- Inventory and investments – anticipated changes

105

MOSS-ADAMS_{LLP}

Balance sheet accounts – pretty easy

- Payables – increases relative to expense increases (take into account construction payables separately)
- Interest bearing debt – calculate based on terms of each loan or lease
- Equity – anticipated dividends or capital credit retirements

106

MOSS-ADAMS_{LLP}

Whiteboard – Cash is the plug

Cash

T

A/R

T

A/R

T

A/P

T

Debt

T

Revenue

T

Expenses

T

107

MOSS-ADAMS_{LLP}

See inserted Cash flow statement
from an audit report

108

MOSS-ADAMS_{LLP}

Why do we care about the Balance Sheet?

- Financing strategy
 - Cash balance and working capital
 - Ability to borrow
 - Debt covenants
- Ability to pay dividends
- Appropriateness and performance of asset mix

109

MOSS-ADAMS LLP

2013
SEMINARS

MAPS – Step #9

(input of balance sheet
formulas)

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

2013
SEMINARS

Step #9

Run initial drafts of the financial statements and “kick the tires”

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

- Review prior year budget vs actual variances
- Where have you historically gone wrong?

Consider

- Consolidations
 - Run a separate model for each company if they are significant and independently operated
 - Run one model with a combined balance sheet if the companies are jointly operated
 - Deal with intercompany accounts and eliminations
- Inventory and investments – anticipated changes

113

MOSS-ADAMS_{LLP}

Closely review the results

- Make sure there are no obvious errors
- You should be able to explain the differences between the historical data and the forecast
- Bottom line – the statements should be credible

114

MOSS-ADAMS_{LLP}

2013
SEMINARS

Step #10

Document the assumptions,
risks and issues to be resolved

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

This is absolutely necessary

- Be concise, but comprehensive
- Address all the significant assumptions
 - Items different from historical amounts
 - Items that are more difficult to predict
- Document the risk factors
- Date the versions on the printed files

116

MOSS-ADAMS LLP

2013
SEMINARS

Step #11

Consensus, communicate and
present

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

Finalize something that is realistic

- Resist “making the forecast work”
 - Be respectful, but hold your ground
 - Document differences of opinion for later reference
 - Be alert for pressures to overstate revenue or understate expenses
- What’s your philosophy?
 - “Wiggle room” or “High bar”?
 - Tendency is to be conservative in the short run and too optimistic in the long run
- Make stretch, but achievable goals

118

MOSS-ADAMS LLP

Don't put the budget on the shelf

- How it is used is the important thing
- Update the forecast monthly with actual data.
- Variances:
 - Quarterly is better than monthly
 - Forecasted annual variance is more important than the current variance
- Run what ifs – best case/worst case

119

MOSS-ADAMS LLP

2013
SEMINARS

MAPS – Step #11

Reporting results, what if's, Budget vs Actual, Rolling forecast

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

2013
SEMINARS

FCC Reform Strategies and takeaways

©2012 Moss Adams LLP
Unauthorized reproduction prohibited

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

Strategies/Takeaways

- EXPENSE CODING

122

MOSS-ADAMS LLP

Strategies/Takeaways

- EXPENSE CODING –
 - This is absolutely the most critical strategy to be implemented by **The Accountants**
 - We have to be conscience of every single accounting entry....Some accounts still get very good cost recovery, some generate \$0 in support for every dollar booked
 - Part 32 is Cool....become experts
 - Greatest Expense at a Phone Company?

123

MOSS-ADAMS_{LLP}

Strategies/Takeaways

- Labor Coding –
 - Benefits and Overheads follow labor in the Accounting Clearing Process.
 - \$100k of an employee labor paid to them, actually costs the company \$155k on average
 - Overhead expenses generally follow labor in the clearing process
 - We need to pass on to employees the analness
 - First arm them with knowledge
 - Nobody will like you because nobody likes entering time
 - And yes, we will have to interact with other people

124

MOSS-ADAMS_{LLP}

Strategies/Takeaways

- We Studied Companies – There are Opportunities for Improvement
- Cost Efficiency –
 - Accountants ignored cost structure with support and settlements aplenty
- Specific Labor Coding Issues/Practices – This is our time
 - Account 6124 vs. Account 6726
 - Account 6210 vs. 6230
 - Remember – no direct switching cost recovery
 - Softswitches are changing the job functions

125

MOSS-ADAMS LLP

Strategies/Takeaways

- Specific Labor Coding Practices/Opportunities
 - Plant employees need to understand difference between DSL (recovery available) and Internet (no recovery available)
 - Many companies have been analyzing employee time and developing procedures for trouble tickets and new service
 - Account 6512 vs. Account 6724
 - Provisioning vs. Procurement
 - Safety Training Program Development and Implementation – Account 6530 vs. Account 6724
 - Specific Job function training

126

MOSS-ADAMS LLP

Strategies/Takeaways

- 6530 – Engineering and Plant Administration –
 - Can we capitalize more for specific projects...especially if we are regressionly (great word....just made it up) capped
- Account 6600 - Customer Service Expense – poor cost recovery before and after reform. Time needs to be analyzed
 - Code Time Elsewhere (switching, trouble tickets, marketing)
 - Marketing (This is becoming more Crucial than ever)
 - Presubscription
 - CABS

127

MOSS-ADAMS_{LLP}

Strategies/Takeaways

- Account 6700 - The Dumping Ground
 - Look at every entry – Get creative and strategic.....not an accountants strength
 - Do not be fraudulent but seek out interpretations
- Other General Thoughts
 - Create a Marketing Culture
 - Since more recovery is coming from End Users, it is imperative we stop losing them.....Everyone can help
 - » Time reporting should reflect efforts

128

MOSS-ADAMS_{LLP}

Strategies/Takeaways

- Marketing and Sales
 - Redefine Everyone's role, including Outside plant personnel and technicians, accountants, CSR's, etc.
 - Most contact with customers
 - "Trade jeans and T-shirt for Kaki's and collar"
 - Other revenue streams – leverage outside plant personnel knowledge
 - Home networking
 - A+ certification
 - Computer literacy

129

MOSS-ADAMS_{LLP}

Strategies/Takeaways

- Network Efficiencies
 - Recovery for switching frozen
 - Share switch with neighboring companies
 - Head count – review the number of personnel
 - Employees extremely expensive
 - Incredibly important if have own construction crew
 - Reduce internet transport costs to the cloud
 - No support available

130

MOSS-ADAMS_{LLP}

Strategies/Takeaways – Rate Base

- Limit Switch investment
 - Migrate to a softswitch
 - Concentrator vs. Host Remote network
 - Share switching with neighboring companies
- **Retire Plant** –
 - % of net plant is a huge driver
 - Need to retire old plant (copper, vehicles, transmission)
 - Companies not good at this, but have to get good to avoid cap

131

MOSS-ADAMS LLP

Strategies/Takeaways

- Fiber To The Home – How Can we make this happen
 - One Company “\$129.99 per month for 100 mbps download Speed”
 - Customers demanding more and more bandwidth with youtube, netflix, TV and multiple devices on one network
 - Customers want the pipe to do what they want with it
 - Industry will begin to cap usage for customers
 - The Wireless Model

132

MOSS-ADAMS LLP

Strategies/Takeaways

- Plan, Plan, Plan
 - Talk to the Network people
 - Must have an idea of what is needed to provide what is demanded to be able to develop a cost of those plans
 - 5 to 10 year forecasts
 - Crucial to have an integrated forecast model that incorporates USF calculations, with ARC, with frozen settlement impacts, with.....
 - Need to know cash flow going forward and integrate that with network demands and a company strategic plan
 - Able to assess profitability and future of business units
 - By the way, need to find alternate sources of revenue that utilizes your company resources and expertise

133

MOSS-ADAMS_{LLP}

Final Thoughts

- Recovery still in place for loop and dedicated services (DSL, Special Access, Ethernet)
 - Customers demanding more bandwidth
- Reform increases the need to forecast impacts and plan for capital investment and customer demand
- Originating Intrastate Access – billed by the ILEC and not reported as part of settlements, so important to maximize

134

MOSS-ADAMS_{LLP}

Next steps?

1. Understand and “shape” users needs
2. Plan (High level or detailed - Excel vs. Forecasting software)
3. Establish preventive controls where needed
4. Design forms and input historical data
5. Develop capital expenditures budget
6. Develop labor and expense assumptions
7. Develop revenue assumptions
8. Balance sheet assumptions
9. Run initial drafts of financial statements – kick the tires
10. Document assumptions, risks & issues to be resolved
11. Consensus, publish, present and take action steps

135

MOSS-ADAMS LLP

Become the Accounting Version



136

MOSS-ADAMS LLP