Sunshine Act Meetings

Federal Register
Vol. 56, No. 66
Friday, April 5, 1991

This section of the FEDERAL REGISTER contains notices of meetings published under the "Government in the Sunshine Act" (Pub. L. 94-409) 5 U.S.C. 552b(e)(3).

FEDERAL COMMUNICATIONS COMMISSION

FCC to Hold Open Commission Meeting, Tuesday, April 9, 1991

April 2, 1991.

The Federal Communications Commission will hold an Open Meeting on the subjects listed below on Tuesday, April 9, 1991, which is scheduled to commence at 9:30 a.m., in room 856, at 1919 M Street, NW., Washington, DC.

Item No., Bureau, and Subject

1—Chief Engineer—Title: Establishment of Procedures to Provide a Preference to Applicants Proposing an Allocation for New Services (GEN Docket No. 90–217). Summary: The Commission will consider adoption of a *Report and Order* in this proceeding.

2—Mass Media—Title: Policies and Rules Concerning Children's Television Programming, Revision of Programming and Commercialization Policies, Ascertainment Requirements, and Program Log Requirements for Commercial Television Stations (MM Docket Nos. 90–570 and 83–670). Summary: The Commission will consider adoption of a *Report and Order* implementing the provisions of the Children's Television Act of 1990.

3—Mass Media—Title: Evaluation of the Syndication and Financial Interest Rules (MM Docket No. 90–162). Summary: The Commission will consider whether to revise its Network Television Syndication and Financial Interest Rules.

4—Common Carrier—Title: LEC Price Cap Reconsideration (CC Docket No. 87–313). Summary: The Commission will consider an *Order on Reconsideration* responding to petitions for reconsideration of the Commission's *LEC Price Cap Order*, released October 4, 1990.

5—Common Carrier—Title: Policies and Rules Concerning Operator Service Providers (CC Docket No. 90–313, RM 6767). Summary: The Commission will consider adoption of a *Report and Order* implementing provisions of the Telephone Operator Consumer Services Improvement Act of 1990.

6—Common Carrier—Title: Cincinnati Bell Telephone Company Calling Card Validation Data and Related Practices (CC Docket No. 89–323). Summary: The Commission will consider the conclusions to issues raised in the investigation of Cincinnati Bell Telephone Company calling card practices.

7—Common Carrier—Title: Local Exchange Carrier Validation and Billing Information for Joint Use Calling Cards. Summary: The Commission will consider proposals to establish the obligation of local exchange carriers to provide all interexchange carriers access to certain information and services for both interexchange carriers and local exchange carriers joint use calling cards.

This meeting may be continued the following work day to allow the Commission to complete appropriate action.

Additional information concerning this meeting may be obtained from Steve Svab, Office of Public Affairs, telephone number (202) 632–5050.

Issued: April 2, 1991.

Federal Communications Commission.

Donna R. Searcy,

Secretary.

[FR Doc. 91–8137 Filed 4–3–91; 2:30 pm]

BILLING CODE 6712-01-M

FEDERAL DEPOSIT INSURANCE CORPORATION

Notice of Agency Meeting

Pursuant to the provisions of the "Government in the Sunshine Act" (5 U.S.C. 552b), notice is hereby given that at 2:10 p.m. on Tuesday, April 2, 1991, the Board of Directors of the Federal Deposit Insurance Coporation met in closed session jointly with the Board of Directors of the Resolution Trust Corporation ("RTC") to consider the following:

Matters relating to the Corporation's and the RTC's corporate activities.

Personnel matter.

Matters relating to a certain financial institution.

Matters relating to an assistance agreement with an insured bank.

In calling the meeting, the Board determined, on motion of Director C.C. Hope, Jr. (Appointive), seconded by Director T. Timothy Ryan, Jr. (Office of Thrift Supervision), concurred in by Vice Chairman Andrew C. Hove, Jr. and Director Robert L. Clarke (Comptroller of the Currency, that Corporation business required its consideration of the matters on less than seven days' notice to the public; that no earlier notice of the meeting was practicable; that the public interest did not require consideration of the matters in a meeting open to public observation; and that the matters could be considered in a closed meeting by authority of subsections (c)(2), (c)(4), (c)(6), (c)(9)(B), and (c)(10) of the "Government in the Sunshine Act" (5 U.S.C. 552b(c)(2), (c)(4), (c)(6), (c)(9)(B), and (c)(10)).

The meeting was held in the Board Room of the FDIC Building located at 550—17th Street, N.W., Washington, D.C.

Dated: April 3, 1991.

Federal Deposit Insurance Corporation.

Robert E. Feldman,

Deputy Executive Secretary.

[FR Doc. 91–8153 Filed 4–3–91; 12:22 pm]

BILLING CODE 6714-01-M

INTERSTATE COMMERCE COMMISSION

Commission Conference

TIME AND DATE: 10:00 a.m., Tuesday, April 9, 1991.

PLACE: Hearing Room A, Interstate Commerce Commission, 12th & Constitution Avenue, NW., Washington, D.C. 20423.

STATUS: The Commission will meet to discuss among themselves the following agenda items. Although the conference is open for the public observation, no public participation is permitted.

MATTER TO BE DISCUSSED:

Ex Parte No. 346 (Sub-No. 26), *Association of American Railroads—Petition to Exempt Industrial Development Activities From 49 U.S.C. 10761(a), 10762(a)(1), 11902, 11903, and 11904(a).*

Docket No. AB–52 (Sub-No. 71X), *The Atchison, Topeka and Santa Fe Railway Company—Abandonment Exemption—In Lyon County, KS.*

Ex Parte No. 494, *Rail System Diagram Map.*

Section 5a No. 106, *Household Goods Freight Forwarder Bureau.*

Application of the Commission's Safety Fitness Policy in Motor Carrier Licensing and Finance Dockets—A Reassessment in Light of Recent Legislation and DOT Policy Revisions.

CONTACT PERSON FOR MORE INFORMATION: A Dennis Watson, Office of External Affairs, Telephone: (202) 275-7252, TDD: (202) 275-1721.

Sidney L. Strickland, Jr.,

Secretary.

[FR Doc. 91–8176 Filed 4–3–91; 2:15 pm]

BILLING CODE 7035-01-M

SECURITIES AND EXCHANGE COMMISSION.

Agency Meeting

"FEDERAL REGISTER" CITATION OF PREVIOUS ANNOUNCEMENT: [56 FR 12975, March 28, and 56 FR 13708 April 3, 1991]

STATUS: Open meeting.

PLACE: 450 Fifth Street, N.W., Washington, D.C.

DATES PREVIOUSLY ANNOUNCED:.

Tuesday, March 26, 1991.
Monday, April 1, 1991.

CHANGE IN THE MEETING: Rescheduling.

An open meeting scheduled for Wednesday, April 3, 1991, at 10:00 a.m., has been rescheduled for Thursday, April 11, 1991, at 9:30 a.m.

Commissioner Fleischman, as duty officer, determined that Commission business required the above change and that no earlier notice thereof was possible.

At times, changes in Commission priorities require alterations in the scheduling of meeting items. For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact: Daniel Hirsch at (202) 272-2100.

Dated: April 3, 1991.

Jonathan G. Katz,

Secretary.

[FR Doc. 91-8151 Filed 4-3-91; 2:15 pm]

BILLING CODE 8010-01-M

Corrections

Federal Register

Vol. 56, No. 66

Friday, April 5, 1991

This section of the FEDERAL REGISTER contains editorial corrections of previously published Presidential, Rule, Proposed Rule, and Notice documents. These corrections are prepared by the Office of the Federal Register. Agency prepared corrections are issued as signed documents and appear in the appropriate document categories elsewhere in the issue.

ENVIRONMENTAL PROTECTION AGENCY

40 CFR Part 147

[FRL-3789-5]

Underground Injection Control Program; State-Administered Programs; Incorporation by Reference Update

Correction

In rule document 91-4622 beginning on page 9408 in the issue of Wednesday, March 6, 1991, make the following corrections:

§ 147.550 [Corrected]

1. On page 9414, in the second column, in § 147.550(a)(3), in the second line, "12-5-12" should read "12-5-120".

§ 147.2500 [Corrected]

2. On page 9420, in the 3d column, in § 147.2500(a), in the 11th line, "5l" should read "51".

BILLING CODE 1505-01-D

FEDERAL COMMUNICATIONS COMMISSION

47 CFR Part 80

[GEN Docket No. 90-133; FCC 91-17]

Maritime Radio Service

Correction

In rule document 91-5303 beginning on page 9881 in the issue of Friday, March 6, 1991, make the following corrections:

§ 80.359 [Corrected]

1. On page 9890, in the table for § 80.359(a), make the following changes:

a. In the fourth column, in the first entry, remove "4209.0" after "4220.0";

b. In the same column, in the seventh entry, "22444.05" should read "22444.5"; and

c. In the sixth column, in the second entry, "632.0" should read "6332.0".

2. On the same page, in the first column, in § 80.359(b), in the last line, "CCIA" should read "CCIR".

BILLING CODE 1505-01-D

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Food and Drug Administration

21 CFR Part 316

[Docket No. 85N-0483]

RIN 0905-AB55

Orphan Drug Regulations

Correction

In proposed rule document 91-2052 beginning on page 3338, in the issue of Tuesday, January 29, 1991, make the following corrections:

1. On page 3339, in the first column, in the first full paragraph, in the fifth line from the bottom, "§ 316.12(d)" should read "§ 316.12(b)".

2. On page 3345, in the third column, in subpart F, in the third line from the bottom "Sections" should read "Secs.".

§ 316.36 [Corrected]

3. On page 3351, in the first column, in § 316.36(a)(1), in the first line, "Directory" should read "Director".

§ 316.52 [Corrected]

4. On the same page, in the second column, in § 316.52(a), in the second line, "request" was misspelled.

5. On the same page, in the third column, in § 316.52(a), in the second line, "acknowledged" was misspelled.

BILLING CODE 1505-01-D

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Food and Drug Administration

[Docket No. 90N-0165]

Public Meeting; Food Labeling; Serving Sizes for Use in Nutrition Labeling

Correction

In notice document 91-4467 beginning on page 8084 in the issue of Tuesday, February 26, 1991, make the following corrections:

1. On page 8086, in the second column, under the heading b. *Nutrition Labeling ****, in the fourth line, remove "13".

2. In the same column, under the heading e. *Matters for discussion:*, in the third line from the end of the paragraph, remove "14".

BILLING CODE 1505-01-D

DEPARTMENT OF THE INTERIOR

Bureau of Land Management

[CA-940-01-5410-B004; CACA 27443]

Conveyance of Mineral Interests in California

Correction

In notice document 90-29194 appearing on page 51353, in the issue of Thursday, December 13, 1990, make the following corrections:

1. On the same page, in the first column:

a. In the fifth line from the bottom, after "E¼SW¼", insert a "," and "SW½," should read "SW¼,".

b. In the fourth line from the bottom, after "SW¼" but before "W½", insert "SW¼".

BILLING CODE 1505-01-D

DEPARMENT OF THE INTERIOR

Bureau of Land Management

[NM-010-4212-13/GPO-0109]

Realty Action; Exchange of Lands in New Mexico

Correction

In notice document 90-12448 beginning on page 21948 in the issue of Wednesday, May 30, 1990, make the following corrections:

. On page 21948, in the third column, in the land description under "New Mexico Principal Meridian", make the following changes:

a. In Sec. 10, "W½SE, NE¼SE¼;" should read "W½SE, NE¼SW¼;";

b. In Sec. 14, "SE¼NW¼;" should read "SW¼NW¼;"; and

c. In Sec. 23, "NE¼SE¼," should read "NE¼SW¼,".

BILLING CODE 1505-01-D

DEPARTMENT OF THE INTERIOR

Bureau of Land Management

[NV-930-01-4212-13; N-54049]

Realty Action; Exchange of Public and Private Lands in Elko and Clark Counties, Nevada

Correction

In notice document 90-30509 beginning on page 53588 in the issue of Monday, December 31, 1990, make the following correction:

On page 53588, in the third column, under T.40 N., R. 58E., in Sec. 14, in the first line "N½NE¼" should read "N½SW¼"

BILLING CODE 1505-01-D

DEPARTMENT OF LABOR

Mine Safety and Health Administration

30 CFR Parts 7, 70, and 75

RIN 1219-AA27

Approval, Exposure Monitoring, and Safety Requirements for the Use of Diesel-Powered Equipment in Underground Coal Mines

Correction

Proposed rule document 91-7592 appearing on page 13404, in the issue of Tuesday, April 2, 1991, was published in the "Rules" section of the issue. It should have appeared in the "Proposed Rules" section.

BILLING CODE 1505-01-D

NUCLEAR REGULATORY COMMISSION

10 CFR Part 2

RIN 3150-AD27

Procedures Applicable to Proceedings for the Issuance of Licenses for the Receipt of High-Level Radioactive Waste at a Geologic Repository

Correction

In rule document 91-4483, beginning on page 7787 in the issue of Tuesday, February 26, 1991, make the following correction:

Appendix D to Part 2 [Corrected]

On page 7798, in the table, in the third column, in the fourth line from the bottom "Appeals" was misspelled.

BILLING CODE 1505-01-D

NUCLEAR REGULATORY COMMISSION

[Docket No. 50-255]

Consumer's Power Co.; Notice of Issuance of Facility Operating License No. DPR-20

Correction

In notice document 91-4564 beginning on page 8220 in the issue of Wednesday, February 27, 1991 make the following corrections:

1. On page 8220, in the third column, in the second line "CPR" should read "DPR".

2. On the same page, in the same column, in the fifth line "DPE-20" should read "DPR-20".

BILLING CODE 1505-01-D

federal register

Friday
April 5, 1991

Part II

Department of Agriculture

Rural Electrification Administration

7 CFR Part 1773

Policy on Audits of Electric and Telephone Borrowers; Proposed Rule

DEPARTMENT OF AGRICULTURE

Rural Electrification Administration

7 CFR Part 1773

RIN 0572-AA36

Policy on Audits of Electric and Telephone Borrowers

AGENCY: Rural Electrification Administration, REA.

ACTION: Proposed rule.

SUMMARY: The Rural Electrification Administration (REA) proposes to amend 7 CFR chapter XVII by revising part 1773, REA Policy on Audits of Electric and Telephone Borrowers. Revisions are being proposed to the existing policy to update REA's auditing and reporting requirements to include the latest auditing standards promulgated by the American Institute of Certified Public Accountants, to strengthen REA's policies concerning resolution of audit recommendations, and to require CPAs to notify the Office of Inspector General (OIG) directly of any indications of irregularities.

DATES: Public comments must be received or postmarked by REA no later than June 4, 1991.

ADDRESSES: Submit written comments to Mr. William E. Davis, Director, Borrower Accounting Division, Rural Electrification Administration, room 2231, South Building, U.S. Department of Agriculture, Washington, DC, 20250-1500. REA requests an original and two copies of all comments. All written submissions made pursuant to this action will be made available for public inspection during regular business hours at the above address. REA requests an original and two copies of all comments.

FOR FURTHER INFORMATION CONTACT: Mr. William E. Davis, Director, Borrower Accounting Division, at the above address, telephone number (202) 382-9450.

SUPPLEMENTARY INFORMATION: REA proposes to amend 7 CFR chapter XVII, by revising part 1773, REA Policy on Audits of Electric and Telephone Borrowers. This rule was formerly published in the **Federal Register** as 7 CFR part 1789. This rule was redesignated as part 1773 in the **Federal Register** on September 27, 1990 at 55 FR 39393. This proposed action has been reviewed in accordance with Executive Order 12291, Federal Regulation. The action will not (1) have an annual effect on the economy of $100 million or more; (2) result in major increases in costs or prices for consumers, individual industries, Federal, State or local government agencies or geographic regions; or (3) result in significant adverse effects on competition, employment, investment, productivity, innovation, or on the ability of United States-based enterprises to compete with foreign-based enterprises in domestic or export markets and, therefore, has been determined to be "not major". This action does not fall within the scope of the Regulatory Flexibility Act. REA has concluded that promulgation of this rule would not represent a major Federal action significantly affecting the quality of the human environment under the National Environmental Policy Act of 1969 (42 U.S.C. 4321 et seq. (1976)) and, therefore, does not require an environmental impact statement or an environmental assessment. The reporting and/or recordkeeping requirements contained in these proposed rules have been submitted for approval to the Office of Management and Budget (OMB) in accordance with the Paperwork Reduction Act of 1980 (44 U.S.C. 3501 et seq.). Those requirements will not become effective until approved by OMB. Public reporting for this collection of information is estimated to average 2 hours per response including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Department of Agriculture, Clearance Office, OIRM, room 404-W, Washington, DC 20250; and to the Office of Management and Budget, Paperwork Reduction Project, Washington, DC 20503. The programs listed in the Catalog of Federal Domestic Assistance that are impacted are 10.850—Rural Electrification Loans and Loan Guarantees, 10.851—Rural Telephone Loans and Loan Guarantees, 10.852—Rural Telephone Bank Loans, and 10.853, Rural Economic Development Loans and Grants. For reasons set forth in the final rule related notice to 7 CFR part 3015, subpart V (50 FR 47034, November 14, 1985) this program is excluded from the scope of Executive Order 12372 which requires intergovernmental consultation with State and local officials.

Background

Revisions to 7 CFR part 1773, REA Policy on Audits of Electric and Telephone Borrowers, are being proposed to update REA's auditing and reporting requirements to include the latest auditing standards promulgated by the American Institute of Certified Public Accountants, to stengthen REA's policies concerning resolution of audit recommendations, to address the Department's regulations on debarment and suspension, and to require CPAs to report to OIG directly of any indications of irregularities.

Recent revisions to generally accepted auditing standards require that audits of entities receiving Federal financial assistance be designed to determine whether they contain material misstatements resulting from the violation of laws, regulations, REA bulletins, and contracts that have a direct and material effect on amounts reported in the financial statements. As a result, the borrower shall furnish to REA, in addition to the opinion report on the financial statements and the management letter currently required by REA, a report on compliance and a report on internal controls issued by a CPA.

List of Subjects in 7 CFR Part 1773

Accounting.

In view of the above, REA proposes to revise 7 CFR part 1773 as follows:

PART 1773—REA POLICY ON AUDITS OF ELECTRIC AND TELEPHONE BORROWERS

Authority: 7 U.S.C. 901 et seq.; 7 U.S.C. 1921 et seq.

Subpart A—General Provisions

§ 1773.1 General.

The standard REA security instruments contain provisions that require REA borrowers to prepare and furnish to REA at least once during each 12-month period, a full and complete report of its financial condition, operations, and cash flows in form and substance satisfactory to REA, audited and certified by an independent certified public accountant (CPA), satisfactory to REA. This part 1773 implements such provisions by setting forth REA policy on the selection and retention of independent CPAs selected to perform audits of REA borrowers, the auditing and reporting requirements for CPAs selected to perform audits of REA borrowers, and the documentation standards for work done in connection with audit reports prepared for REA borrowers.

Note: In this part 1773, the terms "CPA" and "CPA firm" are used interchangeably as are REA Administrator and RTB Governor.

§ 1773.2 REA audit requirements.

(a) *Annual audit.* Each borrower shall have its financial statements audited annually by a CPA selected by the borrower and approved by REA as set forth in § 1773.17. An annual audit, performed in accordance with this part 1773, and an audit report, report on compliance, report on internal controls, and management letter prepared in accordance with Subpart D, of this part, meet the requirements of the REA security instruments. Annual reports containing audited financial statements shall not be submitted in lieu of the audit report specified in § 1773.30(a).

(b) *Definition of Audit.* Audit, as used in this part 1773, refers to an examination of financial statements by an independent CPA for the purpose of expressing an opinion on the fairness with which those statements present financial position, results of operations and changes in cash flows in conformity with generally accepted accounting principles (GAAP) and for determining whether the borrower has complied with applicable laws, regulations, REA bulletins, and contracts for those transactions and events reflected in the financial statements. A report prepared in connection with a review or compilation of financial statements as defined in Statement of Standards for Accounting and Review Services No. 1, Compilation and Review of Financial Statements, does not satisfy the requirements of the REA security instruments. Additionally, reports as described in Statement on Audit Standards (SAS) No. 14, Special Reports, and SAS No. 35, Special Reports—Applying Agreed-upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement, do not satisfy the REA loan security instrument requirements.

(c) *Compliance testing.* The CPA shall consider laws, regulations, REA bulletins, and contracts that are generally recognized by auditors to have a direct and material effect on the determination of financial statement amounts. For purposes of this part 1773, the CPA shall consider such laws, regulations, REA bulletins, and contracts from the perspective of their known relation to audit objectives derived from financial statement assertions rather than from the perspective of legality per se. The CPA shall assess the risk that errors and irregularities may cause the financial statements to contain material misstatements. Based upon that assessment, the CPA shall design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements. When assessing the requirements for compliance testing, the CPA shall, among other laws and regulations, consider all regulations issued and codified by REA in 7 CFR parts 1700 through 1799 and by the RTB in 7 CFR part 1610. If the CPA determines that a violation of 7 CFR 1711.1, Advances, and the resulting reclassification of a long-term liability to a short-term liability will result in a material misstatement of the financial statements, the procedures detailed in § 1773.40 must be performed. The procedures detailed in § 1773.40 are to be considered minimum requirements and may be expanded during the course of the audit. They may not, however, be reduced or eliminated.

(d) Each borrower shall establish an annual "as of" audit date within twelve months of the date of receipt of the first advance of REA, or Federal Financing Bank (FFB) loan funds and prepare financial statements as of the date established. The borrower's board of directors or audit committee shall select a qualified CPA as directed in § 1773.15 to perform an annual audit of these financial statements. The borrower shall forward two copies of the audit report, report on compliance, report on internal controls, and management letter to REA within four months of the "as of" audit date and one copy of each of the above reports to supplemental lenders, if appropriate. Until all loans made or guaranteed by REA have been repaid, the borrower shall submit an annual audit report, report on compliance, report in internal controls, and management letter, as set forth in § 1773.26.

(e) Any borrower qualifying as a unit of state or local government or Indian tribe as such terms are defined in the Single Audit Act of 1984 (31 U.S.C. 7501 *et seq.*,) and OMB Circular A–128, Audits of State and Local Governments, and receiving total Federal financial assistance equal to or in excess of $100,000 during the fiscal year, shall have an audit performed and submit an audit report meeting the requirements of the Single Audit Act of 1984. Borrowers receiving total Federal financial assistance of between $25,000 and $100,000 during the fiscal year may have an audit performed meeting either the requirements of the Single Audit Act of 1984 or this part 1773. Borrowers receiving less than $25,000 in total Federal financial assistance during the fiscal year shall have an audit performed that meets the requirements of this part 1773. Borrowers qualifying as a unit of state or local government or Indian tribe as defined in the Single Audit Act of 1984 shall notify REA, within 30 days of the "as of" audit date, of the total Federal financial assistance received during the audit year and whether they will have an audit performed in accordance with the Single Audit Act of 1984 or this part 1773. Borrowers electing to comply with this part 1773 must select a CPA that meets the qualifications set forth in § 1773.4.

An audit report meeting the requirements of the Single Audit Act of 1984 shall be sufficient to satisfy that borrower's obligations under this part 1773.

§ 1773.3 Borrowers' responsibilities.

(a) REA borrowers are responsible for:

(1) The selection of a qualified CPA that meets the requirements set forth in § 1773.4;

(2) The selected CPA complying with this part 1773; and

(3) The receipt from the CPA selected of a lower tier covered transaction certification as required under the provisions of Executive Orders 12549 and 12689, Debarment and Suspension, and any rules or regulations issued thereunder.

(4) The submission of the required audit report, report on compliance, report on internal controls, and management letter as set forth in § 1773.26. Additionally, the borrower shall provide comments on the findings and recommendations in the audit report, report on compliance, report on internal controls, and management letter, including a plan for corrective action taken or planned and comments on the status of corrective action taken on previously reported findings and recommendations. If corrective action is not necessary, a statement describing the reason it is not should accompany the audit report.

(b) Annual audit reports, reports on compliance, reports on internal controls, and management letters that fail to meet the requirements detailed in this part 1773 shall be returned to the borrower with a written explanation of noncompliance. Within 60 days of the date of the letter detailing the noncompliance, the borrower shall submit corrected reports to REA.

§ 1773.4 Qualifications of CPA.

(a) *Certification.* The accountant auditing the financial statements of an REA borrower shall be a CPA in good standing of some state, territory, or the District of Columbia. (As used in this part 1773, the term "state" shall include any state, territory, or the District of Columbia.) The CPA does not have to be licensed by the state in which the borrower is located; however, the CPA is required to abide by the rules and regulations of professional conduct promulgated by the accountancy board of the state in which the borrower is located.

(b) *Independence.* A CPA shall be considered independent if he/she meets the standards for independence contained in the American Institute of Certified Public Accountants (AICPA) Code of Professional Ethics in effect at the time the CPA's independence is under review and if the CPA:

(1) Does not have and has not had any direct financial interest or any material indirect financial interest in the borrower during the period covered by the audit; and

(2) Is not and was not during the period under audit, connected with the borrower as a promoter, underwriter, trustee, director, officer, or employee.

(c) *Peer Review Program.* The CPA shall belong to, participate in, and have undergone a peer review conducted by an approved peer review program as set out in § 1773.9(b) within three years of the current year's "as of" audit date.

(1) A CPA receiving an unqualified peer review report shall be a qualified CPA under § 1773.3(a)(1).

(2) If a CPA receives a qualified or adverse peer review report, the CPA must undergo a second peer review within 18 months of the date of the qualified or adverse report. A CPA receiving an unqualified second peer review report shall be a qualified CPA under § 1773.3(a)(1).

(3) A CPA receiving a second qualified or adverse peer review report shall not meet the requirements of a qualified CPA under § 1773.3(a)(1).

§ 1773.5 Audit standards.

The CPA shall perform the annual audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States (GAGAS) and this part 1773. The CPA shall adhere to GAGAS in effect at the audit date unless directed otherwise, in writing, by REA.

(a) The CPA shall perform an examination of the financial statements, including such tests of the accounting records and such other auditing procedures that are sufficient to enable the CPA to express an opinion on the financial statements and to issue the required reports on compliance and internal controls and the management letter. The borrower shall not cause the audit to be limited to the extent that the CPA is unable to meet REA's audit requirements or to provide an unqualified opinion that the financial statements are presented fairly in conformity with GAAP. The requirements of this part 1773 are not satisfied if the CPA has to qualify the opinion in the audit report due to limitations placed on the examination by the borrower.

(b) If the CPA determines, during the audit, that an unqualified opinion cannot be issued due to a scope limitation imposed by the borrower, the CPA shall immediately contact the Director, Borrower Accounting Division, Rural Electrification Administration, U.S. Department of Agriculture, Washington, D.C. 20250–1500 (Director, BAD). (The term "Director, BAD", as used in this part 1773, shall include any successor having similar responsibilities.) The Director, BAD, shall endeavor to resolve the matter with the borrower.

§ 1773.6 Audit date.

(a) The annual audit shall be performed as of the end of the same calendar month each year unless prior approval to change the "as of" audit date is obtained, in writing, from REA. A borrower may request a change in the audit date by writing to the appropriate REA area office at least 60 days prior to the newly requested audit date. A change in an audit date must result in an audit period of less than twelve months. For example, a borrower wishing to change its audit date from December 31, 19X1 to June 30, must make the change effective June 30, 19X2.

(b) Comparative financial statements shall be prepared reflecting the borrower's accounting records "as of" the new audit date as follows: A borrower changing its audit date from December 31, 19X1 to June 30, 19X2 shall have the CPA report on statements in the following manner:

Previously issued statements		Statements prepared "as of" new audit date	
12/31/X1	12/31/X0	6/30/X2	6/30/X1
(Statements need not be reissued)			

§ 1773.7 Disclosure of irregularities and illegal acts.

(a) The CPA shall design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and other illegal acts that could have a direct and material effect on financial statement amounts. As used in this part 1773, an "irregularity" shall be defined as any intentional misstatement or omission of amounts or disclosures in financial statements. Irregularities include fraudulent financial reporting undertaken to render financial statements misleading, sometimes called management fraud, and misappropriation of assets. Irregularities may involve, but are not limited to, acts such as the following:

(1) Manipulation, falsification, or alteration of accounting records or supporting documents from which financial statements are prepared.

(2) Misrepresentation or intentional omission of events, transactions, or other significant information.

(3) Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure.

(b) The CPA shall extend normal audit steps and procedures if there is an indication that an irregularity or illegal act may have occurred. The extended audit steps are to be directed to obtaining sufficient evidence to determine whether, in fact, an irregularity or illegal act has occurred, and, if so, the possible effect on the borrower's financial statements.

(c) The CPA shall report all instances or indications of irregularities or illegal acts, whether material or not to:

(1) The president of the borrower's board of directors,

(2) Supplemental lenders, if applicable,

(3) The Office of Inspector General, U.S. Department of Agriculture, Washington, DC 20250-1500 (OIG), and

(4) The Director, BAD.

§ 1773.8 Access to audit working papers.

A CPA performing an audit under the provisions of this part 1773 shall make the audit working papers available to REA, OIG, and the General Accounting Office (GAO) upon request. The CPA shall permit REA, OIG, and GAO to photocopy all audit workpapers.

§ 1773.9 Quality review of working papers.

(a) The CPA shall belong to, participate in, and have undergone a peer review conducted by an approved peer review program as set forth in § 1773.9(b) within three years prior to the current year's "as of" audit date.

(b) Acceptable peer review programs. The following peer review programs satisfy the requirements of § 1773.4(c):

(1) The peer review program conducted by the AICPA's Division for CPA Firms. The CPA firm selecting this program shall belong to either the Private Companies Practice Section (PCPS) or the SEC Practice Section.

(2) The peer review program conducted by the regulated audit program group of the National Conference of CPA Practitioners.

(3) Independent peer review programs approved by REA. These programs shall be approved if they require their members to abide by the following:

(i) Ensure that the CPA can legally engage in the practice of certified public accounting.

(ii) Adhere to the quality control standards established by the AICPA Quality Control Standards Committee that are in effect at the time of RE's evaluation.

(iii) Submit to peer reviews of the CPA's accounting and audit practice every three years or at such additional times as designated by its own executive committee. The reviews are to be conducted in accordance with review standards established by the PCPS Peer Review Manual.

(iv) Ensure that all professionals in the firm, including CPAs and nonCPAs, take part in qualifying continuing professional education as follows:

(A) Participate in at least one-hundred-twenty hours every three years, but not less than twenty hours in any one year, or

(B) Comply with mandatory continuing professional education requirements for state licensing or for state society membership, provided such state or society requires, during the reporting period, an average of forty hours per year of continuing professional education, and provided each professional in the CPA firm participates in at least twenty hours every year.

(C) A qualified continuing professional education course shall be one which meets the standards of the PCPS.

(c) Notification. The CPA shall notify the Director, BAD, in writing, of his/her participation in a peer review program. REA will notify the CPA within 60 days of receipt of this notice if the peer review program selected is unacceptable and the reasons therefor.

(d) Submission of reports. The CPA shall submit to the Director, BAD, a copy of any peer review report and accompanying letter of comment, if any, within 60 days of the date of receipt of such report and letter of comment. If the peer review report indicates a follow-up review will be made, the CPA shall submit subsequent reports to the Director, BAD, within 60 days of the date of the receipt of such reports. Peer review reports shall be submitted to the Director, BAD, at least once every three years, or more frequently, if required by the peer review program. A copy of the peer review report and accompanying letter of comments must be made available to OIG, upon request.

§ 1773.10 Audit requirements of supplemental lenders.

Many borrowers have received loans from other lenders which are secured under the same security document as the loans made or guaranteed by REA or FFB. These lenders are referred to in this part 1773 as "supplemental lenders." An audit report, report on compliance, report on internal controls, and management letter shall be furnished by the borrower to each supplemental lender, if applicable.

§§ 1773.11-1773.14 [Reserved]

Subpart B—Selection of CPA and REA Approval

§ 1773.15 Board of Directors responsible for selection.

(a) *Selection.* The borrower's board of directors or an audit committee composed entirely of borrower board members is responsible for selecting a qualified CPA. In selecting a CPA, the borrower shall consider the qualifications of CPAs available to do the work, with particular regard to experience in performing audits of utilities and the ability to complete the audit and submit the reports and management letter within three months of the "as of" audit date.

(b) *Board approval.* The board's approval of a CPA shall be recorded by a board resolution stating that:

(1) The CPA meets REA's qualifications to perform an audit, and

(2) The borrower and CPA will enter into an audit agreement in accordance with § 1773.16.

§ 1773.16 Audit agreement.

(a) An audit agreement shall be prepared and signed by the CPA and the borrower. This audit agreement must state that the audit is being performed as a requirement of the REA security instrument and any violation of REA audit requirements, procedures, or documentation requirements shall place the REA borrower in technical default of the REA security instrument. This agreement must also include provisions which assure the following:

(1) The audit report shall be signed by a CPA or CPA firm in good professional standing with a state's board of accountancy.

(2) The CPA is independent as defined in § 1773.4(b).

(3) The CPA shall comply with GAGAS, the rules and regulations of professional conduct promulgated by the accountancy board of the state in which the borrower is located, and the Code of Professional Ethics of the AICPA.

(4) The CPA shall perform the audit and shall prepare the audit report, report on compliance, report on internal controls, and management letter in accordance with the requirements of this part 1773.

(5) The CPA shall report all audit findings to the board of directors as required in § 1773.25 (b).

(6) The audit report, report on compliance, report on internal controls,

and management letter with copies for transmittal to REA, and supplemental lenders, if applicable, shall be submitted to the borrower's board of directors within three months of the "as of" audit date.

(7) Documentation and evidence of audit work performed shall be prepared in accordance with the professional standards of the AICPA and the requirements of this part 1773.

(8) Audit working papers shall be made available to REA, OIG, and GAO upon request. REA, OIG, or GAO may photocopy all audit and compliance workpapers.

(9) The CPA belongs to, participates in, has undergone a peer review conducted by an approved peer review program within three years of the current year's "as of" audit date, has received an unqualified peer review report, and has submitted a copy of said report to REA, as required in § 1773.9.

(10) The CPA shall disclose all disallowances resulting from testing performed as set forth in § 1773.40.

(11) The CPA shall follow the requirements of reporting irregularities and illegal acts as outlined in § 1773.7.

(12) The CPA has submitted to the borrower a duly executed certification as required pursuant to the provisions of Executive Orders 12549 and 12689, Debarment and Suspension, and any rules or regulations issued thereunder.

(b) The audit agreement may cover additional terms and conditions not listed in paragraph (a) of this section.

(c) A copy of the audit agreement shall be available at the borrower's office for inspection by REA personnel. Additionally, one copy of the current audit agreement shall be maintained in the CPA's working papers or permanent file.

§ 1773.17 Notification of selection.

(a) When the initial selection or subsequent change of a CPA by a borrower has been made, the borrower shall so advise, in writing, REA and supplemental lenders, if applicable.

(b) Notification to REA and supplemental lenders, if applicable, that the same CPA has been selected for succeeding audits of the borrower's financial statements is not required; however, the procedure must be followed for each new CPA selected, even though such CPA may previously have been approved by REA to audit records of other REA borrowers. Changes in the name of a CPA firm are considered to be a change in a CPA.

(c) The borrower shall notify REA and supplemental lenders, if applicable, of its selection, in writing, at least 90 days before the "as of" audit date. Notification shall include the reason(s) for the change. REA shall notify the borrower, in writing, within 30 days of the date of receipt of such notice, if the change in CPA is not satisfactory.

§ 1773.18 Dismissal of CPA.

The borrower shall immediately notify the Director, BAD, in writing, of its intention to dismiss a CPA prior to the CPA issuing its reports and management letter. Notification shall include the reason(s) for the dismissal.

§§ 1773.19-1773.24 [Reserved]

Subpart C—Submission and Review of Audit Report, Report on Compliance, Report on Internal Controls, and Management Letter

§ 1773.25 CPA's submission of the audit report, report on compliance, report on internal controls, and management letter.

(a) *Time limit.* As soon as possible after completion of the audit, but within three months of the "as of" audit date, the CPA shall deliver copies of the audit report, report on compliance, report on internal controls, and the management letter to the president of the borrower's board of directors. As a minimum, copies should be provided for each member of the board of directors and the manager. Two copies shall be provided to the borrower for transmittal to REA and one copy for each supplemental lender, if applicable.

(b) *Communication with the Board of Directors.* In addition to providing sufficient copies of the audit report, report on compliance, report on internal controls, and management letter for each member of the borrower's board of directors, the CPA shall report all audit findings to the board of directors. REA recommends that audit findings be communicated orally; however, the communication may be oral or written, at the borrower's discretion. If the information is communicated orally, the CPA shall document the communication by appropriate memoranda or notations in the working papers. If the CPA communicates in writing, a copy of the written communication shall be included in the CPA's audit working papers or permanent file.

(c) *Matters to be communicated.* Matters communicated to the board of directors shall include, but are not limited to:

(1) The initial selection of and changes in significant accounting policies;

(2) The methods used to account for significant, unusual transactions and the effects of significant accounting policies in controversial or emerging areas;

(3) The process utilized by management in formulating significant accounting estimates and the basis for the CPA's conclusions regarding the reasonableness of these estimates;

(4) Audit findings and recommendations, including audit adjustments that either individually or in the aggregate have a significant effect on the borrower's financial statements;

(5) The CPA's responsibility for other information presented with the audited financial statements, any audit procedures performed, and the results;

(6) any disagreements with management, whether or not satisfactorily resolved, concerning matters that individually or in the aggregate may be significant to the borrower's financial statements or the auditor's report, report on compliance, report on internal controls, or management letter;

(7) Significant matters that were the subject of consultations with other accountants;

(8) Significant issues discussed with management with regard to the initial or recurring retention of the CPA; and

(9) Any serious difficulties encountered in dealing with management during the performance of the audit.

§ 1773.26 Borrower's review and submission of the audit report, report on compliance, report on internal controls, and management letter.

(a) The borrower's board of directors should note and record receipt of the audit report, report on compliance, report on internal controls, and management letter and any action taken in response to the reports or management letter in the minutes of the board meeting at which such reports and management letter are presented.

(b) The borrower shall forward two copies of the audit report, report on compliance, report on internal controls, management letter, and plan for corrective action, if any, to REA within four months of the "as of" audit date. One copy of the same information is to be forwarded to each supplemental lender, where applicable.

(c) The borrower shall furnish REA and each supplemental lender, where applicable, copies of each special report, summary of recommendations or similar communications, if any, received from the CPA as a result of the audit.

§§ 1773.27–1773.29 [Reserved]

Subpart D—Audit Reporting Requirements

§ 1773.30 General.

The CPA shall: (a) Provide an audit report, as illustrated in appendixes A, exhibit 1 (Electric), and B, exhibit 1, (Telephone) to this part.

(b) Provide a report on compliance, as illustrated in appendixes A, exhibits 2 through 4 (Electric) and B, exhibits 2 through 4 (Telephone) to this part.

(c) Provide a report on internal controls, as illustrated in appendixes A, exhibits 5 and 6 (Electric) and B, exhibits 5 and 6 (Telephone) to this part.

(d) Provide a management letter as illustrated in appendix C to this part.

(e) Deliver the audit report, report on compliance, report on internal controls, and management letter (with copies as required in § 1773.25) to the borrower as soon as possible after completion of the audit but not more than three months after the "as of" audit date.

§ 1773.31 Audit report.

(a) *Electric borrowers.* The CPA shall prepare a written report on comparative balance sheets, statements of revenue and patronage capital (or retained earnings, if appropriate) and statements of cash flows. The report shall cover all statements presented. A suggested format for this report is shown in appendix A, exhibit 1 to this part.

(b) *Telephone borrowers.* The CPA shall prepare a written report on comparative balance sheets, statements of income and retained earnings (or patronage capital, if appropriate) and statements of cash flows. The report shall cover all statements presented. A suggested format for this report is shown in appendix B, exhibit 1 to this part.

(c) The CPA shall report on the adequacy of disclosures in the notes to the financial statements. Suggested notes to the financial statements include, but are not limited to:

(1) Significant accounting policies;

(2) Depreciable assets (property, plant, and equipment) and depreciation rates;

(3) Assets subject to lien;

(4) Investments, (including temporary cash investments);

(5) Subsidiaries and affiliated companies;

(6) Segment information (including nonregulated activities);

(7) Leases;

(8) Deferred charges;

(9) Prepaid expenses;

(10) Long-term debt;

(11) Deferred credits;

(12) Equity and capital accounts (including restrictions on return of capital);

(13) Pension and retirement plans (including deferred compensation arrangements);

(14) Income tax or tax exempt status;

(15) Commitments or contingent liabilities;

(16) Litigation;

(17) Related party transactions. The borrower shall disclose all related party transactions regardless of materiality in a manner consistent with the disclosure requirements set forth in Statement of Financial Accounting Standards No. 57, Related Party Disclosures, for material related party transaction;

(18) Subsequent events;

(19) Unusual accruals and allowances, such as extraordinary retirements;

(20) Prior period adjustments; and

(21) Where applicable, such additional disclosures specified in GAAP and GAGAS as may be necessary to allow readers to use, understand, and interpret the financial statements.

(d) The REA borrower shall disclose the amount of unbilled revenue, if material, in the notes to the financial statements. The CPA shall also report on the adequacy of this disclosure in accordance with § 1773.31(c) above.

§ 1773.32 Report on compliance.

(a) The CPA shall prepare a written report on the tests performed for compliance with applicable laws, regulations, REA bulletins, and contracts. This report shall contain a statement of positive assurance on those items which were tested for compliance and a statement of negative assurance for those items not tested. The report shall also disclose the status of known but uncorrected significant or material findings and recommendations from prior audits that affect the current audit objective. If, based upon assessments of materiality and audit risk, the CPA concludes that it is not necessary to perform tests of compliance with laws, regulations, REA bulletins, and contracts, the CPA shall issue a report as illustrated in appendix A, exhibit 2, (Electric) and appendix B, exhibit 2 (Telephone) to this part. If the CPA determines that testing for compliance with laws, regulations, REA bulletins, and contracts is necessary, and no material instances of noncompliance are found, the CPA shall issue a report as illustrated in appendix A, exhibit 3 (Electric) and appendix B, exhibit 3 (Telephone) to this part. The report shall include all instances of noncompliance that either individually or in the aggregate, equal or exceed $1,000, and all instances or indications of irregularities or illegal acts regardless of materiality. Illustrations of this report are shown in appendix A, exhibit 4 (Electric) and appendix B, exhibit 4 (Telephone) to this part.

(b) Other nonmaterial instances of noncompliance should not be disclosed in the report on compliance but shall be reported in a separate communication to the board of directors, preferably in writing. All such communications shall be documented in the working papers.

(c) If the CPA has issued a separate letter detailing immaterial instances of noncompliance, the report on compliance shall be modified to include a statement such as "We noted certain immaterial instances of noncompliance that we have reported to the management of (borrower's name) in a separate letter dated March 2, 19X0."

§ 1773.33 Report on internal controls.

(a) The CPA shall prepare a written report on the borrower's internal control structure and the assessment of control risk made as part of the financial statement audit. The report shall include, as a minimum, the scope of the CPA's work in obtaining an understanding of the borrower's internal control structure and in assessing the control risk; a description of the borrower's significant internal controls or control structure including the controls established to ensure compliance with the laws, regulations, REA bulletins, and contracts that have a material impact on the financial statements; and a description of the reportable conditions noted, if any, including the identification of material weaknesses, identified as a result of the CPA's work in understanding and assessing the control risk. The report shall also disclose the status of known but uncorrected significant or material findings and recommendations from prior audits that affect the current audit objective. Illustrations of this report are shown in appendix A, exhibits 5 and 6 (Electric) and appendix B, exhibits 5 and 6 (Telephone) to this part.

§ 1773.34 Management letter.

In accordance with REA reporting requirements, the CPA shall prepare a management letter as specified in this subpart D. A suggested format for this letter is shown in appendix C to this part. Comments shall be based upon information obtained by the CPA in applying audit procedures set out in subpart E of this part. At a minimum, in the management letter, the CPA shall:

(a) *Examination procedures.* State that the examination procedures specified in this part 1773 have been performed.

(b) *Special reports.* State whether any special report, summary of recommendations, or similar communications were furnished to the borrower's management during the course of the audit or during interim audit work and provide a description of the information furnished.

(c) *Accounting and records.* Comment on the adequacy and effectiveness of the borrower's accounting procedures, discuss the general condition of the records, and outline any recommendations for improvement. Include comments on the adequacy and fairness of the methods used in accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts. Where appropriate, comments shall be included on matters such as:

(1) Whether subsidiary plant records agree with the controlling general ledger plant accounts.

(2) Whether construction clearing accounts are cleared promptly of costs of completed construction to the proper classified plant accounts and whether depreciation was accrued on such completed construction from the dates completed plant was placed in service.

(3) Whether retirements of plant are currently and systematically recorded and properly priced.

(4) Whether all costs associated with retirements of plant are properly accounted for in the accumulated provision for depreciation accounts and comment on any unusual charges or credits to such accounts.

(5) Whether REA approval was not obtained for a sale requiring such approval, and whether receipts from sales of plant, material or scrap were not handled in conformance with REA requirements.

(d) *Materials control.* Comment on the adequacy of the control over materials and supplies. When appropriate, comment on discrepancies between physical inventory, perpetual inventory records, and the general ledger balance. The disclosure should identify the dollar amount of gross overages and gross shortages, as well as the net amount of the discrepancy; also the disclosure should indicate the disposition of any differences. Include recommendations for disposition of deferred amounts remaining on the books at the close of the audit for which a satisfactory method of disposition has not been determined.

(e) *Compliance with REA security instrument provisions.* State whether the following provisions of the REA security instrument have been complied with:

(1) *Electric.* (i) Provisions relating to the borrower's maintenance of insurance and application of insurance proceeds.

(ii) Provisions relating to where a borrower can keep its funds on deposit.

(iii) Provisions relating to the payment of salaries to directors or trustees.

(2) *Telephone.* (i) Provisions relating to the borrower's maintenance of insurance and application of insurance proceeds.

(ii) Provisions requiring written approval for a borrower to enter into any contract for the operation or maintenance of property, for the use of Mortgaged Property by others, or for services pertaining to toll traffic, operator assistance, extended scope or switching.

(iii) Provisions relating to where a borrower can keep its funds on deposit.

(iv) Provisions relating to the payment of salaries to directors or trustees.

(v) Provisions requiring a borrower to charge rates for telephone service that will yield revenues at least sufficient to enable the borrower to pay all taxes and expenses when due, make all interest and principal payments on notes as they come due, and achieve the TIER requirement specified in the security instrument.

(f) *Reports to REA.* State whether the information submitted to REA in the December 31 financial reports (REA Form 7 or Form 12 for Electric or REA Form 479 for Telephone) is in agreement with the borrower's records. Comment on any exceptions noted. If an amended report has been filed as of December 31, the comments shall relate to the amended report.

(g) *Service contracts.* If management and/or operations contracts are in effect between the borrower and affiliates or others, state whether payments have been made in accordance with the terms of the contracts. Also state whether the contracts have been approved by REA, unless previously addressed under § 1773.34(e)(2)(ii). If there are no contracts, a statement to this effect shall be included in the management letter.

(h) *Income tax status.* State which of the following income tax filing classifications apply to the borrower:

(1) "C" corporation filing, Form 1120;

(2) "S" corporation filing, Form 1120S; or

(3) Sec. 501(c)(12) corporation filing, Form 990.

(i) *Related party transactions.* State that all related party transactions, regardless of materiality, have been disclosed in the notes to the financial statements in a manner consistent with Statement of Financial Accounting Standards No. 57, Related Party Disclosures. If the examination did not disclose any related party transactions, so state.

(j) *Depreciation rates.* (1) Comment when the depreciation rates used in computing monthly accruals have not been accepted by REA or the regulatory body having jurisdiction over the borrower's depreciation rates.

(2) Provide information when proper accounting has not been carried out for original costs of plant removed and related salvage, and when the net result of these retirements is not properly reflected in the provision for depreciation accounts. Any unusual charges or credits should be fully disclosed.

(k) *Deferred debits and deferred credits.* Provide a detailed analysis of the totals reported as deferred debits and deferred credits, including but not limited to margin stabilization plans, revenue deferral plans, and expense deferrals. State whether REA approval has been obtained for each deferral.

(l) *Insurance certifications.* State whether the insurance certification filed by the borrower each year in accordance with 7 CFR part 1788 was accurate.

Subpart E—Audit Procedures and Documentation

§ 1773.35 Audit procedures.

This subpart E details audit procedures to be performed by the CPA during the examination of the REA borrower's financial statements. However, these procedures are not all-inclusive. In accordance with GAGAS, the CPA shall exercise judgement in determining whether additional or alternative auditing procedures are necessary to afford a reasonable basis for an opinion.

§ 1773.36 Planning and supervision.

In accordance with SAS No. 22, Planning and Supervision, and GAGAS:

(a) The CPA shall have or obtain a level of knowledge of the utility business that will enable the CPA to plan and perform the audit in accordance with GAGAS.

(b) In planning the audit the CPA shall consider the nature, extent, and timing of work to be performed and shall prepare a written audit program. This program should set forth in reasonable detail, the audit procedures that the CPA believes are necessary to accomplish the objectives of the audit.

(c) The CPA shall review work performed by assisting auditors to determine whether it was adequately performed and that the results are consistent with the conclusions presented in the audit report, report on compliance, report on internal controls, and management letter.

(d) The CPA shall consider the audit requirements of all levels of the government and plan the audit so that it will fulfill the legal and regulatory needs of identified potential users, including REA.

(e) The CPA shall obtain an understanding of the possible financial statement effects of law, regulations, REA bulletins, and contracts that are generally recognized by auditors to have a direct and material effect on the determination of financial statement amounts. The CPA shall then assess the risk that errors and irregularities may cause the financial statements to contain material misstatements. Based upon that assessment, the CPA shall design the audit to provide reasonable assurance of detecting errors and irregularities that could have a material effect on financial statement amounts. When assessing the requirement for compliance testing, the CPA shall consider, among other laws and regulations, all regulations issued and codified by REA in 7 CFR parts 1700 through 1799 and by RTB in 7 CFR part 1610.

(f) The CPA shall obtain an understanding of the internal control structure that is sufficient to plan the audit and assess control risk for the assertions embodied in the financial statements. This includes knowledge about the design of internal control structure policies and procedures relevant to financial statement assertions affected by compliance with laws, regulations, REA bulletins, and contracts that have a direct and material effect on the determination of financial statement amounts and whether these policies and procedures have been placed in operation.

§ 1773.37 Audits performed by successor auditors.

The CPA shall obtain sufficient competent evidential matter to afford a reasonable basis for expressing an opinion on the comparative financial statements the CPA has been engaged to examine as well as on the consistency of the application of accounting principles in that year as compared with the preceding year and for issuing the report on compliance, report on internal controls, and management letter. When a change in auditors takes place, the CPA shall comply with the provisions of SAS No. 7, Communications Between Predecessor and Successor Auditors, and shall document such compliance in the working papers.

§ 1773.38 Audit procedures and documentation.

(a) *Internal control.* (1) The CPA shall study and evaluate the borrowers' internal control procedures as part of the examination of financial statements whether or not the CPA intends to rely on the borrower's internal controls. This study and evaluation shall be documented by an internal control questionnaire and/or narratives. Conclusions drawn as a result of this study and evaluation shall be noted in the working papers.

(2) The CPA is responsible for determining those areas in which internal control procedures are to be relied on. Where the CPA does not intend to rely on specific internal control procedures during the audit, a statement of this fact, and the reasons therefore, shall be included in the audit working papers. *However,* where the CPA intends to rely on specific internal controls during the audit the following additional documentation is required:

(i) The CPA shall document the borrower's procedures. The documentation shall indicate:

(A) The internal control procedures being followed;

(B) The flow of information from the initiation of the transaction through the posting of accounting records;

(C) Key accounting documents processed;

(D) The segregation of duties; and

(E) Authorization limits and approvals required for transactions processed.

The narrative may be supported with copies of forms and related flow charts.

(ii) The CPA shall prepare working papers documenting the tests made to verify that the borrower's stated procedures were in fact being followed (i.e., tests of compliance) and indicating those aspects of internal control on which the CPA intends to rely for limiting tests of account balances.

(3) Where applicable, compliance with SAS No. 48, The Effects of Computer Processing on the Examination of Financial Statements, shall be documented.

(b) *Review of minutes and legal documents.*—(1) The working papers prepared by the CPA shall contain extracts from the minutes of the board of directors and the annual membership or stockholders' meeting. Copies or outlines resulting from a review of documents such as the articles of incorporation, bylaws, commission orders, security instruments and other loan documents, pension and retirement plans, labor agreements, and major contracts are to be a part of the working paper files.

(2) Compliance with transactions authorized in the minutes and with the legal documents noted above shall be tested by the CPA and documented in the working papers.

(c) *Working trial balance.* Amounts on the working trial balance must be readily traceable to audit working papers and to the summarized financial statements included in the audit report.

(d) *Utility plant and accumulated depreciation*—(1) *General.* Because of the large proportion of the plant value to total assets, the audit of these accounts shall include an examination of additions, replacements, retirements, and changes. Specifically, documentation prepared by the CPA shall show that:

(i) Direct labor and material transactions were examined in determining that the client's accounting records reflect a complete accumulation of costs.

(ii) Indirect costs and overhead charges were examined to determine if they conform to Uniform System of Accounts' requirements.

(iii) Costs of completed construction and retirements are cleared promptly from work in progress accounts to classified plant in service and related depreciation reserves.

(iv) Direct purchases of special equipment and general plant were examined.

(v) Tests were performed to determine the degree of accuracy and control of costing retirements, including tests of salvage and removal costs.

(vi) The borrower's work order procedures were documented and tested.

(vii) Depreciation rates were tested for adequate support, compared to REA guidelines and determined to be in compliance.

(2) *Construction work in progress.* (i) The working papers shall include a summary of open work orders reconciled to the general ledger. The CPA shall note on the summary unusual or nontypical projects.

(ii) For each annual audit, the CPA shall test a representative number of work orders and document such tests. It is recommended that, on a test basis, the CPA select at least one month's activity and verify all charges to the work orders by reviewing supporting records. These tests shall cover:

(A) *Equipment purchases.* Review equipment purchases charged to work orders, including payments and receiving reports.

(B) *Contract payments.* Review contracts showing scope of work, nature of contract, contract amount, and schedule of payments. Review supporting documents to determine that all services contracted for were in fact rendered.

(C) *Labor.* Select several employees who allocated their time to the work orders selected for testing. Review time cards and pay rates for these employees.

(D) *Material and Supplies.* Review the nature of material and supplies issued to the project and trace amounts and quantities to supporting documents. Review the reasonableness of clearing rates for assignment of stores expense to the work order.

(E) *Overheads.* Review the accuracy of the computation of overheads applied to the work order.

(F) *Other Charges.* Review other costs charged to the work order for support and propriety.

(iii) If construction was not performed by force account, the CPA shall select a representative number of completed contracts for review. Tests performed shall be documented in the working papers and shall include:

(A) Schedule payments to contractor and trace to verification of payment and supporting invoice.

(B) Trace contract costs to final closeout documents and to general ledger and continuing property records.

(C) Verify costs of owner furnished materials, if applicable.

(iv) The CPA shall review the borrower's procedures for unitization and classification of work order and contract costs. Tests performed shall be documented in the working papers and shall include:

(A) Tabulation of record units for construction from work orders staking sheets to tabulation of record units, to unitization sheets and to continuing property records.

(B) Procedures for unitizing and distributing costs of completed construction to plant accounts.

(C) Verification that standard costs are being used and test the basis for determining standard costs.

(D) Determination that costs of completed construction are cleared promptly from work in progress accounts.

(v) For a selected number of completed work orders and contracts tested, the CPA shall verify the physical existence of the plant constructed.

(3) *Continuing property records.* The CPA shall determine whether subsidiary plant records agree with the controlling general ledger plant accounts, note differences in the working papers and comment, in the management letter, on any discrepancies.

(4) *Retirement work-in-progress.* The CPA's working papers shall show that tests were made to determine that retirements of plant are currently and systematically recorded, priced on the basis of continuing property records, and that the costs of removal have been properly accounted for. If continuing property records have not been established, the CPA is required to explain the method used in computing costs of units of plant retired and state whether costs appear reasonable. The CPA is also required to test the accounting for net loss due to retirement and trace clearing entries to the depreciation reserve, the plant accounts and continuing property records.

(5) *Provision for accumulated depreciation.* The CPA's working papers shall include an analysis of transactions for the period documenting:

(i) A test of the depreciation accruals for the period, including the depreciation base.

(ii) The basis of the depreciation rates. Indicate any change in rates and the reason therefore and, if appropriate, approval by REA or the regulatory body having jurisdiction.

(iii) A test of salvage and removal costs.

(iv) A search for unrecorded retirements.

(6) *Other reserves.* The CPA's working papers shall include an account analysis and tests of transactions for all other material plant reserves, such as the reserve for the amortization of plant acquisition adjustments.

(7) *Narrative.* The CPA shall prepare and include in the working papers a comprehensive narrative on the scope of work done, observations made, and conclusions reached. Specific matters that are to be covered in this narrative include:

(i) The nature of construction and other additions.

(ii) The control over, and the accuracy of pricing retirements.

(iii) The accuracy of distributing costs to classified utility plant accounts.

(iv) An evaluation of the method of:

(A) Capitalizing the direct loadings on labor and material costs;

(B) Distributing transportation costs and other expense clearing accounts; and

(C) Capitalizing overhead costs.

(v) The tests of depreciation.

(vi) Review of agreements such as those relating to acquisitions, property sales, and leases which affect the plant accounts.

(vii) Notations, if applicable, of REA approval in connection with property sales and the propriety of the disposition of the proceeds.

(e) *Cash.* The CPA shall prepare working papers showing that the following audit procedures have been performed:

(1) Tests were performed to ascertain that all significant sources of cash receipts and disbursements are under effective accounting control.

(2) Receipt and disbursement activity was tested for a selected period based upon controls identified.

(3) Cash on hand and working funds were properly counted or confirmed.

(f) *Investments.* The CPA shall prepare working papers documenting that the following audit procedures have been performed:

(1) Ownership of investments was verified by inspection or confirmation, as appropriate, and that securities, if any, were properly safeguarded.

(2) Significant transactions (purchases and sales) were examined for proper authorization, approval, and supporting documentation and were accurately recorded in the accounting records.

(3) Tests were made of the related income, gain/loss and discount/premium accounts.

(g) *Receivables and Accumulated Provision for Uncollectible Notes and Accounts.* The CPA shall perform and document the audit procedures listed below:

(1) Reconcile the totals of the individual general ledger account balances with the supporting subsidiary detail.

(2) Confirm selected receivables and note in the working papers (i) the basis of selecting positive and negative confirmation requests and the extent of coverage in each case, and (ii) the results of the confirmation procedures and extent of follow-up on exceptions and nonresponses.

(3) Check thoroughly into any unreconciled differences resulting from requests for confirmation or between subsidiary records and control accounts.

(4) Test cash receipts and recording of revenues in connection with the collection of receivables from original source documents through the general ledger entry. (See § 1773.38(o)(3)).

(5) In testing the reserve for uncollectible notes and accounts, provide (i) a summary analysis of the transactions in the reserve accounts for the audit period; (ii) an evaluation of the adequacy of the accumulated provision for uncollectible notes and accounts; and (iii) evidence that write-offs were properly authorized.

(h) *Materials and supplies.* In connection with the inventory of materials and supplies the CPA shall perform and document the audit procedures listed below:

(1) Review and comment on the adequacy of the borrower's inventory procedures. Test check the unit prices, computations, and footings on the inventory tabulations. If not present when the inventory was taken, physically count a representative number of items and test check them to the physical inventory records.

(2) Review transactions occurring between inventory count dates and the "as of" audit date.

(3) Ascertain that the perpetual inventory records and the ledger accounts were brought into agreement with the physical inventory and comment on all discrepancies (overages and shortages) between the physical inventory records and the general ledger balances.

(4) Test the borrower's procedures for handling material and supplies. Tests shall cover:

(i) Clerical accuracy of extensions on stock record cards.

(ii) Substantiation of the cost used in pricing.

(iii) Purchases and receipts for a selected period.

(iv) Issuances.

(v) Salvage entries and adjustments.

(5) Review inventory for obsolete items and note conclusions in working papers.

(i) *Other assets.* (1) Prepayments.

(i) *Insurance.* The CPA's working papers shall contain an analysis of transactions, together with evidence that:

(A) A representative number of transactions were reviewed for support.

(B) The method of amortization was tested.

(C) The insurance certification, as reported to REA, is in agreement with the insurance policies in force.

(2) *Deferred charges.* The CPA's working papers shall contain evidence that all expense deferrals comply with the requirements of Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation and have received REA approval.

(i) *Extraordinary retirement losses.* The CPA's working papers shall show the basis and history of this account, including any required approval by a regulatory commission with jurisdiction in the matter or REA in the absence of commission jurisdiction.

(ii) *Clearing accounts.* The CPA's working papers shall contain an analysis of clearing accounts and evidence that transactions were reviewed for proper allocation between expense and capital accounts.

(3) *Other current assets.* The CPA shall prepare working papers showing the results of a review of the nature and composition of each major account included in this category.

(j) *Capital and equity accounts*—(1) *Capital stock.* For privately owned companies, the workpapers shall include analyses of the stock transactions during the audit period and provide documentation showing that:

(i) Subsidiary records were tested and reconciled to the general ledger control account.

(ii) Authorization and issuances or redemptions of capital stock were properly approved by the board of directors, stockholders, and regulatory commissions.

(iii) Transactions were made in accordance with the appropriate provisions of the articles of incorporation, bylaws, and REA loan documents.

(iv) Transactions were recorded in accordance with the Uniform System of Accounts, as supplemented by REA.

(2) *Memberships.* For cooperative-type organizations, the working papers shall include an analysis of the membership transactions during the audit period, supported by evidence that:

(i) Subsidiary records were tested and reconciled to the general ledger control account.

(ii) Transactions were made in accordance with the appropriate provisions of the articles of incorporation, bylaws, and REA loan documents.

(3) *Patronage capital, retained earnings, margins, and other equities.* The working papers shall include an analysis of these and any related reserve accounts, together with evidence that the transactions were tested, supported by evidence that:

(i) The transactions were made in accordance with the appropriate provisions of the articles of incorporation, bylaws, REA loan documents, Uniform System of Accounts as supplemented by REA, or orders of regulatory commissions.

(ii) Payments were tested by tracing to underlying support.

(iii) A determination has been made whether, under the terms of the security instruments, restrictions of retained earnings or margins are required and, if so, whether they have been properly recorded.

(k) *Long-term debt.* The CPA shall perform the audit work noted below and provide documentation to evidence this work:

(1) Reconcile long-term debt resulting from REA loans, including accumulated deferred interest, if any, to the most recent statement received from REA. REA automatically mails confirmation schedules of long-term obligations (REA Forms 690, Confirmation Schedule Obligation to the FFB "as of", or 691, Confirmation Schedule—Long-term Obligation to REA "as of", or RTB Form 12, Confirmation Schedule) directly to the CPA selected by the borrower to perform the annual audit. A written request for a confirmation schedule form is not necessary. REA does not confirm current interest or accumulated interest accruing subsequent to the date of the latest "Statement of Loan Account and Transactions for Three-Month Period Ending ____" (REA Forms 696, Statement of Loan Account & Transaction for Three Months Ending, or 697, FFB Loan Account Statement & Transactions for Three Months Ending, or RTB Form 13, Statement of Loan Account & Transactions).

(2) Confirm other long-term debt directly with the lender.

(3) Examine notes executed or canceled during the audit period.

(4) Test accrued interest computations.

(l) *Current and accrued liabilities.* The audit working papers prepared by the CPA shall contain evidence that:

(1) Subsidiary records for each current or accrued liability account were reconciled to the appropriate general ledger control account and include evidence, on a test basis, that the details were traced to disbursement vouchers, invoices, and other supporting documentation. The CPA shall also consider direct confirmation with creditors.

(2) Withholdings were analyzed on a test basis and document the extent of the verification.

(3) Significant accruals (interest, taxes, etc.) for the period as a whole were analyzed, and indicate that the balance of the accrual was tested and material disbursements vouched.

(4) Cash disbursements subsequent to the audit date were reviewed to determine whether the items paid represented liabilities at the audit dates.

(5) A search was made for unrecorded liabilities and the results of this search.

(m) *Deferred credits and reserves.* The CPA shall document in the audit working papers, the nature and basis of deferred credits, miscellaneous credits, and miscellaneous reserves, together with the extent of the tests made in this area.

(n) *Representations.* (1) The CPA shall document work performed in reviewing for contingencies. Acceptable evidence includes notes of discussions with the borrower's management and attorneys and an examination of the board minutes.

(2) A representation letter (SAS No. 19, Client Representations) shall be obtained from the borrower's management, and a representation letter as to contingent liabilities and litigation (SAS No. 12, Inquiry of a Client's Lawyer Concerning Litigations, Claims, and Assessments) shall be obtained from the borrower's attorney. Both letters shall be included in the audit working papers.

(o) *Revenues.* (1) The CPA's working papers shall contain an analysis of year-to-year changes in the revenue accounts, together with evidence of a review of significant variations in the current results as compared to the corresponding period in the previous year.

(2) The CPA's working papers shall contain evidence of a selected test of operating revenues from source documents through each step of the development of the revenue entry to the final postings in the general ledger. In connection with this test, there shall be evidence that the application of the approved rates, the mathematical accuracy of the billings, and the accounting classification were tested.

(3) Reconcile total revenue recorded for a test period to cash and receivables also recorded during the test period.

(4) The CPA shall determine whether all interest income is being properly accrued and accounted for and document tests performed.

(5) Document the amount of unbilled revenue at the audit date.

(p) *Expenses.* (1) The working papers in this area shall document the review and test of internal controls and related accounting procedures, particularly the controls and procedures used to ensure that expenses have been properly segregated as to operating and nonoperating expenses.

(2) The CPA's working papers shall contain a comparative analysis of expense accounts supported by evidence that:

(i) All unusual fluctuations were satisfactorily explained.

(ii) An analysis was made of selected accounts to assure proper classification and support for the charges.

(3) Procedures for paying and distributing the costs of payroll for a selected period shall be tested. Documentation of payrolls selected for detail testing shall be prepared by the CPA to show:

(i) The extent of mathematical tests and review of supporting documents for pay rates and withholdings.

(ii) A review of the borrower's procedures in distributing payroll costs to capital and expense accounts.

(q) *Related party transactions.* The CPA shall document compliance with SAS No. 45, Omnibus Statement on Auditing Standards—1983 (Related Parties). Supporting workpapers shall detail procedures applied and conclusions reached.

(r) *Subsequent Events.* In accordance with SAS No. 1, section 560, Subsequent Events, CPAs are responsible for collecting evidential matter pertaining to events between the audit date and the report date (normally the last day of field work). Documentation shall detail (1) procedures used to identify subsequent events, and (2) the effect of subsequent events on financial statements.

§ 1773.39 [Reserved]

Subpart F—Tests for Compliance—Electric

§ 1773.40 Review procedures.

(a) This subpart F details the steps and procedures to be performed by CPAs of electric borrowers during the review for compliance with applicable laws, regulations, REA bulletins, and contracts when the CPA determines that a violation of 7 CFR 1711.1 and the resulting reclassification of a long-term liability to a short-term liability will have a material impact on the financial statements. These procedures are designed to assure that:

(1) Loan funds are advanced only for projects that are included in an REA-approved construction workplan or amendments thereto and in an approved loan and that total advances do not exceed the amount approved for advance for the project;

(2) Projects approved as minor construction (those for which the total cost of construction is $25,000 or less) are not included in an REA-approved workplan; and

(3) Loan funds advanced to reimburse actual costs of construction do not exceed 130 percent of the projected cost estimate submitted on an approved REA Form 740c, Cost Estimates and Loan Budget for Electric Borrowers, as amended;

(b) The procedures detailed in § 1773.40 are to be considered minimum requirements and may be expanded during the course of the review by the CPA. They may not, however, be reduced or eliminated.

(c) When reporting items of noncompliance in accordance with the audit procedures set forth in § 1773.41, all items that, either individually or in the aggregate, equal or exceed $1,000 must be reported on the Schedule of Unapproved Advances. Compliance exceptions of less than $1,000 shall be documented in the audit working papers.

(d) Reporting items of noncompliance. The CPA shall prepare and submit to the borrower for submission to REA, the report on compliance and the following schedule of noncompliance:

(1) *Schedule of Unapproved Advances.* When compliance testing indicates that advances have been made in violation of 7 CFR 1711.1, the CPA shall prepare a Schedule of Unapproved Advances as shown in appendix D, exhibit 1 to this part. The borrower is responsible for returning to REA the amount of the improper advance of loan funds from REA together with any accrued and unpaid interest and an additional amount equal to the interest on the funds improperly advanced for the period such funds were outstanding calculated in accordance with 7 CFR 1711.1.

§ 1773.41 Advance of funds.

The CPA shall establish materiality levels for auditing advance of funds in a manner consistent with auditing procedures established for other audit segments. Having established these materiality levels, the CPA shall report all items of noncompliance as required in § 1773.40(c). The CPA shall perform the following review steps and procedures:

(a) Thoroughly review the provisions of Electric Operations Manual No. 4, Guidelines for the Implementation of 7 CFR 1711.1.

(b) Obtain or prepare schedules listing financial documents (REA Form 219, Contracts, Special Equipment Summaries, etc.) which support advances and disbursements of loan funds during the audit period, and cumulative amounts for the loan by loan application code.

(c) Verify that totals approved for advance, advanced, and disbursed for each sub-code or line item relating to site specific codes, do not exceed 130 percent of the estimated costs in the applicable REA Form 740c, Cost Estimates and Loan Budget for Electric Borrowers, unless they are supported by properly executed and approved workplan amendments.

(d) Verify that the cumulative totals approved for advance, advanced, and disbursed for each general purpose code (in total for each code but not including reimbursements listed under code 700) do not exceed 130 percent of the estimated costs in the applicable REA Form 740c unless they are supported by properly executed and approved workplan amendments.

(e) Select a sample of construction work orders, contracts, and special equipment summaries financed under codes 100, 600, and 700 and perform the following tests:

(1) For code 100, examine the description and loan application codes on the work order log and staking sheets to determine that construction was for new lines to serve consumers.

(2) For codes 600 and 700, review the documentation supporting the disbursement of loan funds to determine that the items are properly classified.

(3) For codes 600, 700, and 1100, review the initial entries to the subsidiary records to ensure that the proper cut off dates were used.

(4) Compare the actual costs to the amounts approved for advance, advanced, and disbursed to ensure that such amounts are properly supported.

(f) Select a sample of individual projects (sub-codes) for site specific codes. Compare the descriptions and loan application codes on the completed documents (work orders, contracts, etc.) with the descriptions and loan application codes on the work order log, staking sheets, applicable REA Form 740c, and the two-year workplan as amended. They should agree.

(g) For the sample selected in paragraph (e) of this section, compare the actual costs to the amounts approved for advance, advanced, and disbursed to ensure that such amounts are properly supported.

Note: Actual costs in excess of 130 percent of the estimated costs in the applicable REA Form 740c are not financeable unless a workplan amendment has been executed.

(h) If the cost of any project selected under paragraph (e) of this section is over $25,000 and is not disclosed in the approved workplan, review the supporting amendment(s) to the approved workplan for amounts and signatures.

(i) Select a sample of minor construction work orders (those for which the total cost of construction is $25,000 or less and not included on the approved workplan) and verify that they are not listed on the approved workplan.

(j) Prepare a Schedule of Unapproved Advances (See appendix D, exhibit 1 to this part), listing the amounts of advances (REA and supplemental lender) deemed to be improper relative to 7 CFR 1711.1 and related information required to compute costs incurred by the Rural Electric and Telephone Revolving Fund as a result of the overadvance(s).

(k) Advise the borrower of the improper advances, provide a copy of the Schedule of Unapproved Advances, and apprise them of the action necessary to eliminate the improper advances.

(l) Notify the appropriate Area Accounting Branch, by telephone, of the amount of the improper advance(s), the reason for the improper advance(s), and the dates that the improper advance(s) were made. Confirm the amount, in writing, with the appropriate Area Accounting Branch within 15 days of verbal notification. Indicate, in the workpapers, the date on which the appropriate Area Accounting Branch was provided with this information.

Note: The tests in the advance of funds segment of the review also apply to generation and transmission insured loans.

§§ 1773.42–1773.49 [Reserved]

Appendix A—Sample Audit Report for an Electric Cooperative

This appendix A includes an example of an audit report, report on compliance, report on internal controls, financial statements and accompanying notes for an electric distribution cooperative. The sample audit report is intended as a guide only and, while it is recommended that the format be followed, each audit report should be prepared to adequately cover the circumstances. To the extent possible, it should be used as a guide in preparing audit reports for other types of electric borrowers. For power supply borrowers and for distribution borrowers with production or transmission plant, the same general format should be followed. However, the Statement of Revenue and Patronage Capital must be expanded to show separate totals for operation expenses and maintenance expenses for each class of production plant and for transmission plant.

Appendix A—Sample Audit Report for an Electric Cooperative

Exhibit 1—Sample Auditor's Report

Certified Public Accountants; 1600 Main Street, City, State 24105.

The Board of Directors
Center County Electric Cooperative:

Independent Auditor's Report

We have audited the accompanying balance sheets of Center County Electric Cooperative as of December 31, 19X9 and 19X8, and the related statements of revenue and patronage capital, and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Center County Electric Cooperative as of December 31, 19X9 and 19X8, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Certified Public Accountants

March 2, 19X0

Exhibit 2—Sample Report on Compliance when, Based on Assessments of Materiality and Audit Risk, the CPA Concluded it was not Necessary to Perform Tests of Compliance with Laws and Regulations

Certified Public Accountants, 1600 Main Street, City, State 24105.

The Board of Directors
Center County Electric Cooperative:

We have audited the financial statements of Center County Electric Cooperative as of and for the years ended December 31, 19X9 and 19X8, and have issued our report thereon dated March 2, 19X0.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Complaince with laws, regulations, contracts, and grants applicable to Center County Electric Cooperative is the responsibility of Center County Electric Cooperative's management. As part of our audit, we assessed the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants could cause the financial statements to be materially misstated. We concluded that the risk of such material misstatement was sufficiently low that it was not necessary to perform tests of Center County Electric Cooperative's compliance with such provisions of laws, regulations, contracts, and grants.

However, in connection with our audit, nothing came to our attention that caused us to believe that Center County Electric Cooperative had not complied, in all material respects, with the laws, regulations, contracts, and grants referred to in the preceding paragraph.

This report is intended for the information of the audit committee, management, and the Rural Electrification Administration and supplemental lenders. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Certified Public Accountants

March 2, 19X0

Exhibit 3—Sample Report on Compliance when, Based on Assessments of Materiality and Audit Risk, the CPA Performed Compliance Testing and Found No Material Instances of Noncompliance

Certified Public Accountants, 1600 Main Street, City, State 24105.

The Board of Directors
Center County Electric Cooperative:

We have audited the financial statements of Center County Electric Cooperative as of and for the years ended December 31, 19X9 and 19X8, and have issued our report thereon dated March 2, 19X0.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Complaince with laws, regulations, contracts, and grants applicable to Center County Electric Cooperative is the responsibility of Center County Electric Cooperative's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Center County Electric Cooperative's compliance with laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, Center County Electric Cooperative complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Center County Electric Cooperative had not complied, in all material respects, with those provisions.

This report is intended for the information of the audit committee, management, and the Rural Electrification Administration and supplemental lenders. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Certified Public Accountants

March 2, 19X0

Exhibit 4—Sample Report on Compliance when, Based on Assessments of Materiality and Audit Risk, the CPA Performed Compliance Testing and Found Material Instances of Noncompliance

Certified Public Accountants, 1600 Main Street, City, State 24105.

The Board of Directors
Center County Electric Cooperative:

We have audited the financial statements of Center County Electric Cooperative as of and for the years ended December 31, 19X9 and 19X8, and have issued our report thereon dated March 2, 19X0.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Center County Electric Cooperative is the responsibility of Center County Electric Cooperative's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Center County Electric Cooperative's compliance with laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been corrected in Center County Electric Cooperative's 19X9 and 19X8 financial statements.

(Include paragraphs describing the material instances of noncompliance noted.)

We considered these material instances of noncompliance in forming our opinion on whether Center County Electric Cooperative's 19X9 and 19X8 financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated March 2, 19X0 on those financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, Center County Electric Cooperative complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that Center County Electric Cooperative had not complied, in all material respects, with those provisions.

This report is intended for the information of the audit committee, management, and the Rural Electrification Administration and supplemental lenders. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Certified Public Accountants

March 2, 19X0

Exhibit 5—Sample Report on Internal Controls When Reportable Conditions Were Found

Certified Public Accountants, 1600 Main Street, City, State 24105.

The Board of Directors
Center County Electric Cooperative:

We have audited the financial statements of Center County Electric Cooperative as of and for the years ended December 31, 19X9 and 19X8, and have issued our report thereon dated March 2, 19X0.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Center County Electric Cooperative for the years ended December 31, 19X9 and 19X8, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of Center County Electric Cooperative is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories (identify internal control structure categories).

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

(Include paragraphs to describe the reportable conditions noted.)

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and may not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of Center County Electric Cooperative in a separate letter dated March 2, 19X0.

This report is intended for the information of the audit committee, management, and the Rural Electrification Administration and supplemental lenders. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Certified Public Accountants

Exhibit 6—Sample Report on Internal Controls When No Reportable Conditions Were Found

Certified Public Accountants, 1600 Main Street, City, State 24105.

The Board of Directors
Center County Electric Cooperative:

We have audited the financial statements of Center County Electric Cooperative as of and for the years ended December 31, 19X9 and 19X8, and have issued our report thereon dated March 2, 19X0.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Center County Electric Cooperative for the years ended December 31, 19X9 and 19X8, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of Center County Electric Cooperative is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories (identify internal control structure categories).

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of Center County Electric Cooperative in a separate letter dated March 2, 19X0.

This report is intended for the information of the audit committee, management, and the Rural Electrification Administration and supplemental lenders. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Certified Public Accountants

Exhibit 7—Sample Financial Statements

CENTER COUNTY ELECTRIC COOPERATIVE BALANCE SHEETS—DECEMBER 31, 19X9 AND 19X8 ASSETS (NOTES 1 AND 2)

	19X9	19X8
Electric Plant: (Note 3)		
In service—at cost	$9,524,646	$9,365,264
Construction work in progress	407,943	317,166
	9,932,589	9,682,430
Less: Accumulated provisions for depreciation	3,117,629	2,917,295
	6,814,960	6,765,135
Other Assets and Investments:		
Nonutility property	20,227	20,227
Investments in associated organizations (Note 4)	391,258	292,798
	411,485	313,025
Current Assets:		
Cash—general funds	37,350	51,544
Cash—construction funds	10,034	20,193
Accounts receivable (less accumulated provision for uncollectible accounts of $2,207 in 19X9 and $1,933 in 19X8)	36,527	35,255
Materials and supplies (at average cost)	83,652	80,882
Other current and accrued assets	8,613	8,692
	176,176	196,566
Deferred Charges (Note 5):	5,666	1,762
	$7,408,287	$7,276,488

The accompanying notes are an integral part of these statements.

Center County Electric Cooperative Balance Sheets—December 31, 19X9 and 19X8 Equities and Liabilities (Note 1)

	19X9	19X8
Equities:		
Memberships	$60,145	$59,440
Patronage capital (Note 6)	1,761,798	1,526,833
Other equities (Note 7)	53,647	35,900
	1,875,590	1,622,173
Long-Term Debt:		
REA mortgage notes less current maturities (Note 8)	5,249,115	5,396,385
Current Liabilities:		
Current maturities of long-term debt	145,000	140,000
Accounts payable—purchased power	48,916	52,117
Accounts payable—other	21,859	6,556
Consumer deposits	32,660	33,085
Accrued taxes	10,958	9,146
Other current and accrued liabilities	12,285	6,461
	271,678	247,365
Deferred Credits (Note 10)	11,904	10,565
	$7,408,287	$7,276,488

The accompanying notes are an integral part of these statements.

Center County Electric Cooperative Statements of Revenue and Patronage Capital for the Years Ended December 31

	19X9	19X8
Operating Revenues:	$1,719,467	$1,605,690
Operating Expenses:		
Cost of power	587,729	625,411
Distribution—operation	111,058	121,682
Distribution—maintenance	158,622	182,740
Consumer accounts	76,675	72,927
Sales	38,378	40,755
Administrative and general	94,682	87,058
Depreciation and amortization	288,389	279,776
Taxes	34,920	34,438
	1,390,453	1,444,787
Operating Margins Before Fixed Charges	329,014	160,903
Fixed Charges:		
Interest on long-term debt	113,713	115,082
Operating Margins After Fixed Charges	215,301	45,821
G&T and Other Capital Credits	14,460	17,500
Net Operating Margins	229,761	63,321
Nonoperating Margins:		
Interest Income	24,289	18,802
Other Nonoperating Income	1,200	1,200
	25,489	20,002
Net Margins	255,250	83,323
Patronage Capital—Beginning of Year	1,526,833	1,469,125
	1,782,083	1,552,448
Retirement of Capital Credits	20,285	25,615
Patronage Capital—End of Year	$1,761,798	$1,526,833

The accompanying notes are an integral part of these statements.

Center County Electric Cooperative Statements of Cash Flows for the Years Ended December 31, 19X9 and 19X8

	19X9	19X8
Cash Flows From Operating Activities:		
Cash received from consumers	$1,721,496	$1,609,933
Cash paid to suppliers and employees	(1,049,139)	(1,126,367)
Interest received	24,289	18,802
Interest paid	(114,131)	(115,607)
Taxes paid	(33,108)	(32,132)
Net cash provided by operating activities	549,407	354,629
Cash Flows From Investing Activities:		
Construction and acquisition of plant	(322,234)	(216,427)
Plant removal costs	(25,994)	(19,268)
Materials salvaged from retirements	10,014	7,327
(Increase)/decrease in:		
Materials inventory	(2,770)	1,916
Deferred charges—preliminary survey and investigation	(3,486)	(2,617)
Investments—CFC capital term certificates	(82,472)	(69,412)
Inventory adjustment—deferred credit decrease	(2,290)	(1,057)
Net cash used in investing activities	(429,232)	(299,538)
Cash Flows From Financing Activities:		
Retirements of patronage capital credits	(20,285)	(25,615)
Retired capital credits—gain	1,200	1,200
Donated capital	16,547	6,178
REA loan advances	174,976	197,450
Payments on REA debt	(317,246)	(279,575)
Increase/(decrease) in:		
Consumer deposits	(425)	575
Memberships issued	705	450
Net cash used in financing activities	(144,528)	(99,337)
Net increase/(decrease) in cash	(24,353)	(44,246)
Cash—beginning of year	71,737	115,983
Cash—end of year	47,384	71,737

Center County Electric Cooperative Statements of Cash Flows for the Years Ended December 31, 19X9 and 19X8

[Reconciliation of Net Margins to Net Cash Provided by Operating Activities]

	19X9	19X8
Net margins	$255,250	$83,323
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	288,389	279,776
G&T and other capital credits (non-cash)	(14,460)	(17,500)
Patronage capital credits—NRUCFC (non-cash)	(1,528)	(1,200)
Provision for uncollectible accounts receivable	(526)	274
(Increase)/decrease in:		
Customer and other accounts receivable	(1,546)	2,523
Current and accrued assets—other	79	112
Increase/(decrease) in:		
Accounts payable	12,102	5,117
Accrued taxes	1,812	2,306
Deferred energy prepayments	3,629	2,246
Current and accrued liabilities—other	5,824	(1,023)
Deferred interest expense	(418)	(525)
Total adjustments	294,157	271,306
Net cash provided by operating activities	549,407	354,629

The accompanying notes are an integral part of these statements.

Center County Electric Cooperative Notes to Financial Statements December 31, 19X9 and December 31, 19X8

1. Summary of Significant Accounting Policies:

Present a description of the reporting entity's significant accounting policies in accordance with Accounting Principles Board Opinion No. 22, Disclosure of Accounting Policies.

Disclosure of accounting policies should identify and describe the accounting principles followed by the borrower and the methods of applying those principles that materially affect the determination of financial position, cash flow, and results of operations.

Disclosures of accounting policies do not have to be duplicated in this section if presented elsewhere as an integral part of the financial statements.

2. Assets Pledged:

Substantially all assets are pledged as security for long-term debt to REA.

3. Electric Plant and Depreciation Rates and Procedures:

Listed below are the major classes of the electric plant as of December 31, 19X9, and 19X8:

	19X9	19X8
Intangible plant	$2,194	$2,194
Distribution plant	9,011,036	8,873,957
General plant	511,416	489,113
Electric plant in service	9,524,646	9,365,264

	19X9	19X8
Construction work in progress	407,943	317,166
	9,932,589	9,682,430

Provision had been made for depreciation of distribution plant at a straight-line composite rate of 2.86 percent per annum.

General Plant depreciation rates have been applied on a straight-line basis and are as follows:

Structures and Improvement	2.5%
Office Furniture	6.0%
Transportation Equipment	14.0%
Power Operated Equipment	12.0%
Other General Plant	4.0%
Communications Equipment	6.0%

4. Investments in Associated Organizations:

Investments in associated organizations consisted of the following at December 31, 19X9, and 19X8:

	19X9	19X8
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	$385,193	$288,261
NRUCFC patronage capital credits	5,065	3,537
Other	1,000	1,000
	391,258	292,798

5. Deferred Charges:

Following is a summary of amounts recorded as deferred charges as of December 31, 19X9, and 19X8:

	19X9	19X8
Preliminary surveys 19X0—X1 work plan	$5,666	$1,762

6. Patronage Capital:

At December 31, 19X9, and 19X8, patronage capital consisted of:

	19X9	19X8
Assignable	$255,250	$83,323
Assigned to Date	1,952,448	1,869,125
	2,207,698	1,952,448
Less: Retirements to Date	445,900	425,615
	1,761,798	1,526,833

Under the provisions of the Mortgage Agreement, until the equities and margins equal or exceed forty percent of the total assets of the cooperative, the return to patrons of capital contributed by them is limited generally to twenty-five percent of the patronage capital or margins received by the cooperative in the prior calendar year. The equities and margins of the cooperative represent 25.3 percent of the total assets at balance sheet date. Capital credit retirements in the amount of $20,285 were paid in 19X9.

7. Other Equities:

At December 31, 19X9, and 19X8, other equities consisted of:

	19X9	19X8
Retired capital credits—gain	$36,190	$34,990
Donated capital	17,457	910
	53,647	35,900

8. Mortage Notes—REA:

Long-term debt is represented by mortgage notes payable to the United States of America. Following is a summary of outstanding long-term debt as of December 31, 19X9, and 19X8:

	19X9	19X8
2% Notes due March 31, 19X9	$1,057,155	$1,098,700
2% Notes due December 31, 1996	2,485,927	2,502,370
5% Notes due December 31, 1996	1,851,033	1,935,315
Less: current maturities	(145,000)	(140,000)
	5,249,115	5,396,385

Unadvanced loan funds of $285,600 are available to the cooperative on loan commitments from REA.

Principal and interest installments on the above notes are due quarterly in equal amounts of $99,600. As of December 31, 19X9, annual maturities of long-term debt outstanding for the next five years are as follows:

19X0	$145,000
19X1	$150,000
19X2	$151,500
19X3	$154,000
19X4	$155,000

Advance payments of $252,300 may be applied to the installments.

9. Pension Plan:

Substantially all of the employees of the Cooperative are covered by the ABC Retirement and Security Program, a defined benefit multiemployer plan. Pension expense for the years ended 19X9 and 19X8 was $22,400.00 and $20,400.00, respectively.

10. Deferred Credits:

Following is a summary of the amounts recorded as deferred credits as of December 31, 19X9 and 19X8:

	19X9	19X8
Customer energy payments	$6,694	$3,065
Inventory adjustment	5,210	7,500
	11,904	10,565

11. Litigation:

The cooperative is defendant in an action in which the plaintiff claims damages totaling $200,000 for personal injuries sustained. The action has been dismissed by the District Court, but is on appeal before the State Supreme Court. Management is of the opinion that no liability will be incurred by the cooperative as a result of this action.

12. Commitments:

Under its wholesale power agreement, the cooperative is committed to purchase its electric power and energy requirements from Central Power Cooperative, Inc., until December 31, 19XX. The rates paid for such purchases are subject to review annually.

Appendix B—Sample Audit Report for a Class A or B Commercial Telephone Company

This appendix B includes an example of a short-form audit report, report on compliance, report on internal controls, financial statements and accompanying notes for a commercial telephone company. The sample audit report is intended as a guide only and, while it is recommended that the format be followed, each audit report should be prepared to adequately cover the circumstances. To the extent possible, it should be used as a guide in preparing audit reports for other types of telephone borrowers.

Appendix B—Sample Audit Report for a Class A or B Commercial Telephone Company

Exhibit 1—Sample Auditor's Report

Certified Public Accountants, 1600 Main Street, City, State 24105.

The Board of Directors
Center Telephone Company

Independent Auditor's Report

We have audited the accompanying balance sheets of Center Telephone Company as of December 31, 19X9 and 19X8, and the related statements of revenue and patronage capital, and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Center Telephone Company as of December 31, 19X9 and 19X8, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Certified Public Accountants

Exhibit 2—Sample Report on Compliance When, Based on Assessments of Materiality and Audit Risk, the CPA Concluded it was not Necessary to Perform Tests of Compliance with Laws and Regulations

Certified Public Accountants, 1600 Main Street, City, State 24105.

The Board of Directors
Center Telephone Company:

We have audited the financial statements of Center Telephone Company as of and for the years ended December 31, 19X9 and 19X8, and have issued our report thereon dated March 2, 19X0.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Center Telephone Company is the responsibility of Center Telephone Company's management. As part of our audit, we assessed the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants could cause the financial statements to be materially misstated. We concluded that the risk of such material misstatement was sufficiently low that it was not necessary to perform tests of Center Telephone Company's compliance with such provisions of laws, regulations, contracts, and grants.

However, in connection with our audit, nothing came to our attention that caused us to believe that Center Telephone Company had not complied, in all material respects, with the laws, regulations, contracts and grants referred to in the preceding paragraph.

This report is intended for the information of the audit committee, management, and the Rural Electrification Administration and supplemental lenders. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Certified Public Accountants

March 2, 19X0

Exhibit 3—Sample Report on Compliance When, Based on Assessments of Materiality and Audit Risk, the CPA Performed Compliance Testing and Found no Material Instances of Noncompliance

Certified Public Accountants, 1600 Main Street, City, State 24105.

The Board of Directors
Center Telephone Company:

We have audited the financial statements of Center Telephone Company as of and for the years ended December 31, 19X9 and 19X8, and have issued our report thereon dated March 2, 19X0.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Center Telephone Company is the responsibility of Center Telephone Company's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Center Telephone Company's compliance with laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, Center Telephone Company complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Center Telephone Company had not complied, in all material respects, with those provisions.

This report is intended for the information of the audit committee, management, and the Rural Electrification Administration and supplemental lenders. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Certified Public Accountants

March 2, 19X0

Exhibit 4—Sample Report on Compliance When, Based on Assessments of Materiality and Audit Risk, The CPA Performed Compliance Testing and Found Material Instances of Noncompliance

Certified Public Accountants, 1600 Main Street, City, State 24015.

The Board of Directors
Center Telephone Company:

We have audited the financial statements of Center Telephone Company as of and for the years ended December 31, 19X9 and 19X8, and have issued our report thereon dated March 2, 19X0.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Center Telephone Company is the responsibility of Center Telephone Company's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Center Telephone Company's compliance with laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been corrected in Center Telephone Company's 19X9 and 19X8 financial statements.

(Include paragraphs describing the material instances of noncompliance noted.)

We considered these material instances of noncompliance in forming our opinion on whether Center Telephone Company's 19X9 and 19X8 financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated March 2, 19X0 on those financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested Center Telephone Company complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that Center Telephone Company had not complied, in all material respects, with those provisions.

This report is intended for the information of the audit committee, management, and the Rural Electrification Administration and supplemental lenders. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Certified Public Accountants

March 2, 19X0

Exhibit 5—Sample Report on Internal Controls When Reportable Conditions Were Found

Certified Public Accountants, 1600 Main Street, City, State 24105.

The Board of Directors
Center Telephone Company:

We have audited the financial statements of Center Telephone Company as of and for the years ended December 31, 19X9 and 19X8, and have issued our report thereon dated March 2, 19X0.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Center Telephone Company for the years ended December 31, 19X9 and 19X8, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of Center Telephone Company is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories (identify internal control structure categories).

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

(Include paragraphs to describe the reportable conditions noted.)

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and may not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is believed to be a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of Center Telephone Company in a separate letter dated March 2, 19X0.

This report is intended for the information of the audit committee, management, and the Rural Electrification Administration and supplemental lenders. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Certified Public Accountants

Exhibit 6—Sample Report on Internal Controls When No Reportable Conditions Were Found

Certified Public Accountants, 1600 Main Street, City, State 24105.

The Board of Directors
Center Telephone Company:

We have audited the financial statements of Center Telephone Company as of and for the years ended December 31, 19X9 and 19X8, and have issued our report thereon dated March 2, 19X0.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Center Telephone Company for the years ended December 31, 19X9 and 19X8, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of Center Telephone Company is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories (identify internal control structure categories).

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of Center Telephone Company in a separate letter dated March 2, 19X0.

This report is intended for the information of the audit committee, management, and the Rural Electrification Administration and supplemental lenders. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Certified Public Accountants

Exhibit 7—Sample Financial Statements

CENTER TELEPHONE COMPANY BALANCE SHEETS—DECEMBER 31, 19X9 AND 19X8 ASSETS (NOTES 1 AND 2)

	19X9	19X8
Current Assets:		
Cash—construction funds	21,000	18,000
Cash—general funds	128,300	140,083
Telecommunications accounts receivable (less accumulated provision of $11,597 in 19X9 and $1,490 in 19X8)	139,642	122,623
Notes receivable	2,500	3,000
Materials and supplies	103,713	73,964
Prepayments (Note 3)	49,185	62,201

CENTER TELEPHONE COMPANY BALANCE SHEETS—DECEMBER 31, 19X9 AND 19X8 ASSETS (NOTES 1 AND 2)—Continued

	19X9	19X8
Other current assets	1,357	10,131
	445,697	430,002
Noncurrent Assets:		
Nonregulated investments: (Note 4)		
Net CATV plant	413,511	407,086
Net nonregulated customer premises equipment	103,618	0
Deferred maintenance and retirements (Note 5)	40,000	45,000
	557,129	452,086
Property, Plant, and Equipment: (Note 6)		
Telecommunications plant in service	$7,401,300	$6,650,553
Telecommunications plant under construction	67,626	199,092
Telecommunications plant adjustment (Note 7)	176,380	176,380
	7,645,306	7,026,025
Less: accumulated provision for depreciation	1,760,587	1,504,255
	5,884,719	5,521,770
	$6,887,545	$6,403,858

The accompanying notes are in integral part of these statements.

CENTER TELEPHONE COMPANY BALANCE SHEETS—DECEMBER 31, 19X9 AND 19X8 LIABILITIES AND EQUITIES

	19X9	19X8
Current Liabilities:		
Accounts payable	123,689	290,484
Notes payable	61,600	70,400
Advance billings and payments	2,137	2,243
Customers deposits	11,878	4,940
Current maturities of long-term debt (Note 8)	146,646	145,998
Accrued taxes	242,076	224,566
Other current liabilities	8,500	9,079
	596,526	747,710
Long-Term Debt:		
REA mortgage notes (Note 8)	4,592,658	4,128,106
Other Liabilities and Deferred Credits:		
Unamortized investment tax credits (Note 10)	53,078	61,377
Deferred income taxes (Note 11)	37,137	35,039
	90,215	96,416
Stockholders' Equity		
Capital stock—common $2 par value—300,000 shares authorized; 102,600 shares outstanding 19X9 and 19X8	205,200	205,200
Addition paid-in capital	820,800	820,800
Retained earnings (Note 8)	582,146	405,626
	1,608,146	1,431,626
	$6,887,545	$6,403,858

The accompanying notes are an integral part of these statements.

CENTER TELEPHONE COMPANY STATEMENTS OF INCOME AND RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31

	19X9	19X8
Operating Revenues:		
Basic local network services	$836,822	$882,205
Network access services	125,042	0
Long distance network services	897,300	775,073
Miscellaneous	144,435	147,100
Less: uncollectible revenues	(24,000)	(24,500)
	1,979,599	1,759,878

CENTER TELEPHONE COMPANY STATEMENTS OF INCOME AND RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31—Continued

	19X9	19X8
Operating Expenses:		
Plant specific operations	564,486	480,509
Plant nonspecific operations	187,162	393,143
Depreciation and amortization	274,691	
Customer operations	94,473	78,772
Corporate operations	157,453	134,127
	1,278,265	1,086,551
Operating Taxes:		
Federal and state income taxes—operating (Notes 10 and 11)	159,845	170,687
Other operating taxes	225,013	204,230
Provision for deferred taxes (Note 10)	31,566	29,468
Investment credits—net	6.201	1,640
	422.625	406,025
Operating Income:	278,709	267,302
Fixed Charges:		
Interest on long-term debt	88,432	85,854
Interest charged to construction—credit	(2,251)	(1,516)
	86,181	84,338
Nonregulated Income—NET (Note 4)	19.902	10,593
Net Income for Period	212,430	193,557
Retained Earnings—January 1, 19X9 and 19X8	405,626	235,153
Dividends declared	(35,910)	(23,084)
Retained Earnings—December 31, 19X9 and 19X8	$582,146	$405,626
Earnings per share of common stock—average	$2.07	$1.89

The accompanying notes are an integral part of these statements.

CENTER COUNTY TELEPHONE COMPANY STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 19X9 AND 19X8

	19X9	19X8
Cash Flows From Operating Activities:		
Cash Received from Consumers	$1,962,580	$1,733,289
Cash Paid to Suppliers and Employees	(1,159,158)	(960,459)
Interest Paid	(86,181)	(84,338)
Taxes Paid	(401,316)	(376,643)
Net Cash Provided by Operating Activities	$315,925	$311,849
Cash Flows From Investing Activities:		
Construction and Acquisition of Plant	(619,281)	(507,617)
Investment in CATV Plant	(6,425)	(18,246)
Investment in Nonregulated CPE	(103,618)	
Plant Removal Costs	(18,359)	(27,216)
(Increase)/Decrease In:		
Materials Inventory	(29,749)	(19,478)
Notes Receivable	500	1,000
Deferred Maintenance and Retirements	5,000	(45,000)
Nonregulated Income	19,902	10,593
Net Cash Used in Investing Activities	(752,030)	(605,964)
Cash Flows From Financing Activities:		
Dividends Paid	(35,910)	(23,084)
Debt Proceeds	465,200	386,000
Payments on Short-term Debt	(8,800)	(7,500)
Increase/(Decrease) In:		
Consumer Deposits and Advance Payments	6,832	4,200
Net Cash Provided by Financing Activities	427,322	359,616
Net Increase/(Decrease) in Cash	$(8,783)	$65,501
Cash—Beginning of Year	158,083	92,582
Cash—End of Year	$149,300	$158,083

CENTER COUNTY TELEPHONE COMPANY STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 19X9 AND 19X8

[RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES]

	19X9	19X8
Net Margins	$212,430	$193,557
Less: Nonregulated Income	(19,902)	(10,593)
Net Income from Regulated Operations	192,528	182,964
Adjustments to Reconcile Net Margins to the Net Cash Provided by Operating Activities:		
Depreciation and Amortization	274,691	253,509
Provision for Uncollectible Accounts Receivable	10,107	(3,610)
(Increase)/Decrease In:		
Customer and Other Accounts Receivable	(27,126)	(22,979)
Current and Accrued Assets—Other	8,774	5,119
Prepaid Taxes	10,000	(10,000)
Other Prepaid Expenses	3,016	(5,426)
Increase/(Decrease) In:		
Accounts Payable	(166,795)	(126,472)
Accrued Taxes	17,510	37,742
Accrued Pension Costs	500	933
Other Current Liabilities	(579)	(638)
Deferred Credits	(6,201)	1,640
Total Adjustments	$123,397	$128,885
Net Cash Provided by Operating Activities	$315,925	$311,849

The accompanying notes are an integral part of these statements.

Center Telephone Company Notes to Financial Statements December 31, 19X9 and December 31, 19X8

1. Summary of Significant Accounting Policies:

Include a brief description of the reporting entity's significant accounting policies in accordance with Accounting Principles Board Opinion No. 22, *Disclosure of Accounting Policies.*

Disclosure of accounting policies should identify and describe the accounting principles followed by the borrower and the methods of applying those principles that materially affect the determination of financial position, cash flows, and results of operations.

Disclosures of accounting policies do not have to be duplicated in this section if presented elsewhere as an integral part of the financial statements.

2. Assets Pledged:

Substantially all assets are pledged as security for the long-term debt to REA.

3. Prepaid Expenses:

Following is a summary of the amounts recorded as prepaid items as of December 31, 19X9 and 19X8:

	19X9	19X8
Prepaid taxes	$10,000	$20,000
Prepaid insurance	3,000	3,000
Prepaid rent	36,185	39,201
	$49,185	$62,201

4. Nonregulated Investments:

	19X9	19X8
CATV plant in service	$430,440	$420,940
CATV plant under construction	9,051	6,500
Total CATV plant	439,491	427,440
Less accumulated depreciation	25,980	20,354
Net CATV plant	413,511	407,086

CATV plant in service and under construction is stated at cost. The company provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. The offering of CATV services does not involve the joint or shared use of assets in the provision of regulated and nonregulated services.

	19X9	19X8
Nonregulated customer premises equipment—leased	$109,699	0
Less: Accumulated Provisions for Depreciation	6,081	0
	103,618	0

Nonregulated CPE is stated at cost. The company provides for depreciation on a straight-line basis at an annual rate of depreciation which will amortize the cost of the equipment over its estimated useful life. The leasing of nonregulated customer premises equipment does not involve the joint or shared use of assets in the provision of regulated and nonregulated services.

Following is a summary of net income from nonregulated investments for the year ending December 31, 19X9:

	Deregulated		
	CATV	CPE	Total
Income from operations	$32,425	$9,151	$41,576
Expenses	18,834	2,840	21,674
	13,591	6,311	19,902

Income tax expense totaled $3,556, of which $2,883 was applicable to CATV operations and $673 was applicable to CPE leasing activities.

5. Deferred Charges:

The balance consists of the unamortized portion of the unprovided for loss in service value of plant retired.

Description	Date	Original Balance Net of Income-Tax Savings	Unamortized Balance	
			19X9	19X8
Aerial Plant	1/1/X7	50,000	40,000	45,000

The Public Utilities Commission granted the company permission to amortize this loss over a ten-year period net of income tax savings of $10,542.

6. Investment In Telephone Plant:

Telephone plant in service and under construction is stated at cost. Listed below are the major classes of the telephone plant as of December 31, 19×9 and 19×8:

	19X9	19X8
Land	$64,601	64,601
Motor vehicles	76,417	76,043
Special purpose vehicles	58,908	64,679
Other work equipment	43,582	40,022
Buildings	564,509	500,267
Furniture and office equipment	87,045	79,039
Central office equipment	3,171,162	2,746,871
Customer premises wiring	64,231	73,915
Poles, cables, and wire	2,458,895	2,300,411
Telecommunications plant in service—unclassified	811,950	704,705
	7,401,300	6,650,553

The company provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of telephone plant in service was 7.2 percent in 19×9 and 7.1 percent in 19×8. Individual plant depreciable rates are as follows:

Motor vehicles	25%
Special purpose vehicles	13%
Other work equipment	16%
Buildings	4%
Furniture and office equipment	10%
Central office equipment	4%
Customer premises wiring	10%
Outside plant—aerial and buried cable	5%
Outside plant—pole lines and aerial wire	20%

7. Telephone Plant Adjustment:

This adjustment represents the difference between the amount paid for the telephone plant plus associated expenses and the original cost of the plant less the associated depreciation. The company is amortizing the adjustment over a 19½ year period in accordance with the Public Utility Commission. Annual amortization amounts to $9,000.

8. Mortgage Notes:

Long-term debt is represented by mortgage notes payable to the United States of America. Following is a summary of outstanding long-term debt:

	19X9	19X8
5% Notes due December 31, 1996	$4,739,304	$4,274,104
Less: Current Maturities	146,646	145,998
	$4,592,658	$4,128,106

As of December 31, 19X9, there were no unadvanced funds.

Principal and interest installments on the above notes are due quarterly in equal amounts of $63,200. The maturities of long-term debt for each of the five years succeeding the balance sheet date is as follows:

1990	$146,649
1991	$153,839
1992	$155,743
1993	$143,000
1994	$139,976

The long-term debt agreements contain restrictions on the payment of dividends or redemption of capital stock. The terms of the Mortgage Agreement require the maintenance of defined amounts of member's equity and working capital after payment of dividends. Under these provisions approximately $293,688 of retained earnings was available for payment of dividends at December 31, 19X9.

9. Pension Plan:

Substantially all employees of the company are covered by the XYZ Retirement and Security plan, a defined benefit multiemployer plan. Pension expense for the years ended 19X9 and 19X8 was $12,000.00 and $11,500.00, respectively.

10. Income Taxes and Deferred Income Taxes:

The company uses a different method of depreciation on plant additions for income tax purposes. As provided by the Economic Recovery Act of 1981, the company has elected to use the Accelerated Cost Recovery System (ACRS) method of depreciation for plant additions after 1980. In addition to the different depreciation practices for book and tax purposes, the company does not capitalize extraordinary maintenance and retirements and cost of removal charges for tax purposes. Provision is made in the statements of income and retained earnings for the taxes deferred as a result of the above timing differences. The differences between accounting for book and tax purposes pertaining to income taxes and investment tax credits are accounted for using the normalization method of accounting, as is required for property placed in service after December 31, 1980, under the Economic Recovery Tax Act of 1981.

11. Investment Tax Credits:

The company follows the practice of recording investment tax credit as a deferred income, to be amortized over the life of the assets providing the credit as required by the Public Service Commission. Accordingly, Federal income tax expense at December 31, 19X9, was reduced $7,400 by the investment tax credit amortization.

12. Commitments:

The company has executed contracts for construction programs for approximately $225,000 at December 31, 19X9. The amount unpaid against these commitments at December 31, 19X9 is $185,000.

Appendix C—Sample Management Letter—Electric and Telephone

REA requires that CPAs auditing REA borrowers provide a management letter in accordance with § 1773.34.

REA requires that this letter bear the same date as the auditor's report and be addressed to the borrower's board of directors. The CPA is required to sign the auditor's report, report on compliance, report on internal controls, and management letter.

Certified Public Accountants, 1600 Main Street, City, State 24105

March 2, 19X0

Board of Directors

We have examined the financial statements of (company) for the years ended December 31, 19X9 and 19X8, and have issued our report thereon dated March 2, 19X0.

Comments

Statement that examination procedures specified in 7 CFR part 1773 have been performed.

Statement as to whether any special report, summary of recommendations or similar communications was furnished to the borrower's management during the course of the audit or during interim audit work.

Required Comments on Specified Financial and Accounting Matters (as detailed in § 1773.34).

Accounting and Records
Materials Control
Compliance with REA Mortgage
Reports to REA
Service Contracts
Income Tax Status
Related Party Transactions
Depreciation Rates
Deferred Debits and Credits
Insurance Certifications

Other Comments and Recommendations

This letter supplements the information included in the financial statements and notes. It is intended solely for the use of management, the Rural Electrification Administration, and supplemental lenders and should not be used for any other purpose.

In accordance with the terms of our audit agreement, we are enclosing copies of the audit report, report on compliance, report on internal controls, and management letter for each member of the Board, the Manager, and other required distribution. Two copies of the audit report, report on compliance, report on internal controls, and management letter should be transmitted to the REA and one copy transmitted to each supplemental lender, where applicable.

Certified Public Accountants

Appendix D—Sample Compliance Schedules—Electric

Exhibit 1—Schedule of Unapproved Advances

CENTER COUNTY SCHEDULE OF UNAPPROVED ADVANCES ("AB6" LOAN)

[December 31, 19X9]

Advance				F.R.S. No.	Lender	Loan application code	Financing document code	Project identity	Reason
Date	Amount	Note No.	Budget purpose						
5/3	35,000.00	02010	#1	136	REA	307	INV W/O 4-X9	Albion Pt. (260-280)	A
6/15	15,000.00	N/A	#1	137	CFC	402	CT. 54X	Noble Subst.	B
7/18	20,000.00	02010	#1	138	REA	None	INV W/O 6-X9	Nuby Sub. Pts. (450-358)	C
Sub-total	70,000.00								
Less: CFC funds	15,000.00								
Amount to be remitted to REA	55,000.00								

A. The code on the REA 219 does not agree with the loan application code on REA Form 740c and the Two-Year Work Plan. This project was not included in the Work Plan and no amendment authorizing the project could be located.

B. The project, included in the REA Form 740c and the Work Plan, cost submitted to REA for approval and advance exceeded 130% of the estimated cost to the REA Form 740c. The $15,000.00 represents the excess over 130%. No amendment executed.

C. This project was submitted to REA for approval as Minor Construction on a separate REA Form 219. This project, however, had been included as a separate item in the REA Form 740c and Work Plan (Loan Application Code No. 203).

Dated: June 29, 1990.

Gary C. Byrne,

Administrator.

[FR Doc. 91-7828 Filed 4-4-91; 8:45 am]

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