§ 661.1 Classification of companies

(a) All telephone companies will be required to maintain the accounts and comply with the recordkeeping requirements described herein. In accounting for certain transactions herein (see sections 663.2, 663.5, 663.6, 663.8; accounts 2003, 2004, and subaccount 2005.1 of this Title) we have divided companies into two classes as follows:

Class A. Companies having annual revenues from regulated telecommunications operations of $ 100,000,000 or more.

Class B. Companies having annual revenues from regulated telecommunications operations of less than $ 100,000,000.

(b) For purposes of recording certain transactions referred to in subdivision (a) of this section, the initial classification of a company shall be determined by its lowest annual operating revenues for the three immediately preceding years. Subsequent changes in classification shall be made when the annual operating revenues show a greater or lesser classification for three consecutive years. Companies becoming subject to the jurisdiction of the commission and not having revenue data for the three immediately preceding years shall estimate the amount of their annual revenues and adopt the scheme of accounts appropriate for the amount of such estimated revenues.

§ 661.2 Records

(a) The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts.

(b) The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this commission.

(c) The commission shall require a company to maintain financial and other subsidiary records in such a manner that specific information, of a type not warranting disclosure as an account or subaccount, will be readily available. When this occurs, or where the full information is not otherwise recorded in the general books, the subsidiary records shall be maintained in sufficient detail to facilitate the reporting of the required specific information. The subsidiary records, in which the full details are shown, shall be sufficiently referenced to permit ready identification and examination by representatives of this commission, at a location within the State of New York, unless the company is specifically exempted by order of this commission.

§ 661.3 Accounts--general

(a) As a general rule, all accounts kept by reporting companies shall conform in numbers and titles to those prescribed herein. However, reporting companies may use different numbers for internal purposes when separate accounts (or subaccounts) maintained are consistent with the title and content of accounts and subaccounts prescribed in this system.

(1) Accounts which are clearly summaries of other accounts or subaccounts are to be used for reporting purposes and are not otherwise required to be maintained.

(2) A company may subdivide any of the accounts prescribed. The titles of all such subaccounts shall refer by number or title to the controlling account.

(3) A telephone company may only use its own subaccount structure where this structure can readily be mapped to the subaccount structure prescribed in this system of accounts. Any company that wishes to use its own subaccount structure

shall file its proposed structure with the director of the Office of Accounting and Finance, or his designee, no less than 60 days before the intended adoption of such accounting practice. Before such accounting practice may be adopted the director must be satisfied that the proposed subaccount structure can be mapped to the subaccount structure prescribed in this system of accounts.

(4) A company may establish temporary or experimental accounts provided that within 30 days of the opening of such accounts the company notifies the commission of the nature and purpose thereof.

(b) Exercise of the preceding options shall be allowed only if the integrity of the prescribed accounts is not impaired.

(c) As of the date a company becomes subject to this system of accounts, it shall prepare opening entries in accordance with the following provisions:

(1) The accounts prescribed herein shall be opened by transferring thereto the balances carried in the accounts previously maintained. The company is authorized to make such subdivisions, reclassifications, or consolidations of such balances as are necessary to meet the requirements of this system of accounts.

(2) The company shall prepare and keep as supporting records summary statements showing:

(i) the closing balances in each account carried on the books prior to the adoption of this system of accounts;

(ii) the journal entries to effect the transfer of those balances to the accounts prescribed herein, arranging such entries so as to show for each account or subdivision thereof from what account and to what account each amount was transferred;

(iii) the resultant opening balance of each account under this system of accounts.

(3) The first annual report filed with this commission by a utility covering its operations subsequent to the adoption of this system of accounts shall include copies of the statements referred to in subdivision (c) (2) of this section and shall be accompanied by a statement of the company's independent auditors attesting to the conformity, in all material aspects, of the transfer of the balance sheet account balances and detail telecommunications plant accounts as required by subdivision (c) (2) (ii) of this section with this system of accounts.

(d) Nothing contained in this Part shall prohibit or excuse any company, receiver, or operating trustee of any carrier from subdividing the accounts hereby prescribed for the purpose of:

(1) complying with the requirements of the commission(s) having jurisdiction; or

(2) securing the information required in the prescribed reports to such commission(s).

(e) Where the use of subsidiary records is considered necessary in order to secure the information required in reports to the commission, the company shall incorporate the following controls into their accounting system with respect to such subsidiary records:

(1) Subsidiary records shall be reconciled to the company's general ledger or books of original entry, as appropriate.

(2) The company shall adequately document the accounting procedures related to subsidiary records.

(3) The subsidiary records shall be maintained at an adequate level of detail to satisfy State regulators.

§ 661.4 Regulated accounts

(a) In the context of this system of accounts, the regulated accounts shall be interpreted to include the investments, revenues and expenses associated with those telecommunications products and services to which the tariff filing requirements contained in this commission's rules, as amended, are applied, except as may be otherwise provided by the commission. Regulated telecommunications products and services are thereby fully subject to the accounting requirements as specified in this commission's rules, as amended, and as detailed in this system of accounts.

(b) In addition to those amounts considered to be regulated by the provisions of subdivision (a) of this section, those telecommunications products and services to which the tariff filing requirements of other jurisdictions are applied shall be accounted for as regulated, except where such treatment is proscribed or otherwise excluded from the requirements pertaining to regulated telecommunications products and services by this commission.

(c) In the application of the detailed accounting requirements contained in this system of accounts when a regulated activity involves the common or joint use of assets and resources in the provision of regulated or nonregulated products and services, companies shall account for these activities within the accounts prescribed in this system for telecommunications company operations. Assets and expenses shall be subdivided in subsidiary records among amounts solely assignable to nonregulated activities, amounts solely assignable to regulated activities, and amounts related to assets used and expenses incurred jointly or in common, which will be allocated between regulated and nonregulated activities. Companies shall submit reports identifying regulated and nonregulated amounts in the manner and at the times prescribed by this commission. Nonregulated revenue items not qualifying for incidental treatment, as provided in section 665.12 of this Title, shall be recorded in account 5280, Nonregulated Operating Revenue.

(d) Other income items which are incidental to the provision of regulated products and services shall be accounted for as regulated activities.

(e) All costs and revenues related to the offering of regulated products and services which result from arrangements for joint participation or apportionment between two or more telecommunications companies (e.g., joint operating agreements, settlement agreements, cost-pooling agreements) shall be recorded within the detailed regulated accounts. Under joint operating agreements, the creditor will initially charge the entire expenses to the appropriate primary accounts. The proportion of such expenses borne by the debtor shall be credited by the creditor and charged by the debtor to the account initially charged. Any allowances for return on property used will be accounted for as provided in account 5240, Rent Revenue.

(f) All items of nonregulated revenue, investment and expense that are not properly includable in the detailed, regulated accounts prescribed in this system of accounts, as determined by subdivisions (a) through (e) of this section, shall be accounted for and included in reports to this commission as specified in section 661.14 of this Part.

§ 661.6 Changes in accounting standards

(a) The company's records and accounts shall be adjusted to apply new accounting standards prescribed by the financial accounting standards board or successor authoritative accounting standard-setting groups, in a manner consistent with generally accepted accounting principles. The change in accounting standard will automatically take effect 150 days after the company informs this commission of its intention to follow the new standard, unless the commission notifies the company to the contrary. Concurrent with informing the director of the Office of Accounting and Finance of its intent to adopt an accounting standards change, the company shall also file a revenue requirement study for the current year and a projection for three years into the future analyzing the effects of the accounting standards change. Furthermore, any change subsequently adopted shall be disclosed in annual reports to this commission.

§ 661.7 Interpretation of accounts

To the end that uniform accounting shall be maintained within the prescribed system, questions involving matters of significance which are not clearly provided for shall be submitted to the director of the Office of Accounting and Finance, for explanation, interpretation, or resolution. Questions and answers thereto with respect to this system of accounts will be maintained by the Office of Accounting and Finance.

§ 661.8 Preservation of records

(a) Except with the permission of this commission, the companies shall not destroy any records beyond those specifically permitted under Part 42, Preservation of Records of Communication Common Carriers, of the rules of the Federal Communications Commission governing the preservation of records of communication common carriers, effective December 31, 1960, and as thereafter amended.

§ 661.9 Spreading of income, revenue, and expense items

(a) When the amount of any unusual item includable in an income, operating revenue, or operating expense account for a single month is relatively so large that its inclusion in the accounts for that month would seriously distort those accounts, it may be included in account 1439, Deferred Charges, or account 4360, Other Deferred Credits, as appropriate, and distributed in equal amounts to the accounts for the current and remaining months of the calendar year.

(b) When the amount of any unusual item includable in the income, operating revenue, or operating expense accounts is relatively so large that its inclusion in the accounts for the year in which the transaction occurred, would seriously distort those accounts, the company may request permission to include all or a part of the amount in account 1439, Deferred Charges, or account 4360, Other Deferred Credits to be amortized over such period and through such accounts as this commission shall determine. Without permission from this commission, no such item shall be carried beyond the year in which the transaction occurred.

§ 661.10 Waivers

A waiver from any provision of this system of accounts shall be made by the commission upon its own initiative or upon the submission of written request therefor from any telecommunications company, or group of telecommunications companies, provided that such a waiver is in the public interest and each request for waiver expressly demonstrates that: existing peculiarities or unusual circumstances warrant a departure from a prescribed procedure or technique; a specifically defined alternative procedure or technique will result in a substantially equivalent or more accurate portrayal of operating results or financial condition, consistent with the principles embodied in the provisions of this system of accounts; and the application of such alternative procedure will maintain or improve uniformity in substantive results among telecommunications companies.

§ 661.11 Address for reports and correspondence

Reports, statements, and correspondence submitted to the commission in accordance with or relating to instructions and requirements contained herein shall be addressed to the Office of Secretary, Building 3, Empire State Plaza, Albany, NY 12223.

§ 661.12 Sequence of accounts

The order in which the accounts are presented in this system of accounts is not to be considered as necessarily indicative of the order in which they will be scheduled at all times in reports to this commission.

§ 661.13 Comprehensive interperiod tax allocation

(a) Companies shall apply interperiod tax allocation (tax normalization) to all book/tax timing differences which would be considered material for published financial report purposes. Furthermore, companies shall also apply interperiod tax allocation if any item or group of similar items when aggregated would yield debit or credit entries which exceed or would exceed five percent of the gross deferred income tax expense debits or credits during any calendar year over the life of the timing difference. Book/tax timing differences, other than those resulting from accelerated depreciation or waiver, however, shall be phased in over a period of five years as directed by this commission. The tax effects of all book/tax timing differences shall be normalized and the deferrals shall be included in the following accounts:

1360 Current Deferred Income Taxes-Dr

1510 Noncurrent Deferred Income Taxes-Dr

4100 Current Deferred Operating Income Taxes-Cr

4110 Current Deferred Nonoperating Income Taxes-Cr

4340 Noncurrent Deferred Operating Income Taxes-Cr

4350 Noncurrent Deferred Nonoperating Income Taxes-Cr

In lieu of the accounting prescribed herein, any company shall treat the increase/reduction in current income taxes payable resulting from the use of flow through accounting in prior years and the phase-in years as an increase/reduction in current income tax expense.

(b) Supporting documentation shall be maintained so as to separately identify the amount of deferred taxes which arise from the use of an accelerated method of depreciation.

(c) With respect to the tax differentials that are phased in, companies shall maintain underlying entries to and the balances in the above accounts so as to show that the deferred tax amounts are not greater than the phase-in percentage allowed by this commission.

(d) The records supporting the activity in the deferred income tax accounts shall be maintained in sufficient detail to identify the nature of the specific timing differences giving rise to both the debits and credits to the individual accounts.

(e) Any company that uses accelerated depreciation (or recognizes taxable income or losses upon the retirement of property) for income tax purposes shall normalize the tax differentials occasioned thereby as indicated in paragraphs (1) and (2) of this subdivision.

(1) With respect to the retirement of property the book/tax difference between (i) the recognition of proceeds as income and the accrual for salvage value and (ii) the book and tax capital recovery, shall be normalized.

(2) Records shall be maintained so as to show the deferred tax amounts by vintage year separately for each class or subclass of eligible depreciable telephone plant for which an accelerated method of depreciation has been used for income tax purposes. When property is transferred to nonregulated activities, the associated deferred income taxes shall also be identified and transferred to the appropriate nonregulated accounts. Accumulated deferred investment tax credits associated with deregulated assets shall be transferred with the related asset, unless otherwise directed by the commission.

(f) The tax differentials to be normalized as indicated herein shall also encompass the additional effect of state and local income tax changes on Federal income taxes produced by the provision for deferred state and local income taxes for book/tax timing differences related to such income taxes.

(g) Companies that receive the tax benefits from the filing of a consolidated income tax return by the parent company, (pursuant to closing agreements with the Internal Revenue Service, effective January 1, 1966) representing the deferred income taxes from the elimination of intercompany profits for income tax purposes on sales of regulated equipment, may credit such deferred taxes directly to the plant account which contains such intercompany profit rather than crediting such deferred taxes to the applicable accounts in subdivision (a) of this section. If the deferred income taxes are recorded as a reduction of the appropriate plant accounts, such reduction shall be treated as reducing the original cost of the plant and accounted for as such.

§ 661.14 Nonregulated activities

(a) This section describes the accounting treatment of activities classified for accounting purposes as nonregulated. Preemptively deregulated activities and activities (other than incidental activities) never subject to regulation will be classified for accounting purposes as nonregulated. Activities that qualify for incidental treatment under the policies of this commission will be classified for accounting purposes as regulated activities. Activities that have been deregulated by this commission will be classified for accounting purposes as nonregulated activities. Activities that have been deregulated at the interstate level, but not preemptively deregulated, will be classified for accounting purposes as regulated activities until such time as this commission decides otherwise. The treatment of nonregulated activities shall differ depending on the extent of the common or joint use of assets and resources in the provision of both regulated and nonregulated products and services.

(b) When a nonregulated activity does not involve the joint or common use of assets and resources in the provision of both regulated and nonregulated products and services, carriers shall account for these activities on a separate set of books consistent with the instructions set forth in accounts 1406, Nonregulated Investments, and 7990, Nonregulated Net Income. Transfers of assets and sales of products and services between the regulated activity and a nonregulated activity for which a separate set of books is maintained, shall be accounted for in accordance with the rules presented in section 661.16, Transactions with Affiliates. In a separate set of books, carriers may establish whatever detail they deem appropriate beyond what is necessary to provide this commission with the information required in accounts 1406 and 7990.

(c) When a nonregulated activity does involve the common or joint use of assets and resources in the provision of regulated and nonregulated products and services, carriers shall account for these activities within accounts prescribed in this system for telephone company operations. Assets and expenses shall be subdivided in subsidiary records among amounts solely assignable to nonregulated activities, amounts solely assignable to regulated activities, and amounts related to assets and expenses incurred jointly or in common, which will be allocated between regulated and nonregulated activities. Carriers shall submit reports identifying regulated and nonregulated amounts in the manner and at the times prescribed by this commission. Nonregulated revenue items not qualifying for incidental treatment, as provided in section 665.12, shall be recorded in a separate subaccount of account 5280, Nonregulated Operating Revenue.

(d) The following accounts shall be maintained:

Account 1406, Nonregulated Investments

Account 5280, Nonregulated Operating Revenue Account 7130, Return from Nonregulated Use of Regulated Facilities

Account 7990, Nonregulated Net Income

§ 661.15 Compensated absences

(a) Companies shall record a liability and charge the appropriate expense accounts for compensated absences (vacations, sick leave, etc.) in the year in which these benefits are earned by the employees unless otherwise directed by this commission.

(b) With respect to the liability that exists for compensated absences which is not yet recorded on the books as of the effective date of this system of accounts, the liability shall be recorded in account 4120, Other Accrued Liabilities, with a corresponding entry to account 1439, Deferred Charges. This deferred charge shall be amortized on a straight line basis over a period of 10 years.

(c) Records shall be maintained so as to show that no more than 10 percent of the deferred charge is being amortized each year.

§ 661.16 Transactions with affiliates

(a) Unless otherwise approved by this commission transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in subdivisions (b) through (f) of this section.

(b) Charges for assets purchased by or transferred to the regulated telephone activity of a carrier from affiliates shall be recorded in the operating accounts of the regulated activity at the lower of their cost to the originating activity of the affiliated group less all applicable valuation reserves or their fair market value. (Asset transfers between regulated affiliates are subject to the original cost requirements prescribed in section 663.2 of this Part.)

(c) Assets sold or transferred from the regulated accounts to affiliates shall be recorded as operating revenues, incidental revenues or asset retirements according to the nature of the transaction involved. If such sales are reflected in tariffs on file with a regulatory commission, the associated revenues shall be recorded at the prices contained therein in the appropriate revenue accounts. If no tariff is applicable, the proceeds from such sales shall be determined at the higher of cost less all applicable valuation reserves, or estimated fair market value of the asset.

(d) Services provided to an affiliate pursuant to a tariff, including a tariff filed with the Federal Communications Commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Services provided by an affiliate to the regulated activity shall be recorded at cost which shall be determined in a manner that complies with the standards and procedures for the apportionment of joint and common costs between the regulated and nonregulated operations of the carrier entity.

(e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by operations of the carrier shall be recorded by the carrier during the period in which applied in settlement of the taxes otherwise attributable to any member or combination of members of the affiliated group.

(f) The principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.

(g) Each company shall keep its accounts and records in such a manner that accurate statements of all transactions with affiliated companies can be expeditiously furnished upon request. These records shall be kept in sufficient detail to show separately for each transaction for each affiliate (1) the amount of the transaction (2) the nature of the transaction and (3) the final revenue, income, expense or capital account of the accounting company. All transactions with affiliates must be recorded in accordance with the instructions in subdivisions (h) and (i) of this section.

(h) All gross charges from any affiliated company shall be credited to a subaccount for that company under the appropriate subdivisions of the following accounts:

4010.1 Accounts Payable to Affiliated Companies

4020.1 Notes Payable to Affiliated Companies

4260 Advances from Affiliated Companies

(i) All gross charges to any affiliated company shall be debited to a subaccount for that company under the appropriate subdivisions of the following accounts:

1150 Working Cash Advances

1160 Temporary Investments

1180 Telecommunications Accounts Receivable

1190.1 Accounts Receivable from Affiliated Companies

1200.1 Notes Receivable from Affiliated Companies

1401.1 Investments in Affiliated Companies

1401.2 Advances to Affiliated Companies

§ 661.17 Unusual items and contingent liabilities

(a) This section applies to extraordinary items, prior period adjustments, and contingent liabilities.

(b) Extraordinary items, prior period adjustments and contingent liabilities shall be submitted to this commission for review before being recorded in the company's books of account. Corrections of errors in prior periods which are less than $ 1,000,000 (Class A companies) or one percent of net income for the most current calendar year (Class B companies), may be recorded in operating accounts without prior approval.

(c) The company's filings pursuant to subdivision (b) of this section, shall set forth in detail the accounting entries contemplated together with any supporting data and, the existing special circumstances which warrant approval of the requested accounting treatment and related entries.

§ 661.18 Capital leases

The company may adopt capital lease accounting for transactions if two conditions are met for each financing arrangement:

(a) the company receives approval from the commission to enter a long-term capital lease (see section 101 of the Public Service Law); and

(b) the company demonstrates in its filing that capital lease accounting is not detrimental to ratepayers.

§ 661.19 Materiality

Companies shall follow this system of accounts in recording all financial and statistical data irrespective of an individual item's materiality under Generally Accepted Accounting Principles (GAAP), unless a waiver has been granted under the provisions of section 661.10 of this Part to do otherwise.

§ 661.20 Approval by the commission

Whenever the phrases "with the permission of the commission, with the approval of the commission, approved by the commission, authorized by the commission, or directed by the commission," are used herein, such permission, approval, authorization, or direction must be specific and in writing. The commission may delegate its authority to permit, approve, authorize or direct to a designee.