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Rules and Regulations

OFFICE OF PERSONNEL MANAGEMENT

5 CFR Part 532

RIN 3206–AH20

Prevailing Rate Systems; Abolishment of Ocean, NJ, Nonappropriated Fund Wage Area

AGENCY: Office of Personnel Management.

ACTION: Interim rule with request for comments.

SUMMARY: The Office of Personnel Management is issuing interim regulations to abolish the Ocean, NJ, nonappropriated fund (NAF) Federal Wage System (FWS) wage area and redefine Ocean County as an area of application to the Burlington, NJ, NAF wage area for pay-setting purposes. No employee's wage rate will be reduced as a result of this change.

DATES: This interim rule becomes effective on November 1, 1995. Comments must be received by December 1, 1995. Employees currently paid rates from the Ocean, NJ, NAF wage schedule will continue to be paid from that schedule until their conversion to the Burlington, NJ, NAF wage schedule on the effective date of the new Burlington, NJ, wage schedule, December 30, 1995.

ADDRESSES: Send or deliver comments to Donald J. Winstead, Assistant Director for Compensation Policy, Human Resources Systems Service, U.S. Office of Personnel Management, Room 6H31, 1900 E Street NW., Washington, DC 20415, or FAX: (202) 606–0824.

FOR FURTHER INFORMATION CONTACT: Paul Shields, (202) 606–2848.

SUPPLEMENTARY INFORMATION: The Department of Defense (DOD) recommended to the Office of Personnel Management that the Ocean, NJ, FWS NAF wage area (a one-county area) be abolished and that Ocean County be added as an area of application to the Burlington, NJ, NAF wage area. This change is necessary because with the downsizing of DOD activities, there are now only 20 NAF FWS employees in the Ocean wage area.

As required in regulation, 5 CFR 532.219, the following criteria were considered in redefining these wage areas:

(1) Proximity of largest activity in each county;

(2) Transportation facilities and commuting patterns; and

(3) Similarities of the counties in:

(i) Overall population;

(ii) Private employment in major-industry categories; and

(iii) Kinds and sizes of private industrial establishments.

Both proximity and similarities in population, private sector employment, and industry patterns favor redefinition of Ocean County to the Burlington, NJ, wage area.

The Federal Prevailing Rate Advisory Committee reviewed this recommendation and by consensus recommended approval.

Pursuant to 5 U.S.C. 553(b)(3)(B), I find that good cause exists for waiving the general notice of proposed rulemaking. Also, pursuant to section 553(d)(3) of title 5, United States Code, I find that good cause exists for making this rule effective in less than 30 days. The notice is being waived and the regulation is being made effective in less than 30 days because preparations for the 1995 Ocean, NJ, NAF wage area survey must otherwise begin immediately.

Regulatory Flexibility Act

I certify that these regulations will not have a significant economic impact on a substantial number of small entities because they affect only Federal agencies and employees.

List of Subjects in 5 CFR Part 532

Administrative practice and procedure, Freedom of information, Government employees, Reporting and recordkeeping requirements, Wages.

Office of Personnel Management.
Lorraine A. Green,
Deputy Director.

Accordingly, OPM is amending 5 CFR part 532 as follows:

PART 532—PREVAILING RATE SYSTEMS

1. The authority citation for part 532 continues to read as follows:

Authority: 5 U.S.C. 5343, 5346; § 532.707 also issued under 5 U.S.C. 552.

Appendix B to Subpart B of Part 532 [Amended]

2. In appendix B to subpart B, the listing for the State of New Jersey is amended by removing the entry for Ocean.

3. Appendix D to subpart B is amended by removing the wage area list for Ocean, New Jersey, and by revising the list for Burlington, New Jersey, to read as follows:

Appendix D to Subpart B of Part 532—Nonappropriated Fund Wage and Survey Areas

* * * * *

New Jersey

Burlington

Survey Area

New Jersey:
Burlington

Area of Application. Survey Area Plus:

New Jersey:
Atlantic Ocean

* * * * *

[FR Doc. 95–26946 Filed 10–31–95; 8:45 am]

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DEPARTMENT OF AGRICULTURE

Rural Utilities Service

7 CFR Part 1767

RIN 0572–AA23

Accounting Requirements for RUS Electric Borrowers

AGENCY: Rural Utilities Service, USDA.

ACTION: Final rule.

SUMMARY: This final rule amends the Rural Utilities Service's (RUS) regulations on accounting policies and procedures for RUS electric borrowers as set forth in RUS's regulations concerning Accounting Requirements for RUS Electric Borrowers, Uniform System of Accounts. This final rule eliminates the requirement that RUS borrowers place the difference between the amount accrued for postretirement

benefits during the year and the amount paid on a ''pay-as-you-go'' basis in an external, irrevocable trust to be used solely for postretirement benefits. RUS borrowers may, however, elect to voluntarily fund their postretirement benefit obligations. This final rule sets forth new accounting interpretations that address the requirements of recently issued pronouncements of the Financial Accounting Standards Board concerning the accounting for postemployment benefits and the accounting for certain investments in debt and equity securities.

In addition, this final rule also sets forth a new accounting procedure for storm damage costs and the associated funds received from the Federal Emergency Management Administration (FEMA). It also clarifies the accounting prescribed for computer software costs by specifying the accounts to which generalized software costs should be amortized and to which the costs of maintaining, updating, and converting files should be expensed.

In addition, this rule will identify the organizational unit within RUS to which borrower requests for departures from or interpretations of the RUS Uniform System of Accounts (USoA) should be submitted.

This regulation will facilitate the effective and economical operation of a business enterprise and ensure that adequate and reliable financial records be maintained.

EFFECTIVE DATE: This rule is effective December 1, 1995.

FOR FURTHER INFORMATION CONTACT: Ms. Roberta D. Purcell, Chief, Technical Accounting and Auditing Staff, Borrower Accounting Division, Rural Utilities Service, AG Box 1523, room 2221, South Building, U.S. Department of Agriculture, Washington, DC 20250, telephone number (202) 720–5227.

SUPPLEMENTARY INFORMATION:

Executive Order 12866

This final rule has been determined to be not significant for the purposes of Executive Order 12866 and therefore has not been reviewed by OMB.

Regulatory Flexibility Act Certification

The Administrator, RUS, has determined that the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*) does not apply to this final rule.

Information Collection and Recordkeeping Requirements

In compliance with the Office of Management and Budget (OMB) regulations (5 CFR Part 1320) which implement the Paperwork Reduction Act of 1980 (Pub. L. 96–511) and section 3504 of that Act, the information collection and recordkeeping requirements contained in this final rule have been approved by the Office of Management and Budget under control number 0572–0002. Comments regarding these requirements may be sent to the United States Department of Agriculture, Clearance Office, OIRM, room 404–W, Washington, DC 20250 or to the Office of Management and Budget, Office of Information and Regulatory Affairs, room 10102, Washington, DC 20503.

National Environmental Policy Act Certification

The Administrator, RUS, has determined that this final rule will not significantly affect the quality of the human environment as defined by the National Environmental Policy Act of 1969 (42 U.S.C. 4321 *et seq.*). Therefore, this action does not require an environmental impact statement or assessment.

Catalog of Federal Domestic Assistance

The program described by this final rule is listed in the Catalog of Federal Domestic Assistance Programs under number 10.850—Rural Electrification Loans and Loan Guarantees. This catalog is available on a subscription basis from the Superintendent of Documents, the United States Government Printing Office, Washington, DC 20402.

Executive Order 12372

This final rule is excluded from the scope of Executive Order 12372, Intergovernmental Consultation. A Notice of Final Rule entitled Department Programs and Activities Excluded from Executive Order 12372 (50 FR 47034) exempts RUS electric loans and loan guarantees from coverage under this Order.

Executive Order 12778

This final rule has been reviewed under Executive Order 12778, Civil Justice Reform. This final rule: (1) Will not preempt any state or local laws, regulations, or policies, unless they present an irreconcilable conflict with this rule; (2) Will not have any retroactive effect except as stated herein; and (3) Will not require administrative proceeding before parties may file suit challenging the provisions of this rule. This final rule will not have any retroactive effect unless RUS borrowers have not properly complied with generally accepted accounting principles. Generally accepted accounting principles, as issued by the Financial Accounting Standards Board and its predecessors, are applicable to all financial reporting entities, including RUS borrowers, regardless of whether RUS publishes its interpretations. In accordance with generally accepted accounting principles, the accounting principles set forth in Statement of Financial Accounting Standards No. 112, Employers' Accounting for Postemployment Benefits (Statement No. 112), and Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (Statement No. 115), should have been adopted by all RUS borrowers for fiscal years beginning after December 15, 1993. The interpretations of these Statements of Financial Accounting Standards issued by RUS in this final rule instruct borrowers in the proper accounts to be used within the framework and requirements of the RUS Uniform System of Accounts. Therefore, this final rule will have no retroactive effect except for borrowers that did not properly implement Statements No. 112 and No. 115 when and as required by generally accepted accounting principles.

Background

In order to facilitate the effective and economical operation of a business enterprise, adequate and reliable financial records must be maintained. Accounting records must provide a clear and accurate picture of current economic conditions from which management can make informed decisions in charting the company's future. The rate-regulated environment in which an electric utility operates causes an even greater need for financial information that is accurate, complete, and comparable with that of other electric utilities.

RUS, as a federal lender and mortgagee, and in furthering the objectives of the Rural Electrification Act of 1936 (RE Act) (7 U.S.C. 901 *et seq.*) has a legitimate programmatic interest and a substantial financial interest in requiring adequate records to be maintained. In order to provide RUS with financial information that can be analyzed and compared with the operations of other borrowers in the RUS program, all RUS borrowers must maintain financial records that utilize uniform accounts and uniform accounting policies and procedures. The standard RUS security instrument, therefore, requires borrowers to maintain their books, records, and accounts in accordance with methods and principles of accounting prescribed by RUS in the USoA for its electric borrowers.

To ensure that borrowers consistently account for and apply the provisions of recent pronouncements of the Financial Accounting Standards Board, the USoA must be revised and updated as changes in generally accepted accounting principles occur. RUS is, therefore, adding two new accounting interpretations to Section 1767.41, Accounting Methods and Procedures Required of All RUS Borrowers, that address the accounting requirements recently set forth in Statement of Financial Accounting Standards No. 112, Employers' Accounting for Postemployment Benefits (Statement No. 112), and Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (Statement No. 115). Statement No. 112 establishes the standards of financial accounting and reporting for employers who provide benefits to former or inactive employees after employment but before retirement while Statement No. 115 establishes the standards of financial accounting and reporting for investments in debt securities and for investments in equity securities that have readily determinable fair values. Copies of Statements of Financial Accounting Standards may be obtained from the Order Department of the Financial Accounting Standards Board, 401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856–5116.

RUS is also amending accounting Interpretation No. 626, Rural Economic Development Loan and Grant Program, to establish the accounting policies and procedures for the Rural Economic Development Grant program recently established by the Rural Business and Cooperative Development Service.

Interpretation No. 604, Deferred Compensation, sets forth the specific accounting entries and the balance sheet reporting requirements for participation in the National Rural Electric Cooperative Association's (NRECA) Deferred Compensation Program. Under the terms of this program, a portion of an employee's current salary may be deferred until such time as the employee retires or terminates employment. The employer makes a contribution into the deferred compensation fund in an amount equal to the salary deferred. As such, the borrower records both an asset and a liability—an asset in the amount of the contributions to the fund and a liability to that employee for future payment of the deferred compensation. Current RUS procedures require the asset and liability to be offset for financial reporting purposes. Financial Accounting Standards Board Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts, states that the offsetting of assets and liabilities in the balance sheet is improper except where a right of offset exists and a right of offset exists only when each of two parties owes the other determinable amounts. Contributions to the deferred compensation fund are payable to the borrower and, as such, the right of offset does not exist. RUS is, therefore, amending Interpretation No. 604 to comply with generally accepted accounting principles by requiring the asset and liability to be reported separately.

In December 1990, the Financial Accounting Standards Boards issued Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other than Pensions (Statement No. 106). Statement No. 106 requires reporting entities to accrue the expected cost of postretirement benefits during the years in which the employee provides service to the reporting entity. Prior to the issuance of Statement No. 106, most reporting entities accounted for postretirement benefit costs on a ''pay-as-you-go'' basis; that is, costs were recognized when paid, not when the employee provided service to the reporting entity in exchange for the benefits.

A postretirement benefit plan is a deferred compensation arrangement in which an employer promises to exchange future benefits for an employee's current services. Postretirement benefits include, but are not limited to, health care, life insurance, tuition assistance, day care, legal services, and housing subsidies provided outside of a pension plan.

The RUS USoA parallels the USoA prescribed by the Federal Energy Regulatory Commission (FERC) for electric utilities and, as such, is consistent with the standards of financial accounting for the electric utility industry as a whole. As FERC amends its USoA, RUS reviews the appropriateness and applicability of each amendment and proposes revisions, as necessary, to the RUS USoA.

On December 17, 1992, FERC issued its policy statement on postretirement benefits. Included in its statement was the requirement that natural gas pipelines and public utilities make cash deposits into an external, irrevocable trust fund, in amounts that are proportional and, on an annual basis, equal to the annual test period allowance for postretirement benefits. RUS reviewed and analyzed these accounting policies and procedures, including the funding requirement, and promulgated these requirements in its USoA. The RUS USoA requires RUS borrowers to fund the liability associated with postretirement benefit costs by making cash deposits into an irrevocable trust.

Since the issuance of the final rule, RUS borrowers and their representatives through the NRECA, have questioned the necessity for RUS borrowers to fund their postretirement benefit obligations. FERC and a majority of state utility commissions require funding for the inclusion of postretirement benefit expenses in rates in order to deter investor-owned utilities from arbitrarily increasing postretirement benefit costs. Due to the many variables involved in estimating postretirement benefit costs, the cost incorporated into rates can easily be manipulated if an investor-owned utility desires to increase cash flow through increased accruals of postretirement benefit costs. By requiring utilities to fund an amount equal to the postretirement benefit costs that were recovered through rates, much of the incentive for investor-owned utilities to overestimate postretirement benefit costs is eliminated.

The ratepayers/consumers, and investors/owners of an RUS electric borrower, because of its cooperative organizational structure, are one in the same. RUS cooperatives do not, therefore, have this same incentive to over estimate postretirement benefits costs because profits do not accrue to a separate, different class of investors/owners. In fact, RUS electric borrowers have no incentive to overestimate postretirement benefit costs to increase rates since the investors/owners are the same as the ratepayers/consumers. RUS has, therefore, eliminated, through the publication of this final rule, the funding requirement currently contained in Section 1767.41, Interpretation No. 627, Postretirement Benefits. RUS borrowers may, however, elect to voluntarily fund their postretirement benefit obligations.

Finally, RUS is revising Section 1767.13, Departures from the Prescribed RUS Uniform System of Accounts, and Section 1767.14, Interpretations of the RUS Uniform System of Accounts, to specifically identify the organizational unit within RUS to which requests for departures from and interpretations of the RUS USoA should be addressed. This revision should assist borrowers in filing requests and should expedite the review process within RUS.

Comments

A proposed rule entitled Accounting Requirements for RUS Electric Borrowers, published September 2, 1994, at 59 FR 45631, invited interested parties to submit comments on or before November 1, 1994. Twenty-seven comments were received which included submissions from NRECA, RUS electric borrowers, certified public accounting firms, and statewide organizations. The comments submitted by NRECA were based upon a joint review of the proposed rule by the Accounting and Depreciation Committee, a subcommittee of the Generation and Transmission Managers Association Technical Advisory Committee, and the Distribution Systems Accounting and Tax Committee. The following paragraphs address the various topics that were discussed by the commenters.

Effective Date of Changes

Comment. Three commenters requested that RUS recognize the significant administrative burden placed on borrowers when changes in accounting methods are imposed at year end and encouraged RUS to implement all final rulemakings at the beginning of a year.

Response. RUS is sympathetic to the commenters' concerns and, in no instance, is it RUS's intent to wait until year end to implement or prescribe new accounting requirements. Regulations issued by RUS are, however, reviewed for legal sufficiency by the Office of General Counsel. RUS regulations are also reviewed by the Office of Management and Budget and the Federal Register before final publication. This review process can be lengthy and time consuming. As a result, a regulation that is scheduled to be published well in advance of a year's end may not be published as anticipated. While RUS could delay publication of a final rule until after year's end; in many instances, the regulation addresses Statements of Financial Accounting Standards issued by the Financial Accounting Standards Boards that must be implemented by year end. In these circumstances, RUS believes that the benefits derived by its borrowers from having ready access to accounting guidance outweigh the impositions that may be created by a year-end publication date.

Section 1767.13, Departures From the Prescribed RUS USoA

Comment. Paragraph (d) of Section 1767.13, Departures from the Prescribed RUS USoA, requires borrowers to obtain RUS approval prior to implementing the provisions of Statements of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation (Statement No. 71); No. 90, Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs (Statement No. 90); and No. 92, Regulated Enterprises—Accounting for Phase-in Plans (Statement No. 92). One commenter suggested that a reference to Statement of Financial Accounting Standards No. 101, Regulated Enterprises—Accounting for the Discontinuance of Application of FASB Statement No. 71 (Statement No. 101), be included as it impacts upon regulatory enterprises as do the aforementioned statements. The same commenter argued that RUS cannot establish generally accepted accounting principles and, therefore, RUS regulations should not prohibit or require advance approval of the adoption of accounting standards except as to filings with RUS.

Response. RUS's intent in requiring approval of departures from the prescribed RUS USoA was to implement the provisions of Article II, Section 12 of the standard form of RUS security instrument which requires RUS borrowers to, at all times, keep and safely preserve proper books, records, and accounts in which full and true entries will be made of all of the dealings, business and affairs of the Mortgagor, in accordance with the methods and principles of accounting prescribed in the USoA. This covenant and requirement is in each and every standard form of RUS security instrument and has been a requirement for numerous years. Pursuant to Section 4 of the RE Act, this covenant is one of many terms and conditions prescribed by the Administrator of RUS relating to the expenditure of the moneys loaned and the security therefore with respect to loans and loan guarantees.

This rule is not an attempt at establishing generally accepted accounting principles nor is it intended to prohibit borrowers from adhering to the standards issued by the Financial Accounting Standards Board. It is intended to insure that similar transactions are accounted for in a consistent manner in accordance with the USoA and to allow RUS to properly evaluate a borrower's operating performance. Consistency in the application of accounting methodologies is critical if RUS is to properly evaluate a borrower's financial condition, programmatic performance, and ultimately its creditworthiness.

Statements Nos. 71, 90, and 92 allow rate-regulated enterprises to defer current period expenses and revenues beyond that allowed for nonregulated enterprises provided that certain criteria are met. Included among the criteria is the requirement that an enterprise's rates for regulated services or products provided to its customer are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers. Because the vast majority of RUS borrowers are not subject to rate regulation by state public utility commissions, their boards of directors, under the provisions of Statement No. 71, may defer current period income and expense items without the intervention of an independent third-party. As such, a borrower could defer current period expenses and, as a result, not meet the financial ratio requirements set forth in its mortgage. RUS implemented this requirement for purposes of assuring that loans and loan guarantees are repaid. Therefore, RUS does not believe that this requirement should be revised at this time.

Statement No. 101, however, is a more conservative standard in that it establishes the reporting requirements for enterprises that no longer meet the criteria for application of Statement No. 71. It does not permit the deferral of income or expense items that might arbitrarily inflate a borrower's financial ratios. Therefore, RUS believes that there is no benefit to the Federal government of imposing a requirement that borrowers obtain RUS approval prior to implementing the provisions of Statement No. 101.

Comment. The revisions proposed to Section 1767.13 were intended to specify to whom, in RUS, requests for departures from the USoA and approvals of deferrals under Statements Nos. 71, 90, 92 were to be addressed. The proposed rule identified the Director of the Borrower Accounting Division (BAD) as the contact for such requests. Two commenters expressed concern that the area offices should be consulted as part of the approval process.

Response. All requests for approvals of departures from the USoA and implementations of deferral plans are processed by the Borrower Accounting Division. RUS can provide a more timely response to a borrower's request if it is submitted directly to the division that has been delegated the authority to review such requests. A request for approval of a departure from the USoA is a technical interpretation and, as such, is reviewed, processed, and approved by the Director, BAD. A request for approval of a deferral plan, however, involves not only the accounting aspect of the deferral, but the eventual impact upon RUS's loan security, as well. Such requests are, therefore, processed and reviewed by BAD for technical accuracy and approved by the area office. RUS believes that this process is the most effective and efficient use of human resources and provides the most timely response to our borrowers. For these reasons, no revisions were made in the final rule.

Comment. Section 1767.13 requires borrowers to obtain approval before implementing an expense or revenue deferral plan. Two commenters recommended that more latitude be given to borrowers who utilize deferral plans when loan security is not adversely affected by deferrals of immaterial dollar amounts. Specifically, the commenters recommended that revenue and expense deferrals that, when combined with all other deferrals, are less than a specified percentage of net utility plant or a specified percentage of equity be exempted from RUS approval.

Response. RUS agrees, in part, that immaterial deferrals that do not impact upon loan security could be exempt from RUS approval. However, there is a question as to what constitutes an immaterial deferral. RUS will consider, in the next proposed revision of Part 1767, establishing materiality thresholds for approvals of both deferral plans and departures from the USoA.

Comment. Two commenters recommended that RUS establish a time frame in which decisions on requests for approvals of deferral plans, departures from and interpretations of the USoA will be made by RUS.

Response. RUS recognizes the importance of obtaining a timely response to approval requests. However, RUS believes that the establishment of specific time frames for such approvals would be impractical under the circumstances. Approvals are often delayed because a borrower has submitted incomplete or insufficient information. The time required for additional correspondence and the uncertainty of when the additional information will be submitted is out of RUS' control. As previously discussed in the comment section, RUS has undertaken steps to ensure that requests are processed and reviewed in the most efficient manner practicable. For these reasons, RUS has not instituted approval time frames in this final rule.

Section 1767.14, Interpretation of the RUS Uniform System of Accounts

Comment. Three commenters requested that RUS clarify whether requests for interpretations of the USoA must be posed in writing or if oral requests were acceptable.

Response. It is common practice for RUS to address borrower, certified public accountant (CPA), and industry questions orally and, in effect, provide interpretations of the USoA. In order to be able to rely on an interpretation and in order for RUS to maintain uniformity throughout the program, interpretations should be addressed, in writing, and Section 1767.14 has been revised accordingly.

Section 1767.41, Accounting Methods and Procedures Required of All RUS Borrowers

Interpretation No. 136, Storm Damage

Comment. Two commenters supported the accounting for storm damage as prescribed in Accounting Interpretation No. 136; however, they recommended that the interpretation be expanded to include the accounting for the administrative fee paid by FEMA.

Response. RUS agrees with the recommendation and has revised the final rule accordingly.

Interpretation No. 401, Computer Software

Comment. Three commenters questioned whether the cost of applications software should be deferred in Account 186, Miscellaneous Deferred Debits. One commenter specifically recommended capitalizing the cost in Account 301, Organizations. The other commenters argued that there is essentially no difference between generalized software and applications software and that it is more appropriate to capitalize both into a plant account and record depreciation.

Response. In accordance with a Technical Practice Aid issued by the American Institute of Certified Public Accountants, the cost of computer software purchased for internal use in activities other than research and development should be capitalized and depreciated over its estimated useful service life in accordance with Accounting Research Bulletin No. 43, Chapter 9, Depreciation, Paragraph 5. RUS, therefore, agrees with the commenters that recommended that applications software be capitalized and depreciated in a manner similar to that of generalized software. Interpretation No. 401 has been revised accordingly.

Comment. Interpretation No. 401 requires that all costs incurred in the revision of software or in the maintenance, updating, and conversion of files, and all costs of computer software having a useful service life of less than 1 year be charged to expense in Account 921, Office Supplies and Expenses, in the period incurred. One commenter argued that Account 921 is not always the most appropriate account in which to classify such costs. Rather, the costs should be functionalized to the various construction, retirement, operations, and maintenance accounts based upon the activity being supported.

Response. The note to Account 921 specifically states that office expenses that are clearly applicable to any category of operating expenses other than the administrative and general category should be included in the appropriate account in such category. Account 921 does not, however, permit capitalization of any portion of these costs. In this final rule, RUS has clarified Interpretation No. 401 to allow such costs to be recorded in the appropriate functional operating expense accounts; however, capitalization to either construction or retirement activities is not permitted.

Interpretation No. 604, Deferred Compensation

Comment. Interpretation No. 604 sets forth the accounting requirements associated with the NRECA Deferred Compensation Program. It requires that the accumulated change in the fund value resulting from investment gains or losses to be recorded as an increase/decrease in the asset and liability accounts. One commenter took issue with this accounting methodology and recommended that increases in the fund be accounted for as an increase in the asset with an offsetting credit to interest income. Because the cooperative has an obligation to pass the investment earnings along to the employee, the commenter recommended that the liability account should be increased with an offsetting charge to interest expense.

Response. In response to this comment, RUS contacted NRECA to obtain a better understanding of the internal operations of the Deferred Compensation Program. When an employer offers a deferred compensation arrangement to an employee, the amount of the annual contribution (deferred compensation), currently an amount up to $7,500, is determined. The cooperative then invests these funds with NRECA in the cooperative's name. The funds are invested in the Homestead Fund which currently consists of four funds—the

Short-term Bond Fund, the Value Fund, the Short-term Government Securities Fund, and the Daily Income Fund. Detailed investment information is maintained for each cooperative by participant. While the employee selects the funding program and bears its risk through the benefits ultimately derived, the cooperative retains legal ownership of the investments.

The accounting currently set forth in Interpretation No. 604 assumed that the cooperative bore the investment risk and has, therefore, been revised accordingly.

Interpretation No. 626, Rural Economic Development Loan and Grant Program

Comment. Three commenters objected to recording the funds received from a Rural Economic Development Grant as income. Rather, the commenters believed that the economic development grant funds are more in the nature of a capital item provided by Congress to promote particular purposes and should therefore, be recorded in Account 208, Donated Capital. The commenters argue that classifying these grant funds as income distorts a RUS borrower's financial statistics as well as adversely impacts upon the 85% member income test a cooperative must meet in order to remain income tax exempt.

Response. The establishment of a revolving loan program by the grantee of a Federal grant creates special concerns from an accounting perspective. The customary Federal grant is made for a specific project or purpose. The income to the grantee is offset by the costs incurred in the project, thereby eliminating any net income effect. When a revolving loan program is established by the grantee, the grantee incurs no immediate expense with which to offset the grant funds. While there may be the incidental costs of administering the loan program, no additional costs are incurred unless a loan is defaulted upon. In fact, under the Rural Business and Cooperative Development Service's grant program, after the initial grant funds have been loaned and repaid, the borrower may charge a reasonable rate of interest on its revolving loans. The grant program may, therefore, actually become income producing.

Additionally, because 7 CFR Part 1703, Subpart B, Rural Economic Development Loan and Grant Program, is somewhat ambiguous as to the final disposition of the grant funds upon termination of the revolving loan program, further accounting concerns are raised.

The accounting for a rural economic development grant is therefore, dependent upon the grant agreement itself. If the agreement requires the grantee to repay the grant upon termination of the revolving loan program, the funds must be recorded as a liability. If the grant agreement stipulates that there is no obligation for repayment, the funds should be recorded as a permanent infusion of capital. If, however, the agreement is silent as to the final disposition of the grant funds, the funds must be recorded as income. The final rule has been revised accordingly.

Interpretation No. 627, Postretirement Benefits

Comment. Of the 27 comments received, only two commenters believed that RUS should continue to require borrowers to fund their postretirement benefit obligations. Those opposed to the funding requirement argued that the funding of postretirement benefits is an issue of importance to utility management, rate regulators, and employees; however, it should be of little importance to a utility's lenders. They argue that cash set aside in an external trust for the sole purpose of financing postretirement benefits could adversely affect loan security as cash that would otherwise be available to meet debt service would be available only for postretirement benefits. Those in favor of funding argued that unfunded benefits present a risk of future loan defaults. The beneficiaries of the unfunded benefits will be co-creditors along with the Federal government and the ratepayers/owners of the cooperatives will place their own self interest ahead of the fiscal integrity of the cooperative, thereby failing to raise rates when necessary to meet their Federal debt service obligations.

Response. While the risk exists that the ratepayers/owners of a certain few borrowers may benefit at the detriment of the Federal government, the vast majority of RUS borrowers are financially sound, fiscally responsible entities. The funding requirement, as currently set forth, significantly limits a borrower's investment options. It also limits flexibility in managing a borrower's operations and may put a borrower at a competitive disadvantage. While RUS strongly encourage borrowers to fund their postretirement benefit obligations for the reasons proffered above, RUS considers its current funding requirement to be unduly burdensome. Similarly, because funding in an irrevocable trust may, in fact, impair repayment of loans, RUS believes that it would not be undertaking a substantial risk if it were to eliminate the funding requirement. For these reasons, no revision was made to the final rule.

Comment. Interpretation No. 627 requires RUS borrowers to have rates in place sufficient to recover their current period postretirement benefit expense and any amortization of the transition obligation at the time of adoption of Statement No. 106. Evidence of such rate recovery in the form of a board resolution or commission order must be submitted to RUS. One commenter argued that the submission of a board resolution is unnecessary. Special attention is not required by the board of directors for other types of expenses and should not, therefore, be mandated for postretirement benefits.

Response. Prior to the issuance of Statement No. 106, many utilities argued that rate-regulated enterprises should be allowed to continue to account for postretirement benefits on a ''pay-as-you-go'' basis provided that postretirement benefit costs were included in rates on a similar basis. RUS, in Interpretation No. 627, specifically requires its borrowers to adopt the accrual accounting provisions of Statement No. 106 and prohibits its borrowers from remaining on the ''pay-as-you-go'' basis. Inherent in this concept is the recovery, through rates, of the annual accrual for postretirement benefit costs. While RUS agrees that the board is not asked to specifically address other current period operating expenses unless they have been deferred under the provisions of Statements Nos. 71, 90, and 92, postretirement benefit costs, the controversy over accrual versus ''pay-as-you-go'' accounting, presents a more contentious issue. The requirement for submission of the board resolution or commission order evidences adoption of the accrual accounting provisions as required by Statement No, 106 and Interpretation No. 627 and for this reason, no change has been made to the final rule.

Comment. Interpretation No. 627 acknowledges that the transition obligation resulting from the adoption of Statement No. 106 may be deferred in accordance with the provisions of Statement No. 71 provided RUS approval is obtained. One commenter indicated that the Emerging Issues Task Force (EITF) in EITF No. 92–12, Accounting for OPEB Costs by Rate-Regulated Enterprises, limits the combined deferral-recovery period authorized by the regulator to approximately twenty years from the date of adoption of Statement No. 106. The commenter recommended that RUS refer to EITF 92–12 in its regulation and adopt its provision accordingly.

Response. Interpretations of generally accepted accounting principles are perpetually issued by the EITF and the AICPA. RUS has not, therefore, attempted to address each interpretation in its rulemakings unless RUS borrowers are specifically affected. Because all deferrals require RUS approval, RUS is able to monitor compliance with EITF 92–12 at the approval stage and it is not RUS's intention to approve a deferral that will conflict with the interpretation. For this reason, no revision was made to the final rule.

Comment. Interpretation No. 627 provides journal entries for the various events associated with postretirement benefits. Included among the events journalized is a borrower's voluntary funding of its postretirement benefit obligation. The journal entry prescribes a debit to Account 228.3X, Accumulated Provision for Pensions and Benefits—Funded, and a credit to Account 131.1, Cash—General. One commenter agreed with the journal entry provided that the funds were placed in an external, irrevocable trust. The commenter further proffered that if the borrower is merely segregating funds to be used to pay obligations in the future, reducing the postretirement benefit obligation is inappropriate.

Response. RUS agrees with the commenter and has revised the final rule to reflect two journal entries—one reflecting funding into an external, irrevocable trust and a second reflecting a segregation of funds.

Interpretation No. 629, Investments in Debt and Equity Securities

Comment. Several commenters specifically agreed with the accounting set forth in Interpretation No. 629; however, three commenters suggested that RUS address unrealized gains and losses on available-for-sale securities held as part of a decommissioning fund. Specifically, the commenters recommended that such gains and losses should increase or decrease the reported value of the fund.

Response. The accounting for nuclear decommissioning costs and their funding has long been an issue of debate and is currently being reviewed by the Federal Energy Regulatory Commission and the Financial Accounting Standards Board. It was RUS's intention not to address this subject matter in any forum until such time as a consensus was drawn. However, based upon the public belief that addressing available-for-sale securities held in a nuclear decommissioning fund will clarify this interpretation, RUS has revised Interpretation No. 629 to require unrealized holding gains and losses to increase or decrease, as appropriate, the reported value of the decommissioning fund.

List of Subjects in 7 CFR Part 1767

Electric power, Loan programs-energy, Rural areas, Uniform System of Accounts.

For the reasons set out in the preamble, RUS hereby amends 7 CFR chapter XVII as follows:

PART 1767—ACCOUNTING REQUIREMENTS FOR RUS ELECTRIC BORROWERS

1. The authority citation for part 1767 continues to read as follows:

Authority: 7 U.S.C. 901 *et seq.*; 7 U.S.C. 1921 *et seq.*; Pub. L. 103–354, 108 Stat. 3178 (7 U.S.C. 6941 *et seq.*).

2. Section 1767.13 is amended by revising paragraphs (a), (c) introductory text, and (d) to read as follows:

§ 1767.13 Departures from the prescribed RUS Uniform System of Accounts.

(a) No departures are to be made to the prescribed RUS USoA without the prior written approval of RUS. Requests for departures from the RUS USoA shall be addressed, in writing, to the Director, Borrower Accounting Division (BAD).

* * * * *

(c) If any state regulatory authority with jurisdiction over an RUS borrower prescribes accounting methods or principles for the borrower that are inconsistent with the provisions of this part, the borrower must immediately notify the Director, BAD, and provide such documents, information, and reports as RUS may request to evaluate the impact that such accounting methods or principles may have on the interests of RUS.

* * * * *

(d) RUS borrowers will not implement the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation, SFAS No. 90, Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs, SFAS No. 92, Regulated Enterprises—Accounting for Phase-in Plans, without the prior written approval of RUS. Requests for approval shall be addressed, in writing, to the Director, BAD.

* * * * *

3. Section 1767.14 is revised to read as follows:

§ 1767.14 Interpretations of the RUS Uniform System of Accounts.

To maintain uniformity in accounting, borrowers must submit questions concerning interpretations of the RUS USoA, in writing, to the Director, BAD, for consideration and decision.

(Approved by the Office of Management and Budget under control number 0572–0002)

4–6. In § 1767.18, make the following changes:

a. In the table of contents listing under ''Other Property and Investments'', entries for Accounts 123.3, 123.4, 124.1, 124.2 are added in numerical order.

b. In the table of contents listing under ''Current and Accrued Assets'', the entry for Account 131.12 is put in numerical order and entries for Accounts 131.13 and 131.14 are added in numerical order.

c. Paragraph C. of Account 123 is revised, and Account 123.3, Investment in Associated Organizations-Federal Economic Development Loans, and Account 123.4, Investment in Associated Organizations-Non-Federal Economic Development Loans, are added in numerical order.

The additions and revision read as follows:

1767.18 *Assets and other debits.*

* * * * *

Assets and Other Debits

* * * * *

Other Property and Investments

* * * * *

123.3 Investment in Associated Organizations—Federal Economic Development Loans

123.4 Investment in Associated Organizations—Non-Federal Economic Development Loans

* * * * *

124.1 Other Investments—Federal Economic Development Loans

124.2 Other Investments—Non-Federal Economic Development Loans

* * * * *

Current and Accrued Assets

* * * * *

131.13 Cash—General—Economic Development Grant Funds

131.14 Cash—General—Economic Development Non-Federal Revolving Funds

* * * * *

123 *Investment in Associated Companies*

* * * * *

C. Account 123 shall be subaccounted as follows:

123.1 Patronage Capital from Associated Cooperatives

123.3 Investment in Associated Organizations—Federal Economic Development Loans

123.4 Investment in Associated Organizations—Non-Federal Economic Development Loans

123.11 Investment in Subsidiary Companies
123.21 Subscriptions to Capital Term Certificates—Supplemental Financing
123.22 Investment in Capital Term Certificates—Supplemental Financing
123.23 Other Investments in Associated Organizations

* * * * *

123.3 *Investment in Associated Organizations—Federal Economic Development Loans*

This account shall include investment advances of Federal funds received from a Rural Economic Development Grant to associated organizations for authorized rural economic development projects.

123.4 *Investment in Associated Organizations—Non-Federal Economic Development Loans*

This account shall include investment advances of non-Federal funds from the Rural Economic Development Grant revolving fund to associated organizations for authorized rural economic development projects.

* * * * *

7. In 1767.18, paragraph C of Account 124 is added preceeding Note A, and Account 124.1, Other Investments—Federal Economic Development Loans, and Account 124.2, Other Investments—Non-Federal Economic Development, are added to read as follows:

* * * * *

124 *Other Investments*

* * * * *

C. Account 124 shall be subaccounted as follows:

124.1 Other Investments—Federal Economic Development Loans
124.2 Other Investments—Non-Federal Economic Development Loans

* * * * *

124.1 *Other Investments—Federal Economic Development Loans*

This account shall include investment advances of Federal funds received from a Rural Economic Development Grant to nonassociated organizations for authorized rural economic development projects.

124.2 *Other Investments—Non-Federal Economic Development Loans*

This account shall include investment advances of non-Federal funds from the Rural Economic Development Grant revolving fund to nonassociated organizations for authorized rural economic development projects.

* * * * *

8. In § 1767.18, paragraph B of Account 131 is revised, Account 131.12 is put in numerical order, and Account 131.13, Cash—General—Economic Development Grant Funds, and Account 131.14, Cash—General—Economic Development Non-Federal Revolving Funds, are added in numerical order to read as follows:

* * * * *

131 *Cash*

* * * * *

B. Account 131 shall be subaccounted as follows:

131.1 Cash—General
131.2 Cash—Construction Fund—Trustee
131.3 Cash—Installation Loan and Collection Fund
131.4 Transfer of Cash
131.12 Cash—General—Economic Development Loan Funds
131.13 Cash—General—Economic Development Grant Funds
131.14 Cash—General—Economic Development Non-Federal Revolving Funds

* * * * *

131.13 *Cash—General—Economic Development Grant Funds*

This account shall include cash received from the Rural Utilities Service for Rural Economic Development Grants. Economic development grant funds shall be charged to this account and credited to Account 224.18, Other Long-Term Debt—Grant Funds; Account 208, Donated Capital; or Account 421, Miscellaneous Nonoperating Income, as appropriate. This account shall be credited and either Account 123.3, Investment in Associated Organizations—Federal Economic Development Loans, or Account 124.1, Other Investments—Federal Economic Development Loans, shall be debited, as appropriate, with the amount of an economic development revolving fund loan.

131.14 *Cash—General—Economic Development Non-Federal Revolving Funds*

This account shall include all non-Federal funds comprising the economic development revolving fund. It shall include all funds supplied by the borrower as well as all cash received from the repayment of loans made from the economic development revolving fund. This account shall be credited and either Account 123.4, Investment in Associated Organizations—Non-Federal Economic Development Loans, or Account 124.2, Other Investments—Non-Federal Economic Development Loans, shall be debited, as appropriate, with the amount of an economic development revolving fund loan.

* * * * *

9. In § 1767.19, in the table of contents listing under ''Margins and Equities'', an entry for Account 215.1 is added in numerical order and Account 215.1 is added to read as follows:

§ 1767.19 Liabilities and other credits.

* * * * *

Liabilities and Other Credits

Margins and Equities

* * * * *

215.1 Unrealized Gains and Losses—Debt and Equity Securities

* * * * *

215.1 *Unrealized Gains and Losses—Debt and Equity Securities*

This account shall include the unrealized holding gains and losses for available-for-sale securities.

* * * * *

10—15. In § 1767.41, make the following changes:

a. In the Numerical Index, the entries Interpretation No. 136, Storm Damage; Interpretation No. 628, Postemployment Benefits; and Interpretation No. 629, Investments in Debt and Equity Securities, are added in numerical order.

b. In the Subject Matter Index listing under ''D'', an entry for ''Debt Securities—Investments in,'' is added in alphabetical order.

c. In the Subject Matter Index listing under ''E'', an entry for ''Equity Securities—Investments in,'' is added in alphabetical order.

d. In the Subject Matter Index listing under ''I'', an entry for ''Investments in Debt and Equity Securities,'' is added in alphabetical order.

e. In the Subject Matter Index listing under ''P'', an entry for ''Postemployment Benefits,'' is added in alphabetical order.

f. In the Subject Matter Index listing under ''S'', an entry for ''Securities—Investments in Debt and Equity,'' and an entry for ''Storm Damage,'' are added in alphabetical order.

g. The entry Interpretation No. 136 is added. The additions read as follows:

§ 1767.41 Accounting methods and procedures required of all RUS borrowers.

* * * * *

NUMERICAL INDEX

Number	Title
* * *	* *
136	Storm Damage.
* * *	* *
628	Postemployment Benefits.
629	Investments in Debt and Equity Securities.

SUBJECT MATTER INDEX

136 *Storm Damage*

As a result of recent hurricane, flood, and ice storm damage, the Rural Utilities Service (RUS) has received several inquiries concerning the proper accounting for storm damage costs and the associated funds received from the Federal Emergency Management Administration (FEMA).

Storm damage costs should be accounted for under the work order procedure. Units of property destroyed or otherwise removed from service must be reflected on retirement work orders and units of property installed must be shown on construction work orders. To ensure that the accounting for construction and retirement costs is as accurate as possible, an effort should be made to accurately accumulate material, labor, and overhead costs. Even when extreme care has been exercised, however, it may still be necessary to use estimates to develop the appropriate cost figures.

When a storm occurs, a utility typically incurs a large retirement loss, all or a part of which should be charged to the accumulated provision for depreciation. Storm damage costs over and above construction and retirement costs represent maintenance expense. Maintenance costs include the costs of resagging lines, straightening poles, and replacing minor items of property. When extensive damage has occurred, the need to restore the property to an operating condition without delay usually results in excessive costs being incurred. Standard property unit costs may be used as a guide in determining the amount to be capitalized. It should be noted, however, that when standard property unit costs are used, all excess costs are charged to maintenance expense.

Because of the storm's destruction, property is retired prematurely and as a result, extraordinary retirement losses occur. When such extraordinary losses occur, they should be recorded in the year in which the losses are incurred. If the recording of such losses will materially distort the income statement, such losses may be charged to Account 435, Extraordinary Deductions. These costs may be deferred and amortized to future periods only if the provisions of Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation (Statement No. 71), are applied. Under the provisions of Statement No. 71, a utility may defer certain costs, provided such costs are included in the utility's rate base and recovered through future rates. If an RUS borrower elects to apply the provisions of Statement No. 71, RUS approval is required. To obtain RUS approval, a borrower must submit:

a. A detailed description of the plan including the nature of the expense item, the amount of the deferral, the specific time period for rate recovery, and justifying support for the time period selected;

b. The accounting journal entries being used by the cooperative to record the expense deferral and amortization of the deferred costs;

c. A copy of the state Commission order authorizing recovery of the deferred costs through future rates, or in the absence of commission jurisdiction, a resolution from the cooperative's board of directors authorizing such recovery; and

d. A statement from the borrower's certified public accountant (CPA) or CPA firm indicating that the deferral and amortization of these costs is in accordance with generally accepted accounting principles.

To assist in the restoration of the damaged facilities, the Federal government often provides assistance through FEMA. Under current FEMA procedures, FEMA provides funds for the restoration of facilities based upon the cost estimates submitted by the entity requesting assistance. If the FEMA grant is for less than 100 percent of the cost estimates, FEMA does not specify which costs are to be reimbursed. When the funds are received, therefore, they should be accounted for by crediting construction, retirement, maintenance expense, and administrative expense in direct proportion to the total costs incurred. For example, if total storm damage costs are $1,000,000 with $450,000 incurred for maintenance, $300,000 for retirement, $200,000 for construction, and $50,000 for administrative costs, the FEMA reimbursement should be accounted for by applying 45 percent of the funds received as a credit to maintenance expense, 30 percent as a credit to retirement costs, 20 percent as a credit to construction, and 5 percent as a credit to administrative and general costs.

Accounting Journal Entries

Dr. 108.8X, Retirement Work in Progress—Storm Damage	$1,015.17	
Cr. 107.4, Construction Work in Progress—Storm Damage		$1,015.17

To transfer the removal costs recorded in Column 11 of Retirement Work Order #4401X to Account 108.8X.

Dr. 107.4, Construction Work in Progress—Storm Damage	$4,141.55	
Cr. 108.8X, Retirement Work in Progress—Storm Damage		$4,141.55

To remove material salvaged in the __________________ rebuild from Account 107.4. The original entry debited Account 154, Plant Materials and Operating Supplies, and credited Account 107.4. (See Column 12 of Retirement Work Order #4401X.)

Dr. 108.8X, Retirement Work in Progress—Storm Damage	$312,230.41	

Cr. 364, Poles Towers and Fixtures		$133,377.55
Cr. 365, Overhead Conductors and Devices		59,683.08
Cr. 368, Lines Transformers		19,704.60
Cr. 369, Services		97,651.23
Cr. 373, Street Lighting and Signal Systems		1,813.95

To remove the original cost of property destroyed and retired from the classified plant accounts. This retirement is recorded, in detail, on Retirement Work Order #4401X. It is understood that this retirement covers all distribution property retired or destroyed in the ____________________ area exclusive of substations and special equipment items (meters, meter sockets, current and potential transformers, transformers, voltage regulators, oil circuit reclosers (OCR), and sectionalizers).

Dr. 108.6, Accumulated Provision for Depreciation of Distribution Plant	$309,104.03	
Cr. 108.8X, Retirement Work in Progress—Storm Damage		$309,104.03

To record the net loss due to the retirement of distribution lines in the ____________________ area. (See Retirement Work Order #4401X.)

Dr. 364, Poles, Towers and Fixtures	$99,075.40	
Dr. 365, Overhead Conductors and Devices	104,142.22	
Dr. 368, Line Transformers	25,036.07	
Dr. 369, Services	28,865.08	
Dr. 373, Street Lighting and Signal Systems	2,101.60	
Cr. 107.4, Construction Work in Progress—Storm Damage		$259,220.37

To record, in the proper classified plant accounts, Construction Work Order #4401 covering the ____________________ rebuild.

This entry includes:

Material Issued	$150,336.49	
Less: Materials Returned	15,631.39	
Net Material Used	134,705.10	
Labor and overhead estimated by using standard record unit costs	124,515.27	
Total	259,220.37	

Dr. 108.8X, Retirement Work in Progress—Storm Damage	2,384.00	
Cr. 107.4, Construction Work in Progress—Storm Damage		$2,384.00

To transfer the removal costs associated with the retirement of old transmission lines ($1,966) and substations ($418) to Account 107.4. This cost is shown in Column 11 of Retirement Work Order #4400X).

Dr. 107.4, Construction Work in Progress—Storm Damage	$1,939.74	
Cr. 108.8X, Retirement Work in Progress—Storm Damage		$1,939.74

To remove material salvaged from transmission lines ($1,545.74) and substations ($394.00) from Account 107.4. The original entry debited Account 154 and credited Account 107.4. (See Column 12 of Retirement Work Order #4400X.)

Dr. 108.8X, Retirement Work in Progress—Storm Damage	$162,172.06	
Cr. 355, Poles and Fixtures		$47,738.45
Cr. 356, Overhead Conductors & Devices		80,304.11
Cr. 362, Station Equipment		34,129.50

To remove the original cost of transmission lines and substations destroyed and retired from the classified plant accounts. (See Retirement Work Order #4400X.) (New substations were built and separately accounted for on Work Order #4406.)

Dr. 108.5, Accumulated Provision for Depreciation of Transmission Plant	$128,462.82	
Dr. 108.6, Accumulated Provision for Depreciation of Distribution Plant	34,153.50	
Cr. 108.8X, Retirement Work in Progress—Storm Damage		$162,616.32

To record the net loss due to the retirement of transmission lines ($128,462.82) and substations ($34,153.50). (See Retirement Work Order #4400X):

	Substations	Transmission plant
Original Cost	$34,129.50	$128,042.56
Add: Cost of Removal	418.00	1,966.00
	34,547.50	130,008.56
Less: Material Salvaged	394.00	1,545.74
Total	34,153.50	128,462.82

Dr. 355, Poles and Fixtures	$161,784.05	
Dr. 356, Overhead Conductors and Devices	124,704.77	
Cr. 107.4, Construction Work in Progress—Storm Damage		$286,488.82

To record, in the proper classified plant accounts, the costs of a 69 kV transmission line (____________________) as detailed in Work Order #4400. This work order includes construction costs as follows:

Material Used (Net)	$171,665.62	
Labor and overhead estimated by using standard record unit costs	114,823.20	
Total	286,488.82	
Dr. 107.4, Construction Work in Progress—Storm Damage	$329.40	
Cr. 108.8X, Retirement Work in Progress—Storm Damage		$329.40

To correct the journal entry for cash received from the sale of scrapped meters and transformers. The original entry credited Account 107.4 at the time of receipt.

Transformers	$318.00	
Meters	11.40	
Net Materials Used	329.40	
Dr. 108.8X, Retirement Work in Progress—Storm Damage		$137,671.22
Cr. 365, Overhead Conductors and Devices		$4,557.00
Cr. 368, Line Transformers		112,815.22
Cr. 370, Meters		20,299.00

To remove the cost of meters, transformers, and OCRs lost or destroyed from the primary plant accounts. (See Retirement Work Order #4402X.)

737 Transformers	$112,815.22	
31 OCRs	4,557.00	
1,532 Meters	20,299.00	
Total	137,671.22	
Dr. 108.6, Accumulated Provision for Depreciation of Distribution Plant	$137,341.82	
Cr. 108.8X, Retirement Work in Progress		$137,341.82

To record the net loss due to the retirement of meters, transformers, and OCRs. (See Retirement Work Order #4402X.)

Original Cost	$137,671.22	
Salvaged Realized	329.40	
Total	137,341.82	
Dr. 186, Miscellaneous Deferred Debits	$1,319.85	
Cr. 107.4, Construction Work in Progress—Storm Damage		$1,319.85

To record the engineering costs associated with future construction work in the ___________________ area.

Dr. 593, Maintenance of Overhead Lines	$607.24	
Dr. 595, Maintenance of Line Transformers	19,365.86	
Dr. 597, Maintenance of Meters	6,595.56	
Cr. 107.4, Construction Work in Progress—Storm Damage		$26,568.66

To charge the costs of repairing damaged meters, transformers, voltage regulators, and OCRs to the appropriate expense accounts. Repair costs were originally charged to Account 107.4.

	593	595	597
Meters			$6,595.56
Transformers		$18,869.95	
Voltage Regulators		495.91	
Oil Circuit Reclosers	$607.24		
Total	607.24	19,365.86	6,595.56

Dr. 920, Administrative and General Salaries	$32,000.00	
Dr. 921, Office Supplies and Expenses	4,421.69	
Cr. 107.4, Construction Work in Progress—Storm Damage		$36,421.69

To charge the administrative costs incurred to obtain the FEMA grant to the appropriate expense accounts. Administrative costs were originally charged to Account 107.4.

Salaries	$32,000.00	
Office Supplies	4,421.69	
Total	$36,421.69	
Dr. 571, Maintenance of Overhead Lines	$3,675.60	
Dr. 593, Maintenance of Overhead Lines	33,080.40	
Cr. 107.4, Construction Work in Progress Storm Damage		$36,756.00

To allocate expenses remaining in Account 107.4 to distribution and transmission maintenance expense. It was estimated that only 10 percent is applicable to transmission.

Dr. 426.5, Other Deductions	$275,000.00	

Dr. 435, Extraordinary Deductions		
Dr. 182.1, Extraordinary Property Losses		
Cr. 108.5, Accumulated Provision for Depreciation of Transmission Plant		$35,000.00
Cr. 108.6, Accumulated Provision for Depreciation of Distribution Plant		240,000.00

To restore the accumulated provisions for depreciation to their appropriate levels based upon a study of plant currently in service.

Note: Account 426.5, Other Deductions, should be used to record the retirement loss as a current period expense. Account 435, Extraordinary Deductions, may be used when the loss will materially distort the income statement. Account 182.1, Extraordinary Property Losses, should be used when such costs are being deferred under the provisions of Statement No. 71. Costs recorded in this account should be amortized to Account 407, Amortization of Property Losses, as the costs are recovered through rates.

Dr. 131.1, Cash—General	$1,000,000.00	
Cr. 253, Other Deferred Credits		$1,000,000.00

To record the receipt of funds from the Federal Emergency Management Administration (FEMA).

Dr. 253, Other Deferred Credits	$1,000,000.00	
Cr. 108.5, Accumulated Provision for Depreciation of Transmission Plant		$74,205.00
Cr. 108.6, Accumulated Provision for Depreciation of Distribution Plant		191,575.00
Cr. 186, Miscellaneous Deferred Debits		872.00
Cr. 355, Poles and Fixtures		129,056.00
Cr. 356, Overhead Conductors and Devices		99,408.00
Cr. 364, Poles, Towers and Fixtures		78,916.00
Cr. 365, Overhead Conductors and Devices		82,840.00
Cr. 368, Line Transformers		20,056.00
Cr. 369, Services		23,108.00
Cr. 373, Street Lighting and Signal Systems		1,744.00
Cr. 426.5, Other Deductions		219,220.00
Cr. 571, Maintenance of Overhead Lines		2,900.00
Cr. 593, Maintenance of Overhead Lines		26,600.00
Cr. 595, Maintenance of Line Transformers		15,300.00
Cr. 597, Maintenance of Meters		5,200.00
Cr. 920, Administrative and General Salaries		25,491.00
Cr. 921, Office Supplies and Expenses		3,509.00

To allocate FEMA funds to the proper accounts.

Summary of Costs

Maintenance:	
Account 571, Maintenance of Overhead Lines	$3,675.60
Account 593, Maintenance of Overhead Lines	33,687.24
Account 595, Maintenance of Line Transformers	19,365.86
Account 597, Maintenance of Meters	6,595.56
Total Maintenance Costs	63,324.26
Retirement Loss:	
Account 108.5, Accumulated Provision for Depreciation of Transmission Plant	93,462.82
Account 108.6, Accumulated Provision for Depreciation of Distribution Plant	240,599.35
Account 426.5, Other Deductions	275,000.00
Total Retirement Loss	609,062.17
Construction:	
Account 186, Miscellaneous Deferred Debits	1,319.85
Account 355, Poles and Fixtures	161,784.05
Account 356, Overhead Conductors and Devices	124,704.77
Account 364, Poles, Towers and Fixtures	99,075.40
Account 365, Overhead Conductor and Devices	104,142.22
Account 368, Line Transformers	25,036.07
Account 369, Services	28,865.08
Account 373, Street Lighting and Signal Systems	2,101.60
Total Construction Cost	547,029.04
Administrative:	
Account 920, Administrative and General Salaries	$32,000.00
Account 921, Office Supplies and Expenses	4,421.69
Total Administrative Cost	36,421.69
Maintenance	63,324.26
Retirement Loss	609,062.17
Construction	547,029.04
Administrative	36,421.69
Total Costs	1,255,837.16

Distribution of FEMA Funds

Maintenance: 63,324.26÷1,255,837.16=.0504=5.0%
Retirement: 609,062.17÷1,255,837.16=.4850=48.5%
Construction: 547,029.04÷1,255,837.16=.4356=43.6%
Administrative: 36,421.69÷1,255,837.16=.0290=2.9%

Maintenance: $1,000,000.00×5.0%=	$50,000.00
Retirement: $1,000,000.00×48.5%=	485,000.00
Construction: $1,000,000.00×43.6%=	436,000.00
Administrative: $1,000,000.00×2.9%=	29,000.00
Total	1,000,000.00

Distribution of FEMA Funds—Maintenance

Account 571: 3,675.60÷63,324.26=.0580=5.8%
Account 593: 33,687.24÷63,324.26=.5320=53.2%
Account 595: 19,365.86÷63,324.26=.3058=30.6%
Account 597: 6,595.56÷63,324.26=.1041=10.4%

Account 571: $50,000.00×5.8%=	$2,900.00
Account 593: $50,000.00×53.2%=	26,600.00
Account 595: $50,000.00×30.6%=	15,300.00
Account 597: $50,000.00×10.4%=	5,200.00
Total	50,000.00

Distribution of FEMA Funds—Retirement Loss

Account 108.5: 93,462.82÷609,062.17=.1535=15.3%
Account 108.6: 240,599.35÷609,062.17=.3950=39.5%
Account 426.5: 275,000.00÷609,062.17=.4515=45.2%

Account 108.5: $485,000.00×15.3%=	$74,205.00
Account 108.6: $485,000.00×39.5%=	191,575.00
Account 426.5: $485,000.00×45.2%=	219,220.00
Total	485,000.00

Distribution of FEMA Funds—Construction

Account 186: 1,319.85÷547,029.04=.0024=.2%
Account 355: 161,784.05÷547,029.04=.2958=29.6%
Account 356: 124,704.77÷547,029.04=.2280=22.8%
Account 364: 99,075.40÷547,029.04=.1811=18.1%
Account 365: 104,142.22÷547,029.04=.1904=19.0%
Account 368: 25,036.07÷547,029.04=.0457=4.6%
Account 369: 28,865.08÷547,029.04=.0528=5.3%
Account 373: 2,101.67÷547,029.04=.0038=.4%

Account 186: $436,000.00×.2%=	$872.00
Account 355: $436,000.00×29.6%=	129,056.00
Account 356: $436,000.00×22.8%=	99,408.00
Account 364: $436,000.00×18.1%=	78,916.00
Account 365: $436,000.00×19.0%=	82,840.00
Account 368: $436,000.00×4.6%=	20,056.00
Account 369: $436,000.00×5.3%=	23,108.00
Account 373: $436,000.00×.4%=	1,744.00
Total	436,000.00

Distribution of FEMA Funds—Administrative

Account 920: 32,000.00÷36,421.69=.8786=87.9%
Account 921: 4,421.69÷36,421.69=.1213=12.1%

Account 920: $29,000.00×87.9%=	$25,491.00
Account 921: $29,000.00×12.1%=	3,509.00
Total	29,000.00

* * * * *

16. In § 1767.41, Interpretation No. 401 is revised to read as follows:

* * * * *

401 *Computer Software Costs*

Computer software consists of programs and routines (sets of computer instructions) which direct the operation of the computer. Software may refer to generalized routines useful in computer operations or to programs for specific applications such as payroll.

The distinction between generalized software and application software is important. Generalized software provides operating support for individual applications. This would include programs for such tasks as making printouts of machine-readable records, sorting records, organizing and maintaining files, translating programs written in a symbolic language into machine-language instructions, and scheduling jobs through the computer. These programs are generally furnished by the manufacturer.

Application software consists of a set of instructions for performing a particular data processing task. Application programs are generally written by the user installation, but are frequently obtained as prewritten packages from software vendors. Application software includes programs such as payroll, billing, general ledger, as well as engineering or managerial applications.

Costs incurred with the purchase or development of computer software shall be accounted for as follows:

1. Capitalize in a subaccount of Account 391, Office Furniture and Equipment, all costs for generalized software. Depreciate the cost over the service life (or remaining life) of the main hardware (i.e., containing central processor). If the purchase invoice does not break out or assign a cost to the ''generalized software,'' it is appropriate to include the full amount in hardware costs. Capitalize in a separate subaccount of Account 391, all costs for applications software determined to have a service life of over one year. Depreciate the cost over the estimated useful service life of the program. This depreciation period shall not exceed five (5) years. RUS realizes, however, that there may be circumstances that justify a useful life longer than 5 years. When this is the case and it is management's intent to utilize these programs over an extended period, written justification shall be submitted to RUS for approval.

2. Expense in Account 921, Office Supplies and Expenses, in the period incurred, all costs associated with the maintenance, updating, and conversion of files or revision of all software, and all costs for software with a useful life of less than 1 year. Also expense in Account 921, the unamortized cost of all software determined, during the year, to be no longer used by or useful to the cooperative. Such costs that are clearly applicable to any category of operating expenses other than the administrative and general category, however, shall be included in the appropriate account in such category. In accordance with the USoA, no portion of such costs shall be capitalized to construction or retirement activities.

In determining the total cost of purchased or internally developed software, the following items shall be included:

a. Costs incurred for feasibility studies if they result in the purchase or development of software;

b. All costs related to the actual purchase or development of the software. These costs must be specifically identifiable with the software and properly supported by time cards, invoices, or other documents; and

c. All costs incurred in ''testing and debugging'' the software.

Computer software costs are properly chargeable to Account 107, Construction Work in Progress, provided that the following criteria are met:

1. The computer program is specifically dedicated to performing a construction related activity, and

2. The cost of the software is itemized separate and apart from other hardware and software costs.

The cost of software programs meeting the above requirements and having an estimated useful service life in excess of 1 year shall be recorded in Account 186, Miscellaneous Deferred Debits, and amortized to Account 107, Construction Work in Progress, over the estimated service life of the program not to exceed 5 years.

All costs related to training personnel in the use of software shall be expensed as incurred.

The accounting in this section is not intended to apply to immaterial amounts. When it is deemed that the costs of the recordkeeping necessary to amortize these costs outweigh the benefits to the members, software costs shall be expensed in the year incurred.

For computer costs relating to load control equipment, refer to Item 118 of this section.

* * * * *

17. In § 1767.41, Interpretation No. 604 is revised to read as follows:

* * * * *

604 *Deferred Compensation*

Many utilities participate in the NRECA Deferred Compensation Program. Based upon the provisions of the program, the following accounting entries shall be made:

Dr. 186.XX, Miscellaneous Deferred Debits—Deferred Compensation
Cr. 228.3, Accumulated Provision for Pensions and Benefits

To increase the deferred compensation provision by the amount of the annual deposit to NRECA's Deferred Compensation Fund.

Dr. 128, Other Special Funds—Deferred Compensation
Cr. 131.1, Cash—General

To record the annual deposit to NRECA's Deferred Compensation Fund.

Dr. Construction Work in Progress, Retirement Work in Progress, or Account 926, Employee Pensions and Benefits, as appropriate.
Cr. 186.XX, Miscellaneous Deferred Debits—Deferred Compensation

To record monthly accrual of deferred compensation.

Note: If an employee joins the deferred compensation program during the year, use entry #1 to record the additional deposit to the NRECA Deferred Compensation Fund and increase the monthly accrual in entry #2 to reflect this deposit.

NRECA provides borrowers that participate in the deferred compensation program with an annual account statement disclosing the activity for each Homestead Fund investment including the number of shares owned, interest income, dividend income, capital gains/losses, and the value of the shares owned at statement date. Funds may be invested in the Short-term Bond Fund, the Value Fund, the Short-term Government Securities Fund, and the Daily Income Fund. Depending upon the Homestead Fund selected, invested funds may earn interest and dividend income and may experience unrealized holding gains or losses. Based upon the information provided on the annual statement, the following journal entries shall be recorded to recognize the increase or decrease in the fund assets:

Dr. 128, Other Special Funds—Deferred Compensation
Cr. 419, Interest and Dividend Income
Cr. 421, Miscellaneous Nonoperating Income

To record an increase in the fund value as of December 31, 19xx, resulting from interest and dividend income and from unrecognized holding gains on trading securities.

Dr. 926, Employee Pensions and Benefits
Cr. 228.3, Accumulated Provision for Pensions and Benefits

To record an increase in the liability to the employee resulting from an increase in the investment account.

Dr. 426.5, Other Deductions
Cr. 128, Other Special Funds—Deferred Compensation To record a decrease in fund value as of December 31, 19xx, resulting from unrecognized holding losses on trading securities.

Dr. 228.3, Accumulated Provision for Pensions and Benefits
Cr. 926, Employee Pensions and Benefits

To record a decrease in the liability to the employee resulting from a decrease in the investment account.

Payments made to participating employees because of retirement or separation for other reasons shall be recorded using the following entries:

Dr. 131.1, Cash—General
Cr. 128, Other Special Funds—Deferred Compensation

To record the receipt of funds from NRECA.

and

Dr. 228.3, Accumulated Provision for Pensions and Benefits
Cr. 131.1, Cash—General

To record payment to employee for deferred compensation.

If the borrower has elected to bear the market risk of the funds which guarantee that the amount of money an employee receives will not be less than the amount of salary deferred, the following entry shall be recorded if total payment(s) from NRECA are less than the amount of salary deferred:

Dr. 926, Employee Pensions and Benefits
Cr. 131.1, Cash—General

To record payment to employee for deferred compensation. Payment was made because amount returned did not equal salary deferred.

Appropriate disclosure of the terms of the program shall be made in the notes to the financial statements.

* * * * *

18. In § 1767.41, Interpretation No. 626 is revised to read as follows:

* * * * *

626 *Rural Economic Development Loan and Grant Program*

On December 21, 1987, Section 313, Cushion of Credits Payments Program, was added to the Rural Electrification Act. Section 313 establishes a Rural Economic Development Subaccount and authorizes the Administrator of the Rural Utilities Service to provide zero interest loans or grants to RE Act borrowers for the purpose of promoting rural economic development and job creation projects.

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

The accounting journal entries required to record the transactions associated with a rural economic development loan are as follows:

Dr. 224.17, RUS Notes Executed—Economic Development—Debit
Cr. 224.16, Long-Term Debt—RUS Economic Development Notes Executed

To record the contractual obligation to RUS for the Economic Development Notes.

Dr. 131.12, Cash—General—Economic Development Funds
Cr. 224.17, RUS Notes Executed—Economic Development—Debit

To record the receipt of the economic development loan funds.

Dr. 123, Investment in Associated Organizations or
Dr. 124, Other Investments
Cr. 131.12, Cash—General—Economic Development Funds

To record the disbursement of Economic development loan funds to the project.

Dr. 131.1, Cash—General Funds
Cr. 421, Miscellaneous Nonoperating Income

To record payment received from the project for loan servicing charges.

Dr. 171, Interest and Dividends Receivable
Cr. 419, Interest and Dividend Income

To record the interest earned on the investment of rural economic development loan funds.

Dr. 426.1, Donations or
Dr. 426.5, Other Deductions
Cr. 131.1, Cash—General Funds

To record the payment of interest earned in excess of $500.00 on the investment of rural economic development loan funds.

Note: Interest earned in excess of $500.00 must be used for the rural economic development project for which the loan funds were received or returned to RUS.

Dr. 131.12, Cash—General—Economic Development Funds
Cr. 123, Investment in Associated Organizations or
Cr. 124, Other Investments

To record receipt of the repayment, by the project, of economic development loan funds.

Dr. 224.16, Long-Term Debt—RUS Economic Development Notes Executed
Cr. 131.12, Cash—General—Economic Development Funds

To record the repayment, to RUS, of the economic development loan funds.

The accounting journal entries required to record the transactions associated with a rural economic development grant are as follows:

Dr. 131.13, Cash—General—Economic Development Grant Funds
Cr. 224.18, Other Long-Term Debt—Grant Funds;
Cr. 208, Donated Capital; or
Cr. 421, Miscellaneous Nonoperating Income

To record grant funds disbursed by RUS. If the grant agreement requires repayment of the funds upon termination of the revolving loan program, Account 224.18 should be credited. If the grant agreement states that there is absolutely no obligation for repayment upon termination of the revolving loan program, the funds should be accounted for as a permanent infusion of capital by crediting Account 208. If, however, the grant agreement is silent as to the final disposition of the grant funds, Account 421 should be credited.

Dr. 123.3, Investment in Associated Organizations—Federal Economic Development Loans
Cr. 131.13, Cash—General—Economic Development Grant Funds

To record advances of Federal funds to associated organizations for authorized rural economic development projects.

Dr. 124.1, Other Investments—Federal Economic Development Loans
Cr. 131.13, Cash—General—Economic Development Grant Funds

To record advances of Federal funds to nonassociated organizations for authorized rural economic development projects.

Dr. 171, Interest and Dividends Receivable
Cr. 419, Interest and Dividend Income

To record the accrual of interest on loans made to associated and nonassociated organizations with Federal funds for authorized rural economic development projects.

Dr. 131.14, Cash—General—Economic Development Non-Federal Revolving Funds
Cr. 123.3, Investment in Associated Organizations—Federal Economic Development Loans or
Cr. 124.1, Other Investments—Federal Economic Development Loans

To record repayment of loans made with Federal funds.

Dr. 123.4, Investment in Associated Organizations—Non-Federal Economic Development Loans
Cr. 131.14, Cash—General—Economic Development Non-Federal Revolving Funds

To record advances of non-Federal funds to associated organizations for authorized rural economic development projects.

Dr. 124.2, Other Investments—Non-Federal Economic Development Loans
Cr. 131.14, Cash—General—Economic

Development Non-Federal Revolving Funds

To record advances of non-Federal funds to nonassociated organizations for authorized rural economic development projects.

Dr. 171, Interest and Dividends Receivable

Cr. 419, Interest and Dividend Income

To record the accrual of interest on loans made to associated and nonassociated organizations with non-Federal funds for authorized rural economic development projects.

Dr. 131.14, Cash—General—Economic Development Non-Federal Revolving Funds

Cr. 123.4, Investment in Associated Organizations—Non-Federal Economic Development Loans or

Cr. 124.2, Other Investments—Non-Federal Economic Development Loans

To record repayment of loans made with non-Federal funds.

* * * * *

19. In § 1767.41, Interpretation No. 627 is revised, and Interpretation No. 628, Postemployment Benefits, and Interpretation No. 629, Investments in Debt and Equity Securities, are added to read as follows:

* * * * *

627 *Postretirement Benefits*

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

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

This statement applies to both written plans and to plans whose existence is implied from a practice of paying postretirement benefits. An employer's practice of providing postretirement benefits to selected employees under individual contracts with specified terms determined on an employee-by-employee basis does not, however, constitute a postretirement benefit plan under the provisions of this statement.

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

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

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

Accounting Requirements

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

The deferral and amortization of the transition obligation does not require RUS approval provided that it complies with the provisions of Statement No. 106. If, however, a borrower elects to expense the transition obligation in the current period and subsequently defer this expense in accordance with Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, the deferral must be approved by RUS. In those states in which the commission will not allow the recovery of the transition obligation through future rates, the transition obligation must be expensed, in its entirety, in the year in which Statement No. 106 is adopted. A portion of the transition obligation may be charged to construction and retirement activities provided such charges are properly supported.

Effective Date and Implementation

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

RUS borrowers must comply with the implementation dates set forth in Statement No. 106. At the time of the adoption of Statement No. 106, rates must be in place sufficient to recover the current period expense and any amortization of the transition obligation. A copy of a board resolution or commission order, as appropriate, indicating that the transition obligation and current period expense have been included in the borrower's rates must be submitted to RUS.

Accounting Journal Entries—Transition Obligation

The journal entries required to record the transition obligation are as follows:

1. If the borrower elects to expense the transition obligation in the current period and there is no deferral of costs, the following entry shall be recorded:

Dr. 435.1, Cumulative Effect on Prior Years of a Change in Accounting Principle or

Dr. 926, Employee Pensions and Benefits

Dr. 107, Construction Work in Progress

Dr. 108.8, Retirement Work in Progress

Cr. 228.3, Accumulated Provision for Pensions and Benefits

To record the current period recognition of the transition obligation for postretirement benefits.

Note: A portion of the transition obligation may be charged to construction and retirement activities provided such charges are properly supported.

2. If the borrower elects to defer and amortize the transition obligation in accordance with the provisions of Statement No. 71, the following entry shall be recorded:

Dr. 182.3, Other Regulatory Assets

Cr. 228.3, Accumulated Provision for Pensions and Benefits

To record the deferral of the transition obligation under the provisions of Statement No. 71.

Dr. 926, Employee Pensions and Benefits
Dr. 107, Construction Work in Progress
Dr. 108.8, Retirement Work in Progress
Cr. 182.3, Other Regulatory Assets

To record the amortization of postretirement benefits expenses as they are recovered through rates in accordance with Statement No. 71.

3. The deferral and amortization of the transition obligation under the provisions of Statement No. 106 is considered to be an off balance sheet item. If, therefore, the borrower elects to defer and amortize the transition obligation on a straight-line basis over the average remaining service period of the active employees or 20 years in accordance with Statement No. 106, no entry is required. Instead, the transition obligation is recognized as a component of postretirement benefit cost as it is amortized. It should be noted, however, that the amount of the unamortized transition obligation must be disclosed in the notes to the financial statements.

Accounting Journal Entries—Current Period Expense

The current period postretirement expense should be recorded by the following entry:

Dr. 926, Employee Pensions and Benefits
Dr. 107, Construction Work in Progress
Dr. 108.8, Retirement Work in Progress
Cr. 228.3, Accumulated Provision for Pensions and Benefits

To record current period postretirement benefit expense.

Dr. 228.3X, Accumulated Provision for Pensions and Benefits—Funded
Cr. 131.1, Cash—General

To record cash payments on a ''pay-as-you-go'' basis for postretirement benefits.

Accounting Journal Entry—Funding

If a borrower elects to voluntarily fund its postretirement benefits obligation in an external, irrevocable trust, the following entry shall be recorded:

Dr. 228.3X, Accumulated Provision for Pensions and Benefits—Funded
Cr. 131.1, Cash—General

To record the funding of postretirement benefits expense into an external, irrevocable trust.

If a borrower elects to voluntarily fund its postretirement benefits obligation in an investment vehicle other than an external, irrevocable trust, the following entry shall be recorded:

Dr. 128, Other Special Funds
Cr. 131.1, Cash—General

To record the funding of postretirement benefits expense into an investment vehicle other than an external, irrevocable trust.

628 *Postemployment Benefits*

Statement of Financial Accounting Standards No. 112, Employers' Accounting for Postemployment Benefits (Statement No. 112) establishes the standards of financial accounting and reporting for employers who provide benefits to former or inactive employees after employment but before retirement. Inactive employees are those who are not currently rendering service to the employer but who have not been terminated, including employees who are on disability leave, regardless of whether they are expected to return to active service. For purposes of applying the provisions of Statement No. 112, former members of the board of directors are considered to be employees of the cooperative.

Postemployment benefits include benefits provided to former or inactive employees, their beneficiaries, and covered dependents. They include, but are not limited to, salary continuation, supplemental benefits (including workmen's compensation), health care, job training and counseling, and life insurance coverage. Benefits may be provided in cash or in kind and may be paid upon cessation of active employment or over a specified period of time.

The cost of providing postemployment benefits is considered to be a part of the compensation provided to an employee in exchange for current service and should, therefore, be accrued as the employee earns the right to be paid for future postemployment benefits. Applying the criteria set forth in Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, a postemployment benefit obligation is accrued when all of the following conditions are met:

1. The employer's obligation for payment for future absences is attributable to employees' services already performed;

2. The obligation relates to employee rights that vest or accumulate. Vested rights are considered those rights for which the employer is obligated to make payment even if the employee terminates. Rights that accumulate are those earned, but unused rights to compensated absences that may be carried forward to one or more periods subsequent to the period in which they are earned;

3. Payment of the compensation is probable; and

4. The amount can be reasonably estimated.

If all of these conditions are not met, the employer must account for its postemployment benefit obligation in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (Statement No. 5) when it becomes probable that a liability has been incurred and the amount of that liability can be reasonably estimated.

If an obligation for postemployment benefits is not accrued in accordance with the provisions of Statement No. 5 or Statement No. 43 only because the amount cannot be reasonably estimated, the financial statements should disclose that fact.

Accounting Requirements

All RUS borrowers must adopt the accrual accounting provisions and reporting requirements set forth in Statement No. 112 as of the statement's implementation date. A portion of the cumulative effect may be charged to construction and retirement activities provided such charges are properly supported. If a borrower elects to defer the cumulative effect of implementing Statement No. 112 in accordance with the provisions of Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, the deferral must be approved by RUS.

Effective Date and Implementation

Statement No. 112 is effective for fiscal years beginning after December 15, 1993. Previously issued financial statements should not be restated.

RUS borrowers must comply with the implementation date set forth in Statement No. 112. At the time of the adoption of Statement No. 112, rates must be in place sufficient to recover the current period expense.

Accounting Journal Entries

The journal entries required to account for postemployment benefits are as follows:

Dr. 435.1, Cumulative Effect on Prior Years of a Change in Accounting Principle
Dr. 107, Construction Work in Progress
Dr. 108.8, Retirement Work in Progress
Cr. 228.3, Accumulated Provision for Pensions and Benefits

To record the cumulative effect of implementing Statement No. 112.

Note: A portion of the cumulative effect may be charged to construction and retirement activities provided such charges are properly supported. Account 435.1 is closed to Account 219.2, Nonoperating Margins.

If the borrower elects to defer and amortize the cumulative effect in accordance with the provisions of Statement No. 71, the following entry shall be recorded:

Dr. 182.3, Other Regulatory Assets
Cr. 228.3, Accumulated Provision for Pensions and Benefits

To record the deferral of the cumulative effect of implementing Statement No. 112 in accordance with the provisions of Statement No. 71.

Dr. 926, Employee Pensions and Benefits
Dr. 107, Construction Work in Progress
Dr. 108.8, Retirement Work in Progress
Cr. 182.3, Other Regulatory Assets

To record the amortization of the cumulative effect of implementing Statement No. 112 as it is recovered through rates in accordance with Statement No. 71.

Dr. 926, Employee Pensions and Benefits
Dr. 107, Construction Work in Progress
Dr. 108.8, Retirement Work in Progress
Cr. 228.3, Accumulated Provision for Pensions and Benefits

To record current period postemployment benefit expense.

Note: If postemployment benefits are accrued under the criteria set forth in Statement No. 43, this journal entry is made on a monthly basis. If, however, the accrual is based upon the provisions of Statement No. 5, this is a one-time entry unless the liability is reevaluated and subsequently adjusted.

629 *Investments in Debt and Equity Securities*

Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (Statement No. 115), establishes the standards of financial accounting and reporting for investments in debt securities and for investments in equity securities that have readily determinable fair values. Statement No. 115 does not apply to investments in equity securities accounted for under the equity method nor to investments in consolidated subsidiaries.

At the time of acquisition, an entity must classify debt and equity securities into one of three categories: held-to-maturity, available-for-sale, or trading. At the balance sheet date, the appropriateness of the classifications must be reassessed.

Investments in debt securities are classified as held-to-maturity and are measured at amortized cost in the balance sheet only if the reporting entity has the positive intent and ability to hold these securities to maturity. Debt securities are not classified as held-to-maturity if the entity has the intent to hold the security only for an indefinite period; for example, if the security would become available for sale in response to changes in market interest rates and related changes in the security's prepayment risk, needs for liquidity, changes in the availability of and the yield on alternative investments, changes in funding sources and terms, and changes in foreign currency risk.

Investments in debt securities that are not classified as held-to-maturity and equity securities that have readily determinable fair values are classified as either trading securities or available-for-sale securities and are measured at fair value in the balance sheet. Trading securities are those securities that are bought and held principally for the purpose of selling them in the near future. Trading generally reflects active and frequent buying and selling and trading securities are generally used with the objective of generating profits on short-term differences in prices. Available-for-sale securities are those investments not classified as either trading securities or held-to-maturity securities.

Statement No. 115 requires unrealized holding gains and losses for trading securities to be included in earnings in the current period. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings; however, they are reported as a net amount in a separate component of shareholders' equity until realized.

For individual securities classified as either available-for sale or held-to-maturity, an entity must determine whether a decline in the security's fair value below the amortized cost is other than temporary. If the decline in fair value is determined to be permanent, that is, it is probable that the entity will not be able to collect all amounts due under the contractual terms of the security, the realized loss is accounted for in earnings of the current period. The new cost basis is not adjusted upward for subsequent recoveries in the fair value. Subsequent increases in the fair value of available-for-sale securities are included in the separate component of equity. Subsequent decreases are also included in the separate component of equity.

All trading securities are reported as current assets in the balance sheet and individual held-to-maturity and available-for-sale securities are classified as either current or noncurrent, as appropriate. Cash flows from the purchase, sale, or maturity of available-for-sale securities and held-to-maturity securities are classified in the statement of cash flows as cash flows from investing activities and reported gross for each security classification.

Accounting Requirements

All RUS borrowers must adopt the accounting, reporting, and disclosure requirements set forth in Statement No. 115 as of the statement's implementation date. Unrealized holding gains or losses for trading securities shall be recorded in either Account 421, Miscellaneous Nonoperating Income, or Account 426.5, Other Deductions, as appropriate. Unrealized holding gains or losses for available-for-sale securities held by the corporate entity are recognized as a component of stockholder's equity in Account 215.1, Unrealized Gains and Losses—Debt and Equity Securities. A contra account of the investment account shall be debited or credited accordingly. Unrealized gains and losses for available-for-sale securities held in a decommissioning fund shall increase or decrease, as appropriate, the reported value of the fund.

Effective Date and Implementation

Statement No. 115 is effective for fiscal years beginning after December 15, 1993. At the beginning of the entity's fiscal year, the entity must classify its debt and equity securities on the basis of the entity's current intent. This statement may not be applied retroactively to prior years' financial statements. For fiscal years beginning prior to December 16, 1993, reporting entities are permitted to apply Statement No. 115 as of the end of a fiscal year for which annual financial statements have not previously been issued.

Dated: October 2, 1995.

Jill Long Thompson,

Under Secretary, Rural Economic and Community Development.

[FR Doc. 95–27006 Filed 10–31–95; 8:45 am]

BILLING CODE 3410–15–P

Animal and Plant Health Inspection Service

9 CFR Part 94

[Docket No. 95–050–2]

Uruguay; Change in Disease Status

AGENCY: Animal and Plant Health Inspection Service, USDA.

ACTION: Final rule.