

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
Sandwich Isles Communications, Inc.)	WC Docket No. 09-133
Petition for Declaratory Ruling)	
)	

To: Chief, Wireline Competition Bureau

**SANDWICH ISLES COMMUNICATIONS
OPPOSITION TO NECA PETITION FOR DECLARATORY RULING**

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Date: March 12, 2015

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Summary

The National Exchange Carrier Association's Petition for Clarification and/or Declaratory Ruling purports to seek "clarification" of the Federal Communications Commission's September 2010 "Declaratory Ruling" regarding certain cable lease costs for Sandwich Isles Communications. In reality, NECA seeks sweeping changes to the FCC's and the Rural Utilities Service's longstanding cost accounting requirements for rural exchange carriers. If adopted by the FCC, these changes will be in violation of Generally Accepted Accounting Principles (GAAP) and cause widespread financial harm to rural carriers. Moreover, the Petition ignores the plain meaning of the Declaratory Ruling with respect to how SIC's costs must be accounted for under the FCC's rules.

SIC's financial statements and cost studies were prepared by outside experts in accounting and cost studies, in strict compliance with applicable accounting standards and FCC/RUS requirements. SIC's cost studies were accurate when filed and are accurate to this day. Consequently, NECA's Petition should be dismissed or denied.

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OPPOSITION TO NECA PETITION FOR DECLARATORY RULING

Sandwich Isles Communications, Inc. (“SIC”), through its attorneys and pursuant to Section 1.2 of the Commission's Rules, 47 C.F.R. § 1.2, hereby submits this Opposition to the “Petition for Clarification and/or Declaratory Ruling” (“Petition”) filed by the National Exchange Carrier Association (“NECA”). By Public Notice dated February 10, 2015 (DA 15-192), the Commission invited interested parties to file comments in response to the Petition.

I. Summary of NECA’s Petition

NECA has filed a “Petition for Clarification and/or Declaratory Ruling” with the FCC with respect to certain aspects of the FCC’s *Declaratory Ruling in the Matter of Sandwich Isles Communications, Inc.* (“Declaratory Ruling”) which was released in September of 2010.¹ In administering the terms of the Declaratory Ruling, NECA claims that, upon review of SIC’s cost study, SIC is only paying a portion of the lease expenses that are being included in the NECA pool revenue requirement.² NECA has petitioned the FCC to clarify whether the “lease expenses

¹ See Petition of NECA for Clarification and/or Declaratory Ruling, WC Docket No. 09-133 at 1 (filed Feb. 6, 2015), (requesting a clarification of *Sandwich Isles Communications, Inc.*, WC Docket No. 09-133, Declaratory Ruling, 25 FCC Rcd. 13647 (Wireline Comp. Bur. 2010), *pet. for recon. and app. for rev. pending*).

² *Id.* at 4.

subject to dispute” must be actually paid expenses during what NECA deems to be the “relevant carrier accounting cycle,” and if so, NECA requests that the FCC provide authority for NECA to adjust SIC’s pool settlements paid in periods now closed under NECA’s 24-month adjustment window.³

II. Overview

NECA’s Petition purports to be a request for “clarification” of the FCC’s Declaratory Ruling. In reality, NECA seeks sweeping changes to the FCC’s and the Rural Utilities Service’s longstanding cost accounting requirements for rural exchange carriers. If adopted by the FCC, these changes will be in violation of Generally Accepted Accounting Principles (GAAP) and cause widespread financial harm to rural carriers. Moreover, the Petition ignores the plain meaning of the Declaratory Ruling with respect to how SIC’s costs must be accounted for under the FCC’s rules. Consequently, NECA’s Petition should be dismissed or denied.

III. SIC’s Cost Study Complies with GAAP and FCC Rules

NECA’s Petition refers to SIC’s 2013 Cost Study; the Petition does not explain why NECA has only recently raised questions about SIC’s 2013 Cost Study. In any event, SIC’s financial statements and cost studies have always been kept in strict accordance with applicable federal requirements (FCC and RUS, as explained in greater detail below) and accounting standards. SIC has always maintained its financial books in accordance with GAAP and it has prepared its cost study in compliance with all the applicable separations rules and regulations as well as NECA’s Reporting Guidelines.

As described in detail in the supporting Declaration of SIC’s accountants, attached hereto

³ *Id.* at 10-11.

as Exhibit One, SIC's financial statements have always been maintained in strict accordance with GAAP and relevant FCC requirements.⁴ For approximately 14 years, SIC's certified accountants have performed all necessary accounting functions, including annual audits of SIC's Financial Statements, to provide an opinion that they have been prepared in conformity with Generally Accepted Accounting Principles (GAAP), which includes the requirements of the FCC Uniform System of Accounts. Those audits were conducted in accordance with Generally Accepted Audit Standards, Government Auditing Standards, and the requirements set forth in 7 CFR Part 1773, Policy on Audits of the Rural Utilities Service Borrowers. *See S. Daniels Decla.* at ¶ 3.

As part of the audit function under these standards, SIC's accountants provided: (1) an Independent Auditors' Report and opinion on the Financial Statements, (2) an Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Telecommunications Borrowers as required by 7 CFR Part 1773, Policy on Audits of the Rural Utilities Service Borrowers, and (3) an Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matter Based On An Audit of Financial Statements Performed in Accordance With Government Auditing Standards. These procedures included those necessary to test SIC's compliance with applicable laws and regulations, including contracts and grant agreements as required by the Rural Utilities Service and Government Auditing Standards. *See S. Daniels Decla.* at ¶ 3.

In short, SIC's financial statements have been rigorously reviewed and maintained from the company's inception. Given SIC's strict compliance with all applicable accounting standards and FCC requirements there is no reason why NECA should complain about the manner in which

⁴ Declaration of S. Daniels, C.P.A., Exhibit One, attached hereto.

SIC's cable lease costs have been accounted for and included in SIC's cost studies.

IV. NECA's Assertions are Mistaken

The crux of NECA's Petition has to do with how certain cable lease agreement expenses are treated in SIC's financial statements and cost study. As explained in detail in the attached Declarations of SIC's expert cost consultants and independent auditors, SIC's 2013 Cost Study and financial statements were prepared, as they always have been, in strict accordance with GAAP. *See J. Rennard Declaration*, attached hereto as Exhibit Two. For its part, NECA has essentially invented unprecedented accounting protocols that it wishes to apply to SIC, without support from any legal or accounting authorities. At best, NECA has interpreted certain GAAP concepts out of context to reach conclusions that are contrary to the facts and to common accounting standards.

NECA argues that in order for an expense to be properly booked as a current, accrued liability the company must intend to pay such liability within "the normal business cycle." *See* Petition at 6. According to NECA, if payment is not reasonably expected within the normal operating cycle of the business, designation as a current liability is inconsistent with GAAP accounting requirements. *Id.* As sole authority for that argument, NECA cites out of context a definition of expenses in the Financial Accounting Standards Board's (FASB) Concept Statement No. 6 and the definition of a Current Liability from the FASB Master Glossary. *Id.*, n. 21. NECA further asserts that since SIC is not paying this accrued liability in full within its normal business cycle, treatment of the cable lease obligation as an accrued expense is "inconsistent with accounting principles." *Id.* NECA concedes that it is "routine" for a company to use "accrual" accounting rather than "cash" accounting and that "accrual accounting

requires a company to book costs when incurred.” Petition at 8. Nevertheless, NECA argues that even if accrual accounting is used, “actual payment must be made within the business cycle (which is generally a year) in order to receive ‘expense’ treatment in a revenue requirement.” *Id.*

The adverse financial implications of NECA’s assertions for rural telephone carriers, particularly those with large outstanding debts under various loan programs such as the RUS loan program, are enormous and troubling. Under NECA’s view of accounting, rural exchange carriers that are not “current” (as far as NECA is concerned) in their payments with respect to any significant cost obligations (cable leases, loan obligations, rent payments and the like) should not be allowed to include those accrued costs in their annual cost studies for purposes of NECA pool revenue requirements. This argument is at odds with widely-accepted accounting principles and would create enormous and unnecessary financial hardships for scores of rural carriers that participate in the NECA pool.

As explained in detail in the supporting Declaration of SIC’s cost consulting experts, attached hereto as Exhibit Two, SIC’s cable lease costs were reported by SIC’s outside accountants as “accrued expenses” in accordance with GAAP. *J. Rennard Decla.* at ¶¶ 7-9. By contrast, NECA’s view of this accrued expense is not consistent with GAAP requirements or with applicable FCC and RUS regulations. *Id.* at ¶ 10. Moreover, the notion that NECA’s view of financial accounting could arbitrarily trump long-established general accounting rules is a disturbing assertion that could lead to financial havoc for hundreds of telecom carriers that participate in the NECA pool.

The threshold question here for accounting purposes is whether SIC has an obligation to pay its cable lease costs; the answer is most certainly, yes. In 2008, SIC entered into a lease

agreement with the Paniolo Cable Company (Paniolo) to lease undersea and terrestrial cable (“Paniolo cable system”). The lease agreement contains various terms and conditions that include the period of time that SIC can use the Paniolo cable system as well as the required payments for that use. That lease agreement is a legal and binding agreement. NECA has acknowledged the existence of this lease agreement and its payment requirements. Petition at 4-5. The lease agreement creates a legal obligation from SIC to Paniolo for payment to use the underlying leased assets.

For purposes of this cable lease agreement, GAAP-based financial statements require the use of the “accrual” method of accounting (as defined in FASB Concept Statement No. 6). *See S. Daniels Decla.* at ¶ 9. NECA admits in its Petition that the “accrual” method of accounting requires costs to be recognized when they are incurred rather than when paid. Petition at 8. The costs associated with the Paniolo cable system are incurred as the asset is used by SIC and for as long as SIC has an obligation to pay the lease costs. Therefore, the accrual method of accounting requires the recognition of the costs related to this use.

In addition, the requirement to recognize the costs associated with the use of the asset is further supported by the “matching concept” (also discussed in FASB Concept Statement No. 6) which is the concept that expenses should be recognized over the same time period as revenues are generated. *S. Daniels Decla.* at ¶ 9. Since SIC is generating revenues from its lease of the cable system throughout the term of the lease, the costs associated with the lease must be recognized throughout the lease term. *Id.* Indeed, the FCC previously warned NECA to recognize these lease costs “going forward for the term of Sandwich Isles’ lease agreement.” *Declaratory Ruling* at 16, n. 100. Consequently, SIC’s inclusion of its quarterly/annual cable

lease costs in its cost study should hardly come as a surprise to NECA.

Having established that SIC has an obligation to pay these lease costs, the related question under applicable accounting standards is whether or not the obligation is a “current liability.” *See S. Daniels Decla.* at ¶ 10. Under the terms of the cable lease agreement payments are due on a quarterly basis, while costs would be recognized each month as the cable system is used. Typically, to record the activity each month, SIC would record a current period expense and a current liability. *S. Daniels Decla.* at ¶ 10. When a payment is made that payment would reduce the current liability. NECA argues that the lack of payment by SIC in the normal business cycle should cause this liability to be excluded from treatment as a current liability. Petition at 6. This might be true *only* if there were no enforceable terms or conditions related to the lease payment obligations (that is, no binding lease agreement) or if the party owed the lease payments waived or modified SIC’s lease payment obligations. *S. Daniels Decla.* at ¶ 10. Neither of those scenarios applies to SIC.

SIC has not received any forgiveness of the amounts owed under the cable lease agreement. Moreover, the relevant payment terms and conditions of the cable lease have not been revised, modified or waived by the parties to the lease agreement. *S. Daniels Decla.* at ¶ 10. In fact, as NECA points out in its Petition, Deutsche Bank has demanded payment under the lease agreement and is currently pursuing legal action against SIC’s insurance company. Petition at 10 n. 31. In light of these facts, as explained by SIC’s independent auditors: “To treat these payments as anything other than current would mislead the readers of the financial statements and would suggest that these obligations weren’t due and payable at this time.” *S. Daniels Decla.* at ¶ 10.

As explained by the accounting experts in the Declarations attached hereto, further guidance as to the proper accounting treatment of the cable lease obligations can be found in the Financial Accounting Standards Board's definitions that are referenced in NECA's Petition. *See S. Daniels Decla.* at ¶ 11. The FASB Master Glossary definition for "current liabilities" refers to the FASB Codification (which constitutes GAAP) section 210-10-45-5 through 45-12. This section of the codification deals with the classification of current liabilities. FASB Section 210-10-45-7 refers to a separate part of the codification, Section 470-10-45, which includes guidance on various debt transactions that may result in a current liability classification. A lease transaction over a period of several years has the characteristics of debt, therefore, this guidance is relevant. Specifically, this guidance addresses situations where terms of the agreement have been allegedly violated (covenants or provisions of the agreement) and the violation places a party in alleged default. The guidance states that in these situations the obligation is due on demand or callable and the amount should be classified as a current liability. At section 470-10-45-10 of the FASB codification, it further states: "The current liability classification shall include obligations that by their terms are due on demand or will be due on demand within one year from the balance sheet date even though liquidation may not be expected within that period."

In short, unless or until the cable lease agreement is restructured by the parties thereto, or some other legal action is taken that modifies the rights of the parties to the lease agreement, the terms of the lease agreement remain binding on SIC; hence, it was properly included as an accrued cost in SIC's 2013 cost study. *See J. Rennard Decla.* at ¶¶ 5-16. Indeed, in NECA's Petition they note that Deutsche Bank, who provided the funding to Paniolo Cable Company to build the leased system, sued SIC and its insurance company for nonpayment of the lease.

Petition at 10, n. 31. This provides further support that treatment of the lease obligation as a current liability is appropriate.

V. SIC's Accounting Practices are Specified by RUS

In addition to having outside accountants and financial experts prepare its financial statements and cost studies in compliance with GAAP and FCC regulatory obligations, SIC is also subject to strenuous regulatory and financial review by the U.S.D.A.'s Rural Utilities Service since SIC is a borrower under RUS loan programs. And as required under RUS guidelines and regulations, SIC is required to maintain its books on an accrual basis as a borrower under the RUS loan program. *See S. Daniels Decla.* at ¶ 2.

This accounting requirement is expressly stated in relevant RUS regulations. Part 1770 of Title 7 of the Code of Federal Regulations, contains "Accounting Requirements for RUS Telecommunications Borrowers." In pertinent part, Section 1770.13, "Accounting Requirements," states as follows: "(a) Each borrower shall maintain its books of accounts on the accrual basis of accounting. All transactions shall be recorded in the period in which they occur and reconciled monthly. The books of accounts shall be closed at the end of each fiscal year and financial statements shall be prepared for the period and audited in accordance with the provisions of 7 CFR part 1773, RUS Policy on Audits of Electric and Telephone Borrowers." 7 C.F.R. § 1770.13 (emphasis added).

SIC's financial statements and cost studies are maintained under the accrual method of accounting, as required by the RUS. NECA's insistence that SIC maintain its cable lease payment obligations on a cash-basis for accounting purposes would place SIC, and all similarly-situated RUS loan borrowers, in violation of RUS loan requirements. This is another reason why

NECA's Petition should be dismissed or denied.

VI. NECA's Petition is Procedurally Defective

NECA's Petition also asks the FCC to reconsider and revise the core meaning and intent of the Declaratory Ruling with respect to the central question of whether and to what extent SIC can recover its cable lease costs. *See* Petition at 1 ("NECA respectfully requests that the Commission issue a clarification and/or declaration regarding the amount of 'disputed lease expenses' that should be recognized in the calculation of the applicable NECA pool revenue requirement."). The fact is that the FCC already addressed this issue in its *Declaratory Ruling*; it quite clearly informed NECA that 50% of SIC's "lease costs are properly recoverable consistent with Commission rules and precedent." *Declaratory Ruling* at 1. To the extent that NECA had any legitimate questions regarding these FCC findings and rulings, the statutory time in which NECA could have sought clarification or reconsideration of the September 29, 2010 *Declaratory Ruling* has long since passed. *See* 47 U.S.C. § 405(a).

The questions raised by NECA in this Petition surely could have been previously raised by NECA in a timely-filed petition for reconsideration. Fundamentally, NECA is now asking whether a participant in the NECA pool is entitled to include the full amount of an accrued debt, or just the current payments, in its cost study. NECA could have raised this issue with the FCC at the time the *Declaratory Ruling* was released if it had any legitimate questions in that regard.

As untimely as NECA's questions may be, it is hard to believe that the FCC's *Declaratory Ruling* was anything but clear regarding the proper treatment that NECA should grant to SIC's cable lease costs. To quote just one of many relevant statements by the FCC: "NECA is required to implement this Declaratory Ruling *going forward for the term of Sandwich*

Isles' lease agreement." *Declaratory Ruling* at 16, n.100. And, while NECA is repeating in this Petition its often-stated objection to the overall cost of SIC's cable lease obligations, Petition at 2-3, the FCC previously addressed that issue in its order. Said the FCC, "We agree that the inherent nature of the NECA pooling process results in the costs of individual carriers – particularly the highest-cost carriers – being recovered from ratepayers of other carriers."

Declaratory Ruling at 13.

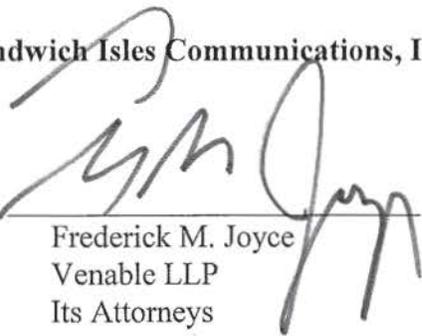
NECA's Petition is essentially an untimely petition for reconsideration of the FCC's 2010 *Declaratory Ruling*. See 47 U.S.C. § 405(a). Moreover, a grant of NECA's Petition would require the FCC to overturn or ignore widely-accepted GAAP doctrines; those doctrines underpin the cost studies and RUS loan obligations of scores of rural telephone carriers. Consequently, the Petition must be dismissed or denied.

Conclusion

For all the foregoing reasons, SIC respectfully requests that the Commission dismiss or deny NECA's Petition for Clarification and/or Declaratory Ruling.

Respectfully submitted,

Sandwich Isles Communications, Inc.

By: 

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Date: March 12, 2015

EXHIBIT ONE

Declaration of Scott Daniels

I, Scott Daniels, being of the age of majority, hereby declare under penalty of perjury as follows:

1. I am a Certified Public Accountant with over 29 years of experience in financial accounting. My educational and professional background is as follows: I graduated in 1985 from Oregon State University with a Bachelor of Science in Business Administration with an emphasis in Accounting. I spent two years with the international accounting firm of Deloitte Haskins & Sells before joining Aldrich Kilbride & Tatone, CPAs (now AKT, LLP) in 1987. I have been a certified accountant since 1988 and a Partner with AKT since 1996. I am a partner with AKT LLP, an accounting and business consulting firm. I am resident in AKT's Salem, Oregon offices. AKT has offices throughout the western United States; we represent telecommunications companies throughout the United States.
2. AKT and I have extensive experience providing financial accounting and audit services for rural telephone companies. I have extensive first-hand experience with the FCC's rules of accounting as they apply to telecommunications companies, in particular rural exchange carriers. I also have extensive experience with relevant rules and requirements of the U.S. Department of Agriculture's Rural Utilities Service as they apply to telecommunications carriers that are borrowers under various RUS loan programs. In particular, RUS requires that borrowers under its loan programs follow the accrual method of accounting, which is what SIC has done from its inception.
3. AKT and I have been Sandwich Isles Communications' financial accounting and audit firm for approximately 14 years. During that time I have been the lead accountant for SIC within AKT. AKT's work and my work in particular on behalf of SIC includes among other things the following tasks: performing annual audits of SIC's Financial Statements to provide an opinion that they have been prepared in conformity with Generally Accepted Accounting Principles (GAAP), which includes the requirement of the FCC Uniform System of Accounts. Our audits are conducted in accordance with Generally Accepted Auditing Standards, Government Auditing Standards; and the requirements set forth in 7 CFR Part 1773, Policy on Audits of the Rural Utilities Service Borrowers. As part of our audit under these standards we provide our Independent Auditors' Report and opinion on the Financial Statements, our Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Telecommunications Borrowers as required by 7 CFR Part 1773, Policy on Audits of the Rural Utilities Service Borrowers, and our

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matter Based On An Audit of Financial Statements Performed in Accordance With Government Auditing Standards. These procedures included those necessary to test SIC's compliance with applicable laws and regulations, contracts and grant agreements as required by RUS and Government Auditing Standards.

4. I have prepared this Declaration in support of Sandwich Isles Communications' Opposition to the "Petition for Clarification and/or Declaratory Ruling" filed by the National Exchange Carrier Association with the Federal Communications Commission.
5. The Independent Auditors' Report and the Financial Statements for SIC that are referenced by NECA in its Petition, and the financial statements attached to that Petition, were audited by my accounting firm, AKT, under my supervision. As stated in our Independent Auditors' Report, in our opinion those SIC financial statements have been prepared in conformity with GAAP requirements.
6. NECA's apparent interpretation of GAAP requirements is that in order for an expense to be properly booked as a current accrued liability the company must intend to pay such liability within the normal business cycle. According to NECA, if actual payment is not reasonably expected within the normal operating cycle of the business, designation as a current liability is inconsistent with accounting principles. NECA's Petition refers to the description of expenses in the Financial Accounting Standards Board's (FASB) Concept Statement No. 6 and the definition of a Current Liability from the FASB Master Glossary. NECA further states that SIC is not paying this accrued liability within its normal business cycle, and therefore the treatment of the lease obligation as a current expense accrual/accounts payable does not appear to be appropriate. NECA also refers to the use of "accrual" accounting versus "cash" accounting, recognizing that "accrual" accounting is routine and it requires companies to book costs when incurred. Further, NECA defines the term "incurrence" as the time in which a company becomes obligated to pay for particular items. NECA's view is that even if accrual accounting is used actual payment must be made within the business cycle (which is generally one year) in order to receive treatment as a current expense. I disagree with NECA's contentions; NECA's assertions are not supported by GAAP and other applicable accounting standards.
7. I hereby declare that SIC's cable lease costs were properly reported as "accrued expenses" in accordance with GAAP. NECA's view of this accrued expense is not consistent with GAAP requirements or with applicable FCC and RUS requirements.
8. NECA's petition raises essentially two questions: (1) Is the treatment to expense

the lease cost as incurred appropriate and concurrent with GAAP? (2) Is the treatment of the unpaid balance of this expense as a current liability appropriate and concurrent with GAAP? In response to the first question, it must be established that SIC has an obligation to pay for the lease costs in question. In 2008, SIC entered into a lease agreement with the Paniolo Cable Company (Paniolo) to lease undersea and terrestrial cable, which is referred to as the "Paniolo cable system." The lease agreement contains various terms and conditions that include the period of time that SIC can use the Paniolo cable system as well as the required payments for this use. The lease agreement is a legal and binding agreement. NECA has acknowledged that the lease agreement exists and contains legally required payments. Therefore, the lease agreement creates a legal obligation from SIC to Paniolo for payment to use the underlying leased assets.

9. GAAP based financial statements require the use of the "accrual" method of accounting (as defined in FASB Concept Statement No. 6). As discussed by NECA in its Petition the "accrual" method of accounting requires costs to be recognized when they are incurred rather than when paid. The costs associated with the Paniolo cable system are incurred as the asset is currently being used by SIC and SIC has an obligation to pay the lease costs. Therefore, the accrual method of accounting requires the recognition of the costs related to this use. In addition, the requirement to recognize the costs associated with the use of the asset is further supported by the "matching concept" (also discussed in FASB Concept Statement No. 6) which is the concept that expenses should be recognized over the same period as revenues are generated (therefore matched). SIC is generating revenues from the system throughout the term of the lease and therefore the costs associated with the lease should be recognized throughout the lease term. The costs that SIC should recognize are based on the lease agreement, which again has created a legal obligation for SIC.
10. The second question to address is whether or not the obligation that is created through use of the Paniolo cable system is a current liability. Under the terms of the lease agreement payments are due on a quarterly basis while costs would be recognized each month as the system is used. Typically, to record the activity each month, SIC would record a current period expense and a current liability. When a payment is made that payment would reduce the current liability. NECA believes that the lack of payment by SIC in the normal business cycle would lead this liability to be excluded from treatment as a current liability. This could be true if there were no terms or conditions related to the obligation or if the party to which it was owed were in agreement. SIC has not received any forgiveness of these amounts nor have the terms or the conditions of the lease been changed. To treat these payments as anything other than current would mislead the readers of the financial statements and would suggest that these obligations weren't due and payable at this time.

11. The FASB Master Glossary definition for "current liabilities" refers to the FASB Codification (which constitutes GAAP) section 210-10-45-5 through 45-12. This section of the codification deals with the classification of current liabilities. Section 210-10-45-7 refers to a separate part of the codification, Section 470-10-45, which includes guidance on various debt transactions that may result in a current liability classification. A lease transaction over a period of several years has the characteristics of debt and therefore this guidance is relevant. Specifically, this guidance addresses situations where terms of an agreement may have been violated (covenants or provisions of the agreement) and the violation places a party in alleged default. The guidance states that in these situations the obligation is due on demand or callable and the amount should be classified as a current liability. At section 470-10-45-10, it further states that "The current liability classification shall include obligations that by their terms are due on demand or will be due on demand within one year from the balance sheet date even though liquidation may not be expected within that period."
12. In summary, the classification of the obligations under the Paniolo Cable lease agreement as a current liability is required by GAAP and is supported by the following facts: (1) The lease agreement creates a legal obligation for SIC to make payments to Paniolo. (2) The liability is created as SIC uses the assets under the lease regardless of when paid. (3) The inability to pay the lease in a timely manner does not change the classification of the lease unless an agreement is reached by the parties that change the terms of the lease. (4) The FASB Codification further clarifies that current liabilities include obligations that are due on demand or within a year even if it is expected that these amounts may not be paid within that timeframe. (5) The FASB Codification also requires liabilities with the characteristics of long-term debt to be classified as current if the borrower is in default of the agreement unless the lender has granted relief.
13. For these reasons, the accounting treatment used by SIC whereby it has recorded lease expenses as incurred and classified the liability related to the Paniolo lease as current is in accordance with generally accepted accounting principles and is supported by the FASB Concept of accrual accounting and further by the FASB Codification.

I have reviewed the foregoing statements, and they are true and correct to the best of my knowledge, information and belief.

 3/12/2015
Scott Daniels, C.P.A.

EXHIBIT TWO

Declaration of James Rennard

I, James Rennard, being of the age of majority, hereby declare under penalty of perjury as follows:

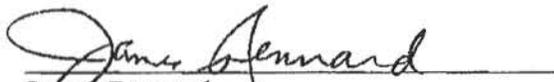
1. I am a Consulting Manager with GVNW Consulting, Inc., resident in our Tualatin, OR offices and a member of our Board of Directors. I have over 21 years of experience in financial reporting and regulatory compliance for telecommunications carriers, with a particular expertise with rural exchange carriers. I have been with GVNW Consulting for over six years. Prior to that I was Vice President of Finance and Regulatory for Canby Telephone Association, a rural exchange carrier outside of Portland, Oregon. My educational background is as follows: a Master of Management with a concentration in Accounting from the J.L. Kellogg Graduate School of Management at Northwestern University in Evanston, IL and a B.A. in American History from Middlebury College in Middlebury, VT.
2. My work with GVNW encompasses: financial and regulatory consulting for independent telephone companies, special projects such as mergers and acquisitions, strategic planning, analysis of business alternatives, grant writing and preparation of various regulatory reports including cost studies.
3. GVNW has been SIC's regulatory consultant since the Company's inception and has prepared cost studies for them since 2000. I have been personally involved in preparing SIC's cost studies since 2010.
4. I have reviewed NECA's "Petition for Clarification and/or Declaratory Ruling" filed with the FCC on February 6, 2015, and have prepared this Declaration in support of Sandwich Isles Communications' Opposition to that Petition.
5. All of the amounts included in Sandwich Isles Communications, Inc.'s (SIC) 2013 cost study regarding Paniolo lease payments are accurate and were submitted in accordance with the FCC's Declaratory Ruling DA 10-1880 as well as applicable FCC telecommunications carrier cost accounting regulations.
6. The first paragraph of the FCC's jurisdictional separations procedures outlined in 47 CFR Part 36 states in relevant part as follows: "These procedures are applicable either to property costs, revenues, expenses, taxes, and reserves as recorded on the books of the company...."
7. As noted in SIC's independent auditors' report, SIC's financial statements are presented "in conformity with accounting principles generally accepted in the United States of America." In accordance with these accounting principles SIC

(as well as all other telephone companies that GVNW represents on regulatory FCC cost study matters) maintains their financial accounting records using accrual basis accounting. Under the accrual basis of accounting, expenses are recorded when costs are incurred rather than when paid. The costs associated with the Paniolo Cable network are incurred as used by SIC and recognized in accordance with the terms of the lease agreement which creates the legally binding obligation of SIC associated with the use of those assets.

8. Following this rule, GVNW prepared SIC's 2013 cost study using the investment and expenses as shown in the audited financial statements as the basis for applying the jurisdictional separation rules in 47 C.F.R. Part 36.
9. NECA in its correspondence with SIC has stated that SIC's "actual costs should be submitted to reflect actual expenditures related to the SIC lease obligation." The 2013 cost study did use SIC's actual costs in accordance with the Part 36 rules. SIC's "actual costs" are the amounts shown on the audited financial statements. The audited financial statements are the basis for every cost study GVNW prepares for any rural local exchange carrier.
10. NECA seems to be suggesting that in this particular case a company should make accrual to cash adjustments rather than use what is recorded on their books as clearly stated in Part 36, although it is not clear when and how this departure from the rules would be applied to other companies nor are the potential ramifications of such a determination discussed. Such an approach is specifically contrary to the rules outlined in Part 36. Furthermore, GVNW is not aware of any telecommunications carrier that makes any such accrual to cash entries when preparing their cost studies.
11. NECA has also expressed a concern about SIC's compliance with the FCC's Declaratory Ruling dated September 29, 2010. NECA argues that the FCC's Declaratory Ruling granted SIC reimbursement of 50% of lease payments as opposed to lease costs.
12. For one thing, NECA's recent interpretation of the SIC Declaratory Ruling is inconsistent with how NECA has previously treated SIC's lease costs. In fact, I'm unaware of any instance where NECA has asked us to provide a check register or other evidence of "payments made" when a cost study by a telecom carrier reports audited, accrued costs. Also, the FCC's Declaratory Ruling speaks not to "lease payments" but to "lease expenses" in its conclusion. Paragraph 25 of the Declaratory Ruling states that: "Balancing the foregoing equitable considerations, we conclude that 50 percent of Sandwich Isles' Paniolo cable network lease expenses subject to dispute should be included in its revenue requirement to be recovered through the NECA pool."

13. Also, in its introductory paragraph, the SIC Declaratory Ruling reads as follows: "Balancing the unique facts and circumstances at issue here, we determine that some—but not all—of those lease costs are properly recoverable consistent with Commission rules and precedent." Note again that the FCC does not refer to lease "payments".
14. Both of these terms - "expenses" and "costs" - are consistent with the amounts recorded on SIC's accounting books under the required accrual basis of accounting and the appropriate amounts to use in the cost study under 47 C.F.R. Part 32.
15. Furthermore, throughout the SIC Declaratory Ruling the terms "lease expenses," "lease costs" or "costs" are used extensively and inter-changeably. In short, not until NECA raised this issue in its Petition has this issue been a matter of dispute. The common understanding among NECA, SIC and SIC's outside accountants and consultants has always been that the FCC's Declaratory Ruling granted SIC the right to recover 50% of its cable lease *costs*. SIC has since that time included those audited costs in its cost studies, which my firm has prepared on its behalf.
16. Based on the foregoing explanation there is no need for SIC to revise its 2013 cost study; the cost amounts included in that study are correct. Likewise, there is no basis for the FCC to revise SIC's revenue requirements and NECA should not adjust the pool settlement payments previously made to SIC.

I have reviewed the foregoing statements, and they are true and correct to the best of my knowledge, information and belief.


James Rennard

CERTIFICATE OF SERVICE

I, Lula Robinson, a legal assistant in the law firm of Venable LLP, hereby certify that on this 12th day of March, 2015, a copy of the foregoing Opposition to Petition for Clarification and/or Declaratory Ruling was filed with the FCC's electronic filing system and served on the following by electronic mail:

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