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VIA ECFS

April 22, 2015

Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 Twelfth Street, S.W.  
Washington, D.C. 20554

**Re: WC Docket No. 10-90, WC Docket No. 14-259**

Dear Ms. Dortch:

On April 20, 2015, Randy Fletcher of Lennon Telephone Company (“Lennon” or the “Company”), and John Kuykendall and Cassandra Heyne of JSI (collectively, “Lennon representatives”) met separately with Amy Bender of Commissioner O’Rielly’s office, Travis Litman of Commissioner Rosenworcel’s office, Rebekah Goodheart of Commissioner Clyburn’s office and with Nicholas Degani of Commissioner Pai’s office. Also on April 20, Madison representatives met with Carol Matthey, Ian Forbes, Alexander Minard, Heidi Lankau and Katie King of the Wireline Competition Bureau (“Bureau”).

The subject of discussion was applying lessons learned from Lennon’s participation in the Rural Broadband Experiments (“RBE”) in the context of rules that are being developed for the Connect America Fund (“CAF”) Phase II competitive bidding process. Specifically, the discussions focused on how the requirement in the RBE that provisional winners must file “audited” financial statements impacted Lennon<sup>1</sup> and alternatives to the requirements in the RBE associated with Letters of Credit.<sup>2</sup> Attached are the materials provided to meeting participants.

Lennon representatives stated the financial statement requirements for provisional winning bidders of CAF support should be consistent with precedent of the FCC Form 481 ETC Annual Report requirements which allow for submission of CPA-reviewed statements in lieu of audited statements.

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<sup>1</sup> See Lennon Telephone Company Amended Application for Review of Decision to Remove Lennon Telephone Company from Rural Broadband Experiments and Petition for Waiver of Rural Broadband Experiments Audited Financial Statements Requirement, WC Docket Nos. 10-90, 14-259, filed Feb. 9, 2015 (“Application for Review and Waiver Petition”).

<sup>2</sup> See Reply Comments filed by JSI in WC Docket Nos. 10-90, 14-259 filed Feb. 27, 2015 (“JSI Reply Comments”).

Lennon representatives also stated the Letter of Credit (“LOC”) requirements in the Rural Broadband Experiments were too severe and encouraged the Commission to consider alternative LOC requirements for CAF Phase II. Lennon supports proposals to allow performance bonds instead of LOC and to allow waiver of the LOC requirement for affiliates of ETCs who have already met the burden of proof of financial capability.

Please contact the undersigned with any questions.

Respectfully submitted,



John Kuykendall  
Vice President

Attachments

cc: Amy Bender  
Travis Litman  
Rebekah Goodheart  
Nicholas Degani  
Carol Matthey  
Ian Forbes  
Alexander Minard  
Heidi Lankau  
Katie King



## **Eligibility Requirements for Rural Broadband Experiments and Competitive Bidding Process**

### ***Ex Parte Meetings***

**April 20, 2015**

- I. The FCC should be consistent with Commission precedent and allow eligible telecommunications carriers (ETCs) that submit Form 481s containing financial statements that have been subjected to a CPA review to submit CPA-reviewed statements in lieu of audited statements if selected as provisional winning bidders for Connect America Fund (CAF) support.

#### Lennon's "School of Hard Knocks"

- Lennon Telephone Company is a privately held rate-of-return ETC. As such, in order to receive high-cost USF, Lennon is required to include its financial statements in its Form 481 which is filed annually with the FCC, the Universal Service Administrative Company and the Michigan Public Service Commission.
- Lennon is not audited in the normal course of business so the company utilizes the option allowed by the FCC to submit financial statements that were reviewed by an independent auditor in lieu of submitting audited financial statements.
- Lennon was announced a provisional winner for funding in the Rural Broadband Experiments and, consistent with the practice with the Form 481, it submitted its financials which had been subjected to a CPA review in lieu of submitting audited financials.
- Subsequently, the Wireline Competition Bureau released an Order removing Lennon from participation in the Rural Broadband Experiments due, in part, because the financial statements were not audited.
- The company filed an Application for Review of this decision which was supported by NTCA – The Rural Broadband Association.

## The FCC Should Incorporate the “Lessons Learned”

- In allowing ETCs to submit CPA-reviewed financials in their Form 481s, the FCC found that a CPA review “provides sufficient assurance that we will obtain a reasonable understanding of the affected companies’ financial picture.”<sup>1</sup>
  - ✓ The FCC further stated, “[a] financial review requires the auditor to make inquiries of management and perform analytical procedures to determine whether the financial statements conform with generally accepted accounting principles...Both an audit and a review require the auditor to determine, however, whether the financial statements prepared by management are consistent with generally accepted accounting principles.”
- The Commission should be consistent with this precedent and allow CPA-reviewed financial statements that are submitted in the context of the Form 481 to be submitted in lieu of audited financial statements in determining eligibility in all USF-related support mechanisms.
  - ✓ This especially holds true when the company is one such as Lennon that is a 100+ year old company with deep local roots and a strong history of providing communications services to rural customers.

II. The Letter of Credit (LOC) requirement in the rural broadband experiments is too severe for CAF Phase II, and the Commission should consider alternatives proposed in recent comments by JSI, CoBank and USTelecom.

- The LOC should not remain open for a ten year plus 120 day period; rather the FCC should release CAF Phase II competitive bidding recipients from the requirement to retain the LOC after the network build-out is complete.
- In cases where affiliates of ETCs are selected as provisional winners, the FCC should take into consideration the burden of proof that the ETCs have already met to illustrate their financial capability; the FCC could allow waiver of the LOC requirement if a provisional winner’s parent company is an ETC that already receives high cost USF.
  - The FCC should consider allowing provisional winners to secure performance or construction bonds in lieu of a LOC.

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<sup>1</sup> See *Connect America Fund*, et. al., WC Docket No. 10-90, et. al., Fifth Order on Reconsideration (rel. November 16, 2012) ¶ 10.