

BST
Costing Methods Group

Docket No. 92-02-60TL

Test Period Ended 12/31/92

November 12, 1993

II of XVI

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FPSC-RECORDS/REPORTING

AUDIT EXCEPTION NO

SUBJECT: LOBBYING AND CONTRIBUTIONS CHARGED TO BST FROM BELLCORE

STATEMENT OF FACT: Bellcore had the following expenses in 1992:

Project 480004 Legislative Task Force	431,300.00	49-10/1-4
Contributions	719,197.15	49-10/302
Acct. 649-086 Corporate Legislative Regulatory Support	1,904,671.60	49-18
Acct. 671-151 Washington Regulatory Internal Services	446,639.43	
	<u>3,501,808.18</u>	

Accounts 649-086 and 671-151 are described on the following page from request 2-117.1. 49-18/2

Project 480004 was charged at \$71,800 to Bellsouth Corp and allocated to the various states. The project overview provided in request 2-112, describes the project as: 49-10
①

Assist the Bellcore Client Companies by providing centralized coverage in Washington of events of national importance in telecommunications. Areas of focus include Congress, the Federal courts, regulatory agencies, and other national organizations headquartered in Washington.

All of the other accounts, totaling \$3,070,508.10, were allocated to all projects through the internal allocation process of Bellcore. (Per Requests 2-101 and 2-117.1) A

Using the Bellcore ownership billing in the Bellcore Annual Report, staff calculated that 16.3% of Bellcore billings were to BST. 49-11/2-4 p2
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OPINION: The above costs of \$3,070,508.10 allocated to BST at 16.3% total \$500,635.59. This along with the \$71,800 charged to BSC for project 48004 total \$572,435.59. Since most Bellcore billings are charged to accounts 6724 and 6727, the state allocators for these accounts are being used to determine the portion of these costs applicable to each state. P1

	%	DOLLARS
Florida	26.14%	149,635
Georgia	17.28%	98,917
North Carolina	9.62%	55,068
South Carolina	6.44%	36,865
Alabama	8.47%	48,485
Kentucky	4.92%	28,164
Louisiana	9.95%	56,957
Mississippi	5.85%	33,487
Tennessee	11.33%	64,857
		572,436

RECOMMENDATION: Remove the Florida share of costs from ratemaking.

ACCOUNTS	% ACTIVITY	ALLOCATED DOLLARS	% REG	DOLLARS REGULATED	% INTRA	DOLLARS INTRA
	1982					
0636	16.28%	22,834	99.45%	22,709	73.87%	16,775
0611	4.25%	6,359	96.51%	6,138	73.69%	4,523
0623	1.53%	2,289	96.15%	2,201	65.12%	1,874
0724	43.43%	64,386	94.55%	61,445	76.84%	47,214
0728	6.67%	9,981	95.37%	9,519	76.84%	7,314
0727	21.98%	32,890	98.76%	32,482	76.84%	24,959
0728	1.78%	2,664	94.07%	2,506	76.84%	1,925
0706	1.17%	1,751	94.66%	1,657	76.44%	1,267
0710	3.83%	5,881	94.60%	5,567	76.44%	4,255
		149,635		144,222		110,106

649-086: Corporate Legislative/Regulatory Support (Project 915XX)

Corporate Legislative/Regulatory Support expenses are charged to project 915XX and include all expenditures associated with the Regulation and Government Support organizations. These organizations assist the regions in identifying, monitoring, and analyzing regulatory issues of concern. They advise and assist the Regional Holding Companies in their interactions with Congressional Committees, the Federal Communication Commission and the Executive Branch.

Corporate Legislative/Regulatory Support expenses are charged back to all Area Support, Service Center, SDCPE/EC, and External Billable Projects on the basis of Average Bellcore Employee and Average Resident Visitor-Reported headcount.

**671-151: Standard Rated Corporate Service Center Normalization
(Washington Regulatory Internal Services (Project 815XX))**

Bellcore's Corporate Service Centers are structured to provide on an economical basis, those services which are commonly required by most of the organizations in the company. Standard Rated Service Centers are billed directly to the user organization on a usage basis which is charged at standard rates. At year-end a normalization process may be performed to eliminate any residual over/under recovery that exists within the Standard Rated Corporate Service Centers. This normalization process allows any over/under recovery expenses to be charged back to the External projects on the basis of usage.

PROPRIETARY - BELLCORE AND AUTHORIZED CLIENTS O.
See proprietary restrictions on title page

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AUDIT DISCLOSURE NO

SUBJECT: BELLCORE COST REDUCTION

STATEMENT OF FACT: According to the Bellcore annual report, Bellcore went through a restructuring of its operations in 1992 to simplify and eliminate various internal processes and procedures.

In 1992 Bellcore incurred \$53.9 million in non-recurring expenses (not including non-severance related salary amounts) according to their audited financial statements. In addition, according to the Bellcore Annual Report, there was a net reduction of payroll and contract labor of 922 employees. According to a request response, the pay reduction related is \$37,483,388.26, excluding termination pay and other benefits.

Total 1992 expenses per the 1992 financial statements	\$1,150,080,000
Includes non-recurring expenses	
1993 approved budget for 1993 (Request 2-111)	\$1,105,000,000
	<hr/>
Budgeted reduction in expenses at the Bellcore Level.	\$45,080,000
Percent of 1992 expense	3.92%
BellSouth Telecommunications Budget for 1993(2-111.0.1)	165,795,600
Actual 1992 billed BST per Bellcore Annual Report	168,793,000
	<hr/>
Budgeted Reduction at BST Level	2,997,400
Percent of 1992 expense	.178%
BST Florida budget for 1993 (Request 2-080.A)	42,638,700
BST Florida Bellcore charges 1992 (BST Annual Report)	42,490,866
	<hr/>
Budgeted Reduction at Florida Level	(147,834)
Percent of 1992 expense-Increase	-0.35%

OPINION: The reduction in the Bellcore budget does not even account for the entire \$53.9 million in non-recurring expenses let alone any decrease in salary or employee related expenses such as benefits or building space for all of the employees let go in 1992.

The estimated reduction in salary expense alone is \$37,583,388.26. The combination of the \$53.9 million and the \$37,583,388.26 is \$91,483,388.26. Therefore, the total known decrease in Bellcore expenses not including overheads is \$91,483,388.26 or an 8% reduction.

RECOMMENDATION: Further reductions appear to be needed in the 1993 Bellcore budget.

Using an 8% reduction, Florida expenses would decrease by \$3,399,269 in 1993. Allocated based on 1992 activity to accounts being charged over 1% of the expenses(per the annual reports of Bellcore), the reduction is as follows:

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ACCOUNTS	% ACTIVITY 1992	ALLOCATED DOLLARS	% REG	DOLLARS REGULATED	%INTRA	DOLLARS INTRA
6535	15.26%	518,728	99.45%	515,875	73.87%	381,077
6611	4.25%	144,489	98.51%	139,427	73.69%	102,744
6623	1.53%	52,009	99.15%	50,006	65.12%	42,588
6724	43.43%	1,476,303	94.55%	1,395,844	78.84%	1,072,567
6726	6.07%	226,731	93.37%	218,234	78.84%	168,154
6727	21.96%	747,159	98.76%	737,895	78.84%	566,906
6728	1.78%	60,507	94.07%	56,919	78.84%	43,737
8705	1.17%	39,771	94.65%	37,648	78.44%	28,778
8710	3.93%	133,591	94.88%	126,457	78.44%	96,864
		3,399,269		3,276,305		2,501,284

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AUDIT DISCLOSURE

SUBJECT: BST GENERIC RESEARCH AND DEVELOPMENT

STATEMENT OF FACTS: BST has a research and development division which charges expenses to account 6727 according to the MP2702's. Total expenses for this account in 1992 related to Generic R & D were approximately \$10,236,000. Of these costs, 26.14% were charged to Florida or \$2,675,191.60. Of these costs, \$142,848.84 or 5.34% were charged to non-regulated operations in 1992.

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According to John Mast, the company allocated this portion of the account using the general allocator which is computed mechanically in the cost separations system and is based on the 6XXX expense account.

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According to the Cost Allocation Manual (CAM), the Bellcore Research and Development is to be apportioned to reg and non-reg as follows:

"Based upon an annual analysis of Internal R & D to determine if projects are regulated or non-regulated."

In 1993, according to John Mast, the company is changing from the general allocator to a method where they separate the projects into categories of Switched, Non-Switched, Composite Switched and Non-Switched, Support and Generic. These categories are then allocated based on ARMIS report plant. Generic is allocated using a 3 month average of the general allocator.

In interviews Research and Development personnel contended that all of the research is regulated even though possible future services may be unregulated because the projects determine how the products interface with the system.

According to recent newspaper articles, the FCC has recently given approval to Bell Atlantic to enter the video market and has recently scheduled rule setting for bidding for slots for wireless phone service or Personal Communication Systems (PCS). In October, BellSouth Cop. signed a \$250 million agreement to acquire a 22.5% stake in Prime Management Co., a Texas-based cable TV company.

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The company's 1992 Accounting for Internal R & D Analysis paper recommended annual reviews because of:

"Increasing competition and the relief of many MFJ restrictions will likely result in substantially increased internal R & D efforts beyond historical levels."

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OPINION: Recent rulings by the FCC make allocation of R & D based on current non regulated services unreasonable. As the operating companies enter into more and more unregulated business, the unregulated businesses will be benefiting from the benefits from the technology obtained in their current research.

Because the company's new system allocates costs to regulated and non-regulated based on future investment (3 years) of current non-regulated services, and R & D account 6727 according to the USOA is a planned search or critical investigation aimed at discovery of new knowledge or translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, possible new unregulated services are not being taken into account.

44-15 According to the company workpapers, if the company had used their new allocation method in 1992, they would have allocated .7304% of R & D to non-reg instead of the 5.34% actually allocated. The 1993 forecasted rate case exhibits is probably based on this new lower percentage.

Several methods of accounting for these costs can be used by State Commissions:

1. Deferral of costs until potential products are determined.
2. Requirement of Keep Cost records by projects and product for retroactive adjustments.
(If this is used, amounts recorded need to be audited periodically to make sure they are all inclusive)
3. Allocation of project based on estimated future benefits.

Some projects appear to have more non-regulated possibilities than others. Staff has reviewed each project and determined allocation methodology for each. We also contend that the absolute minimum that should be used is the general allocator. The companies new system, which bases the allocation on current

Since the company does not budget or record expenses by project, Staff has obtained cost reports for 1992 by responsibility code. The charges by responsibility code identify each manager and thus the projects which they supervise. The reports also identify costs by code for 2400 which is the Research and Development account code. These amounts were used by staff to allocate total account 6727 charges to managers.

The reasons for the allocations are as follows:

1. Wireless Access PCS Services

Bellsouth contends that a key component of their work on personal communication systems (PCS) is to evaluate the use of low-power radio technology and to identify and resolve network interface issues. In contrast with higher power cellular systems, which are currently not regulated in Florida, PCS's employ small, low power radio handsets with a larger number of base stations. These base stations have much smaller coverage areas than today's cellular stations. PCSs can provide flexible access to existing local telephone networks as well as alternate access to local and interexchange carrier networks.

Under a new federal law signed by President Clinton August 10, 1993 (H.R. 2264), beginning next August States can no longer regulate intrastate wireless service rates and market entry. The law calls for auctioning of FCC radio licenses. The FCC is setting aside blocks of radio frequencies, more than three times the amount now devoted to cellular telephone service, for a broad family of new portable telephone and computer service. The FCC awarded two 30-Megahertz blocks in each of 49 regions. There would also be a 20 MHz block and four 10MHz blocks in 487 subregions. This provides 120 MHz for PCS compared to the current 50 MHz for cellular.

In addition to telephone companies, strong interest in PCS has been expressed by the cable television industry, traditional mobile radio providers and entrepreneurs. To deal with the competitive aspects of PCSs, telephone companies may elect to enter the PCS business themselves. Not doing so might lead to an unacceptable degree of customer erosion.

BellSouth believes that the major benefits of this project is to deter complete bypass of the local networks. Bellsouth's work today in PCS is small relative to its overall program. However, the knowledge gained in this area will benefit Bellsouth both in serving PCS suppliers as customers, and in making plans for developing systems to compete with other PCS suppliers.

Staff believes the work on PCS is common to both non-competitive and competitive applications. The most recent federal bill preempting the states from regulating wireless service rates and the FCC decision on spectrum allocation opens a new generation of wireless communications for new types of services that could in time replace many of the phones and computers now secured by wire. Although staff understands the need for BSTI to continue research and development in this area, it is apparent from the action discussed above that PCS will clearly not be regulated by the States. Staff believes based on the above Federal decisions that the work performed on PCS services by BSTI should be allocated 20% to regulated and 80% to non-regulated.

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2. Broadband ISDN
SMDS

The use of Integrated Services Digital Network (ISDN) technology with broadband suggests an evolution to a broadband network based on international standards. B-ISDN will enable BellSouth to support emerging broadband information networking services such as Switched Multimegabit Data Service (SMDS), frame relay, and video teleconferencing services. B-ISDN will enable the progression from voice networks to public information networks capable of flexible bandwidth to transport information in any form (voice, data, video, multi-media).

SMDS is one of the early broadband services planned for B-ISDN. The markets for SMDS are data transport applications requiring transmission rates above what the traditional telephone network can support. Introducing this service will require both wideband or broadband access and switching capabilities not currently part of the traditional telephone network. BellSouth contends that SMDS is of strategic importance because it allows the LEC to develop expertise to support future broadband services. It is apparent that efforts to test SMDS will likely involve a stand alone overlay capability within the public switched network. In view of this, it appears that whatever market exists for SMDS services, could also be served by those outside the telephone company industry. Staff believes that should a market exist, SMDS is a potentially competitive service.

This Commission plays a major role in the deployment of residential broadband efforts through our jurisdiction over depreciation schedules, incentive regulation plans and cost allocation. Although Florida has been generally supportive of new technologies and the accompanying new services, our primary objective is to ensure that ratepayers are not harmed by the deployment of new technologies. A broadband network of this magnitude is not currently required for telephone service and many types of information services. The work performed by BellSouth on B-ISDN and SMDS is clearly directed toward future enhancements that have the potential of supporting competitive services that may or may not be regulated in the future. Staff believes that until the services that these projects support are determined to benefit today's ratepayers that the work performed on these projects should be allocated 50% to regulated and 50% to non-regulated.

3. Video Transport Services Fiber Distribution Networks

A broadband network can have the capacity to meet virtually all of the communication requirements of the public. Such a network could carry voice, data, image, and high quality video traffic simultaneously. Today's telephone network already uses fiber to carry voice communications as well as other traffic between switches. Broadband network access is not required for telephone service and many types of information services. However, it is required to support high quality entertainment television. BellSouth believes that in the long term they must become the low cost provider of residential broadband services. To accomplish this, they believe that the earlier a start can be made in learning how to deliver such services efficiently, the better their chances of success in the future.

It was stated by BellSouth that although fiber is less costly than copper, the lasers and electronics required for fiber are expensive, but are decreasing in costs. The declining cost of fiber and its associated electronics is allowing cost effective deployment of Fiber to the curb (FTTC) today. The range of cost effective broadband technologies will continue to grow in the future. BellSouth believes it is inevitable that broadband services, primarily video, will be delivered over these networks. The only question is when. They believe to prepare for the future, it is essential that they start to design a plan to address future business, technical, and regulatory needs. BellSouth's Fiber Distribution Networks project includes developing an overall company strategy for fiber in the loop. They also intend to continue their evaluation and analysis of new options to overcome any obstacles in the distribution network technologies such as powering, optical splitting, upgrading for future services, etc. BellSouth contends that fiber in the loop will become a reality in the near term.

Although the FCC authorized video dialtone in 1992 which allows Local exchange companies (LECs) to provide video transport service to non-franchised operators, the LECs are prohibited from owning and providing video programming in their service territories by the Cable Communications Policy Act of 1984. However, in a recent US District Court decision, Bell Atlantic won a lawsuit to overturn restrictions in the Cable Act of 1984. Bell Atlantic basically gained the authority to become a cable television provider and compete with cable companies in its service area. This authority does not extend to any of the other Bell Operating Companies.

In addition, BellSouth Corporation recently acquired 22.5% of Prime Management Company, a Texas based cable television company. This provides BellSouth with entry into interactive television, pay-per-view, traditional cable and alternative telecommunications for business and residential customers. With the recent Bell Atlantic ruling and BellSouth's acquiring a stake in a cable company, it positions BellSouth a step closer to offering television service to their local telephone customers.

Staff understands the need for BellSouth to enhance their network and to prepare for future competitive services. However, based on the results of the recent Bell Atlantic court decision and the recent push for several of the Bell Operating Companies to purchase a stake in various cable companies, it is apparent that the local telephone companies want the right to compete directly

in the video programming market. A major concern of this Commission regarding BellSouth's Research and Development efforts in the areas of advanced television, video services and fiber in the loop technologies is that it appears that a large portion of these investments are going to serve as a basis for future cable television services. Staff believes that the work performed in these areas have the potential of supporting competitive services that will benefit Bellsouth on both a regulated and non-regulated basis. Therefore, based on the above contentions staff believes that the work performed on these projects should be allocated 70% to regulated and 30% to ~~non~~-regulated.

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4. Network Evolution

BellSouth claims that new technologies, including B-ISDN, advanced intelligent network (AIN), and personal communications service (PCS), will be deployed in their network over the next decade. Many of these technologies overlap in a number of areas. This creates the need for a target architecture to be developed which combines these technologies together. BSTI's Network evolution project has been designed to address the relationship of new technologies in the target network architecture and the evolution issues associated with the introduction of new technologies in their network.

Staff realizes that the relationship between new technologies must be clearly understood and a plan must be developed to introduce new technologies economically. However, some of the new technologies discussed earlier in staffs analysis that BSTI are exerting Research and Development efforts on are potentially competitive services and may or may not be regulated in the future. Therefore, staff believes that the work performed on this project should be allocated 50% to regulated and 50% to non-regulated until distinct benefits to the regulated ratepayers are determined.

5. Service Concepts Development
Community Lab Services Concept Development

The Service Concepts Development and Community lab services concept development projects support simulation and prototyping of potential services for analysis and market research by BSTI. BellSouth claims that these projects provide the necessary tools to be utilized by their marketing group for establishing the companies mid-term and long-term business strategies. BellSouth also asserts that this work is not directed toward any specific business case and therefore, the specific business impact is not quantifiable. Furthermore, the research efforts are directed toward finding new business opportunities for the company to support future growth in the business.

Staff understands the need for BellSouth to continue their research and development efforts in order to enhance their network and prepare for future and growth and competitive services. However, it appears that the R&D efforts in both of these projects is primarily oriented toward future enhanced (and potentially non-regulated) services which do not benefit current regulated products and services. Staff believes until it is determined the type of services that these projects support that the research and development performed on these projects should be allocated 50% to regulated and 50% to non-regulated.

6. Advanced Intelligent Network Release 1&2

BellSouth states that the Advanced Intelligent Network Releases (AIN) 1&2 project provides an analysis of future (1994-1997) new services and revenue enhancement opportunities for the Company. AIN is an architecture that enables BellSouth to develop and introduce new telecommunications services faster and in many instances cheaper than can be accomplished when such services are derived from software in the switches. BellSouth contends that the research and development efforts of AIN Releases 1&2 architecture supports future strategic planning activities of BellSouth.

AIN was preceded by the Intelligent Network concept which shared the same basic objective of separating service logic from switching apparatus. Since, AIN has evolved through a series of releases. In 1992, BellSouth had ongoing work efforts related to the AIN Release 0. BellSouth has established one regulated service based on the AIN release 0 architecture known as Caller Name Delivery and has several other services

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Delivery allows a subscriber to receive the directory name associated with the directory number of the calling party on an incoming call.

BellSouth stated that AIN releases 1&2 were initially targeted for 1995. However, the functional requirements issued by Bellcore were too stringent for the switch vendors which made this target date impossible. In fact, one BellSouth Research Manager stated that these releases (1&2) would probably never occur due to these requirements. The switch vendors must devote significant resources to develop end office capabilities in their existing switch products to support AIN. The requirements for AIN releases 1&2 have been scaled back to a more manageable level. BellSouth's work efforts have been shifted and are now being placed on

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Staff believes that until a better understanding of the type of services that AIN Releases 1&2 architecture would support the work efforts could potentially be competitive and therefore benefit both regulated and unregulated services. Staff understands the need for BellSouth to continue their research and development efforts in order to enhance their network and prepare for future competitive services. However, it appears that the R&D efforts related to this project are primarily oriented toward future enhanced (and potentially non-regulated) services which do not benefit current regulated products and services. Staff believes until it is determined what type of services that the AIN Releases 1&2 architecture supports and if AIN Releases 1&2 ever becomes a reality that the research and development efforts should be allocated 70% to regulated and 30% to ~~non~~-regulated. ^{NOT}

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MANAGER	PROJECT	% OF	ALLOCATION	% NON	DOLLARS	
		2400 AMTS.	OF TOTAL	REG STAFF	NON REG	
	AIN 0	12.91%	1,321,468	5.34%		70,566
	AIN 1 & 2	14.24%	1,457,606	70.00%		1,020,324
	AIN 0	15.79%	1,616,264	5.34%		86,309
	AIN 0	11.63%	1,190,447	5.34%		63,570
		4.19%	428,888			
	BISON		25.00%	50.00%		53,611
	SMDS		25.00%	50.00%		53,611
	FIBER DIST.		25.00%	70.00%		75,055
	VIDEO		25.00%	70.00%		75,055
	AIN 0	13.11%	1,341,940	5.34%		71,660
	MISC	0.29%	29,664	5.34%		1,585
		7.73%	791,243			
	SMDS		5.00%	50.00%		10,781
	NETWORK EV		5.00%	50.00%		10,781
	FIBER		15.00%	70.00%		83,080
	VIDEO		15.00%	70.00%		83,080
	BISON		60.00%	50.00%		237,373
	A	10.34%	1,058,402	50.00%		529,201
	PCS	9.77%	1,000,057	80.00%		800,046
			10,236,000			3,343,690

PER COMPANY	142,849
DIFFERENCE	3,200,841
% Fla	26.14%
FLORIDA PORTION	836,700

A COMMUNITY LAB/SERVICE DEVELOPMENT
ALL PROJECTS NOT SPECIFICALLY WRITTEN UP WERE ALLOCATED USING THE GENERAL ALLOCATOR

RECOMMENDATION: Transfer more of expenses to non-regulated operations using one of the above methods. The minimum should be to change to the general allocator.

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AUDIT DISCLOSURE

SUBJECT: BELLCORE RESEARCH AND DEVELOPMENT

STATEMENT OF FACTS: BST pays Bellcore for research and development costs which are charged to account 6727 according to the MP2702's. Total expenses for this account in 1992 related to Bellcore R & D were approximately \$34,442,935. Of these costs, 26.14% were charged to Florida or \$9,003,793.31. Of these costs, \$111,945 or 1.24% were charged to non-regulated operations in 1992.

49-15

According to the Cost Allocation Manual (CAM), the Bellcore Research and Development is to be apportioned to reg and non-reg as follows:

49-15/1 p4

Based upon an annual analysis of Contracted R & D to determine if projects are regulated or non-regulated.

The company is using a method where they separate the projects into categories of Switched, Non-Switched, Composite Switched and Non-Switched, Support and Generic. These categories were then allocated based on ARMIS report plant. Generic was allocated using a 3 month average of the general allocator. The three month average of the general allocator is 4.0537. The 12 month average is 5.233%. Staff attempted to audit the ARMIS report numbers for these items. When backup was finally received on 8/15, it was for the wrong year. Corrected data was not received in time to complete this audit.

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Recent newspaper articles report that the FCC has recently given approval to Bell Atlantic to enter the video market and has recently scheduled rule setting for bidding for slots for wireless phone service or Personal Communication Systems(PCS). In October, BellSouth Cop. signed a \$250 million agreement to acquire a 22.5% stake in Prime Management Co., a Texas-based cable TV company.

The company's 1992 Accounting for Internal R & D Analysis paper recommended annual reviews because of:

"Increasing competition and the relief of many MFJ restrictions will likely result in substantially increased internal R & D efforts beyond historical levels."

49-15 / 4-1 / 2

OPINION: Recent rulings by the FCC make allocation of R & D based on current non regulated services unreasonable. As the operating companies enter into more and more unregulated business, the unregulated businesses will be benefiting from the benefits from the technology obtained in their current research.

Because the company's new system allocates costs to regulated and non-regulated based on future investment (3 years) of current non-regulated services, and R & D account 6727 according to the USOA is a planned search or critical investigation aimed at

49-15 p3

discovery of new knowledge or translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, possible new unregulated services are not being taken into account.

Several methods of accounting for these costs can be used by State Commissions:

1. Deferral of costs until potential products are determined.
2. Requirement of Keep Cost records by projects and product for retroactive adjustments.
(If this is used, amounts recorded need to be audited periodically to make sure they are all inclusive)
3. Allocation of project based on estimated future benefits.

Some projects appear to have more non-regulated possibilities than others. Staff has reviewed each project and determined allocation methodology for each. We also contend that the absolute minimum that should be used is the general allocator.

Because of the following difficulties in performing the audit and current rulings and purchases, the following has been used by this staff to allocate 1992 costs:

Bellcore Projects

Staff initially requested a detailed description of all 1991 and 1992 projects that BellSouth had authorized Bellcore to undertake on October 26, 1992, request No. 1-001. Project description summaries for 1991 and 1992 were provided on January 11, 1993. The company provided approximately 609 Bellcore projects that were charged to various BellSouth accounts in 1992. Staff limited their review to 1992 projects charged to Account 6727, Research and Development. There were roughly 70 projects charged to Account 6727 in 1992. Staff held interviews with BellSouth staff on March 11, 1993, and again on April 26-27, 1993 to understand how BellSouth interacts with Bellcore. Staff's primary interest was the budgeting and billing process of Bellcore projects and the project management of Bellcore projects within BellSouth.

To gain further knowledge of the R&D performed by Bellcore, staff requested interviews with the project managers of several Bellcore projects on July 22, 1993, request No. 1-101. The company responded on August 6, 1993 stating, "The Company objects to arranging the requested interviews on the grounds that this request is unduly burdensome and oppressive." When staff questioned BellSouth's objection, they were told that the objection was made by Bellcore, not BellSouth. The objections were based on the fact that Bellcore had recently participated in the audit conducted by NARUC and the FCC and believed that any further audits of Bellcore would be burdensome and duplicative for the auditors. Staff believes that the only way of gaining a thorough understanding of the nature of the projects and/or any specific applications to regulated or nonregulated products or services is to further examine the projects in question. It is apparent to staff through our limited exposure of the Bellcore projects that there is a potential for these projects to support future non regulated products or services. In many cases there may be no benefit to current residential ratepayers and therefore such Bellcore work benefiting future non regulated services justifies careful analysis of BellSouth's cost allocation methods.

An example of the future benefit nature of the Bellcore work are projects numbered 21411, 421301, 421303, 421306, and 621306. These are a few of the projects that relate to the development of a communications network based upon fiber optic broadband transport of voice, data and video information. A broadband network of this magnitude is not currently required for telephone service and many types of information services. However, it is required to support high quality entertainment television. Although video dial tone is allowed by BellSouth, they are prohibited from owning or providing video programming in their service territory by the Cable Communications Policy Act of 1984. Moreover, in a recent US District Court decision, Bell Atlantic won a lawsuit to overturn restrictions in the Cable Act of 1984. Bell Atlantic basically gained the authority to become a cable television provider and compete with cable companies in its service area. This authority does not extend to any of the other Bell Operating Companies.

In addition, BellSouth Corporation recently acquired 22.5% of Prime Management Company, a Texas based cable television company. This provides BellSouth with entry into interactive television, pay-per-view, traditional cable and alternative telecommunications for business and residential customers. With the recent Bell Atlantic ruling and BellSouth's acquiring a stake in a cable company, it positions BellSouth a step closer to offering television service to their local telephone customers. This work performed by Bellcore is clearly

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directed toward these future enhancements that have the potential of supporting competitive services that are currently not regulated and may or may not be regulated in the future.

There are also projects related to the provision of Personal Communications Systems (PSC). However, the most recent federal bill preempting the states from regulating wireless service rates and the FCC decision on spectrum allocation opens a new generation of wireless communications for new types of services that could in time replace many of the phones and computers now secured by wire. It is apparent from this action that PCS will clearly not be regulated by the States and therefore the costs should be properly allocated.

It appears that there is a presumption that Research and Development costs are regulated unless there is a specific application to nonregulated products or services. Any R&D that does not have direct association with known non regulated activities is simply treated as regulated. Although research and most development is directed toward the future and benefits future customers, today's customers are paying for these activities. Additionally, events such as the recent rulings by the FCC on PCS and recent court decisions of allowing Bell Atlantic to provide cable services, it compels staff to believe that BellSouth's allocation of R&D based on current non regulated services is unreasonable.

Staff understands the need for BellSouth to continue their research and development efforts with Bellcore in order to enhance their network and prepare for future competitive services. However, staff believes that until a better understanding of the nature of the Bellcore projects are determined, the work efforts could potentially be supporting competitive products and therefore would be benefiting both regulated and unregulated services.

This Commission plays a major role in the deployment of advanced technology through our jurisdiction over depreciation schedules, incentive regulation plans and cost allocation. Although Florida has been generally supportive of new technologies and the accompanying new services, our primary objective is to ensure that ratepayers are not harmed by the deployment of new technologies. It appears that a large portion of the Bellcore projects are primarily oriented toward future enhanced (and potentially non-regulated) services which do not benefit current regulated products and services. In lieu of additional information and the ability to further evaluate the Bellcore projects purchased by BellSouth, staff believes that the research and development performed on these projects should be allocated 50% to regulated and 50% to non-regulated.

TOTAL BELLCORE R & D COSTS 1992	34,442,935
AT 50% ALLOCATION	50.00%
AMOUNT TO BE REMOVED	17,221,468
% TO FLORIDA	26.14%
AMOUNT OF ADJUSTMENT FLORIDA	4,501,692
AMOUNT ORIGINALLY CHARGED R & D BELLCORE FLA	111,945
NET FLORIDA ADJUSTMENT	4,389,747

RECOMMENDATION: Transfer more of expenses to non-regulated operations using one of the above methods.

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See WPA's on 49-3 p 4

49-2

COMPANY: BSC
TITLE: REVIEW OF BELLCORE INTERNAL AUDITS DONE AT BELLCORE
TEST YEAR: 1992
AUDITOR: KATHY WELCH
DATE: JUNE 4, 1993
WORKPAPER #49-3

COSTS BILLED BY BILLING ACCOUNTS RECEIVABLE SYSTEM (BARS) BASED ON PROJECT TYPE AND PARTICIPATION FACTORS.

INFRASTRUCTURE-7 OWNERS PARTICIPATE
MULTI-CLIENT FIRM QUOTED PRICE
NON-FIRM QUOTED PRICE- MORE THAN ONE PARTICIPANT BUT NOT ALL 7
CLIENT SPECIFIC-ONE PARTICIPANT

USAGE PROJECTS ARE BILLED BY THE STANDARD RATED BILLING SYSTEM(SRBS) AND THE PRODUCT BILLING SYSTEM. (BARS) BARS IS ALSO USED WHEN A NON-PARTICIPATING CLIENT DECIDES TO FUND A PROJECT. BUY IN CALCULATED ON PREVIOUS COSTS INCURRED AND ADDITIONAL CHARGES BECAUSE OF THEIR DELAY. OLD PARTICIPANTS RECEIVE REFUND OF THIS AMOUNT.

AUDIT NO. 92-5201-05 NOV. 91-JAN. 92 FIELD WORK

EVALUATE CONTROL OVER BILLING ALLOCATIONS.

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AUDIT NO. 92-2205-15

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AUDIT NO. 92-2801-23 APRIL-MAY 92 FIELD WORK

VERIFICATION OF YEAR END ACCRUALS

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AUDIT NO. 92-6603-28 MAY-JUNE 92 FIELD WORK

REVIEWED TIME REPORTING ACCURACY FOR THE PUBLIC POLICY AND REGULATORY MATTERS CENTER WITHIN THE HUMAN RESOURCES AND EXTERNAL AFFAIRS ORG.

WHICH PROVIDES BELLCORE CLIENT CO'S WITH CONSULTATION SERVICES
REGARDING CURRENT AND POTENTIAL TELCO REGULATORY ISSUES.

SWITCHED TO EXCEPTION TIME REPORTING IN 3RD QTR. 1992

DETERMINE IF TIME ALLOCATED TO PROJECTS WAS ACCURATE.

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AUDIT NO 92-2206-34

JULY-AUGUST 1992 FIELD WORK

EXAMINATION OF RECEIPTS SUPPORTING EXPENSES INCURRED AND ASSOCIATED
EXPLANATIONS ON EMPLOYEE EXPENSE VOUCHERS.

12

AUDIT NO. 92-3902.0-40

JULY-AUGUST 1992 FIELD WORK

PAYROLL-PERSONNEL SYSTEM (PAYPERS)-ADMINISTERS BELLCORE COMPANY WIDE
PERSONNEL DATA BASE.

EVALUATE PAYPERS CONTROLS, SECURITY.

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AUDIT NO. 92-2203-44 AUGUST TO SEPTEMBER 1992 FIELD WORK

EVALUATE PROCEDURES OVER REQUISITIONS FOR PAYMENT.

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AUDIT NO. 92-1103-49 SEPTEMBER-OCTOBER 1992 FIELD WORK

REVIEW CONTROLS OVER WORKING CAPITAL.

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AUDIT NO. 9206500-59 OCTOBER 1992 FIELD WORK

REVIEW CONTROLS OVER DEPARTMENTAL EXPENSE CORRECTIONS.

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Property

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Review of Internal Audit WPIs
on Bellcore Consortium Audit
E-20-79-99, Sept 92

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FCC/NARUC JOINT AUDIT OF BELLCORE

The FCC auditors have discussed with Bellcore management the preliminary results of the FCC/NARUC joint audit of Bellcore. Preliminary feedback indicates the FCC auditors will have three findings. A discussion of the preliminary findings is provided below:

I. Preliminary Audit Findings

- ° Bellcore's firm quote pricing methodology does not comply with the affiliated transactions rules which require FDC where market prices are not applicable. *See WP 49-1311 discussed FQP*
- ° Bellcore's budget and billing practices are cumbersome and costly.
 - Management is aware of this problem and has hired Coopers & Lybrand to assist in developing a solution
 - The FCC auditors expect significant savings and will require Bellcore's owners to quantify and track these savings.
- ° Bellcore's earnings have exceeded the authorized/allowable rate of return (ROR).
 - The return on total capital billed by Bellcore was an average return on equity (ROE) which exceeded the authorized interstate ROR on rate base by 200 to 300 basis points.
 - In addition, the capital base used by Bellcore exceeds the rate base developed based on Part 65.
 - The preliminary indication is that on a combined basis, Bellcore's earnings exceed the authorized interstate ROR by \$120 million for the period 1984 through 1989 which after interest increases to approximately \$200 million.

II. Effect of Bellcore Earnings on BellSouth

- ° Bellcore earnings above the authorized interstate ROR for 1984 through 1989 were included in determining BSS overearnings for this period. SBT and SCB filed a special tariff in August, 1990 which returned all BSS and Bellcore overearnings plus interest to ratepayers in September, 1990.
- ° Since both the Bellcore dividend and investment are included in ratemaking, on an intrastate basis, Bellcore overearnings did not effect the intrastate ratepayer.

Reg 2-0027

FBIK02W 000186

Beth Salak reviewing

III. Future Strategy

- ° Bellcore management and owner personnel expect:
 - The Bellcore Accounting Standards Group which has a representative from each client company will manage the resolution of these issues.
 - Discussions will be held to review these preliminary findings with the FCC auditors prior to the issuance of the first draft which is expected to be released during the last week of May or first week of June.
 - Tentative plans are for the final draft of the report to be presented to the NARUC Committee on Finance and Technology in July and to the NARUC Executive Committee at its fall meeting.

BellSouth Comptrollers
Corporate Accounting Standards
April 8, 1991

F01K02W 000187

Southern Bell Tel. & Tel. Co.
FPSC Docket No. 920260-TL
Audit
Date: 04-14-93
Item No. 2-056.0
Page 1 of 1

Request: Provide a detailed description of all allocation methodology used by Bellcore to charge costs to projects and to charge common costs to BOC's in 1992.

Response: See Attachment A for a description of how Bellcore captures their cost and allocates these costs to the projects.

See Attachment B for a description of how Bellcore then allocates these project costs to the regions.

This material constitutes proprietary confidential business information and is the subject of a "Notice of Intent to Request Specified Confidential Classification."

SPECIFIED CONFIDENTIAL

Date Provided: April 21, 1993

Southern Bell Tel. & Tel. Co.
FPC Docket No. 920260-TL
Audit

Date: 03-22-93
Amended Response to
Item No. 1-038
Page 1 of 1

Request: Provide documentation for two separate 1991 booked transactions representing examples of Bellcore credits (in the accounting sense) flowing back to the BellSouth organization. One of these examples, as we discussed on the telephone Fri. morn., should be in the form of reduced regulatory expense via project specific credits applied. The other example should be in the form of ownership dividends paid back to BST. These examples should include all account numbers, posting dates and completely identified function codes which would allow these transactions to be verified to gen. ledger. Include complete journal entries with descriptions applicable.

Response: The Company amends its response of March 29, 1993 in which we stated that a status report or the requested information would be provided on April 21, 1993. Following is the requested information.

See Attachment I for the example of a buy-in to Bellcore Project 0234A2.

See Attachments II for the treatment of a dividend payment received by BellSouth Services from Bellcore.

Date Provided: April 21, 1993

BUY-IN TO BELLCORE PROJECT 0234A2
SELF HEALING NETWORK

During 1991 a buy-in occurred for Project 0234A2. The attached sheets show credits to this project as a result of the buy-in.

Attachment A shows the amount of billing to Southern Bell from this Bellcore project typically was around 8-11 thousand per month with the exception of the month the buy-in credit was received.

In August BellSouth received a total of \$-120,406.72 credit for that month's billing. Following is a break-down of the credits received for this project:

	BELLSOUTH	SOUTHERN BELL
Monthly Billing(Att. B)	\$ (9,100.00)	(5,286.45)
Buy-In Credit(Att.C)	\$ (100,897.09)	(58,614.05)
Interest Received(Att.D)	\$ (10,409.63)	(6,047.26)
Total Credit	\$ (120,406.72)	(69,947.76)

The amount shown on Attachment B is the amount billed for the project for that month. The amount shown indicates the billing for July being divided by current participants in the project. BellSouth received a credit of \$9,100.00 for that month's billing.

The amount shown on Attachment C (\$-100,897.09) is the amount the "buying in region" paid to compensate BellSouth for the months of back-billing. Also included is a credit for the risk-fee. The Service Agreement states that the original funding region receives a 10% risk fee to compensate for their "taking the risk" on their own.

The amount shown on Attachment D (-10,409.63) is interest on buy-in money BellSouth was paid from the beginning of the project.

As indicated on Attachment E, this credit was billed to Southern Bell by BSS via Authority Code ACT0234A2. It was charged to RC N3400000, Function Code 561V88, EXTC 477 M, Account 6727 in Southern Bell.

1991 BOOKED BILLING
FOR PROJECT 0234A2

PROGRAM: 0234A2

DATE: 03/30/93

PROJECT NUMBER	DATE	TOTAL BILLED	BILLED TO SOUTHERN
0234A2	DEC, 90	16,700.00	9,701.51
	JAN, 91	18,400.00	10,689.09
	FEB, 91	16,000.00	9,294.86
	MAR, 91	16,900.00	9,817.70
	APR, 91	18,900.00	10,979.56
	MAY, 91	19,500.00	11,328.12
	JUN, 91	17,100.00	9,933.89
	JUL, 91	-120,406.72	-69,947.76
	AUG, 91	14,700.00	8,539.66
	SEP, 91	14,200.00	8,249.19
	OCT, 91	15,400.00	8,946.31
	NOV, 91	-5,177.78	-3,007.92
TOTAL		42,215.50	24,524.21

P05/**



Bell Communications Research

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RESTRICTED
PRINCIPAL BILLING SUPPLEMENT

PAGE NO: 10

MONTH/YEAR: 7/91

CUSTOMER ACCOUNT NUMBER: 000000003
BELLSOUTH SERVICES INC.
3700 COLONNADE PARKWAY, RM 6A1

BIRMINGHAM AL 35243
ATTN: J.L. WILSON

A B C

ROJ. NUMBER BUDGET/ACCTG	PROJECT NAME	TOTAL PROJECT COST/ PRICE BILLED	ALLOC PCT/ FQP	ALLOC AMT/ PRICE	REVENUE CREDIT	NET PROJECT COST	% COST DISTRIBUTED WITHIN PROJECT	NET AMOUNT DUE
PROGRAM: GENERIC REQUIREMENTS								
J231A4/TP3	IN	55,764.69	14.2857%	7,966.38	196.41	7,769.97	100.00%	7,769.97
J23117/TM8	MC	84,800.00	FQP	20,700.00	0.00	20,700.00	100.00%	20,700.00
J23134/TP6	IN	164,590.24	14.2857%	23,512.87	4,803.92	18,708.95	100.00%	18,708.95
J234A2/TN7	MC	119,600.00	FQP	-9,100.00	0.00	-9,100.00	100.00%	-9,100.00
IR1011/NR	IN	186,019.38	14.2857%	26,574.17	653.62	25,920.55	100.00%	25,920.55
IR1111/NY	IN	509,228.20	14.2857%	72,746.81	1,793.53	70,953.28	100.00%	70,953.28
IR3521/N	MC	-98,200.00	FQP	-26,200.00	0.00	-26,200.00	100.00%	-26,200.00
IR4111/N	IN	1,241,656.23	14.2857%	177,379.29	4,373.18	173,006.11	100.00%	173,006.11
IW0111/I	IN	300,136.87	14.2857%	42,876.65	1,051.91	41,824.74	100.00%	41,824.74
IW0211/N	IN	328,081.62	14.2857%	46,865.90	1,155.45	45,710.45	100.00%	45,710.45
IW1011/NA	IN	119,319.91	14.2857%	17,045.68	420.25	16,625.43	100.00%	16,625.43
IW1511/NA	IN	614,502.54	14.2857%	87,785.99	2,162.81	85,623.18	100.00%	85,623.18
IW1573/NV	US	0.00	0.0000%	58,257.00	0.00	58,257.00	100.00%	58,257.00
IW2022/EEF	MC	114,000.00	FQP	33,200.00	0.00	33,200.00	100.00%	33,200.00
IW2023/EEF	MC	145,500.00	FQP	73,600.00	0.00	73,600.00	100.00%	73,600.00
IW2024/EEF	MC	378,400.00	FQP	145,500.00	0.00	145,500.00	100.00%	145,500.00
IW3011/NAC	IN	126,389.08	14.2857%	18,055.56	445.15	17,610.41	100.00%	17,610.41
IW3012/NAC	IN	271,833.38	14.2857%	38,804.73	956.71	37,848.02	100.00%	37,848.02
IW3111/NA	IN	189,688.40	14.2857%	27,098.32	669.09	26,430.23	100.00%	26,430.23
IW3212/NA	IN	396,500.45	14.2857%	56,842.86	1,385.61	55,257.25	100.00%	55,257.25
IW3311/NAR	IN	152,871.81	14.2857%	21,838.81	538.41	21,300.40	100.00%	21,300.40
IW3312/NAR	IN	85,736.55	14.2857%	12,248.07	218.05	12,030.02	100.00%	12,030.02
IW4611/NAH	IN	226,458.90	14.2857%	32,351.24	797.60	31,553.64	100.00%	31,553.64
IY2082/WIP	CS	17,300.00	FQP	17,300.00	0.00	17,300.00	100.00%	17,300.00
I23228/T49	IN	104,845.29	14.2857%	14,977.88	369.27	14,608.61	100.00%	14,608.61
I23312/T33	IN	123,000.731	14.2857%	17,571.46	433.22	17,138.24	100.00%	17,138.24

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ITEM NO. 1-038
ATTACHMENT 1-B
PAGE 1 OF 1



P06/***

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RESTRICTED
ADJUSTMENT TO
PRINCIPAL BILLING SUPPLEMENT
MONTH/YEAR: 7/91

PAGE NO: 3

CUSTOMER ACCOUNT NUMBER: 00000003
BELLSOUTH SERVICES INC.
3700 COLONNADE PARKWAY, RM 6A1

BIRMINGHAM AL 35243
ATTN: J.L. WILSON

ROJ. NUMBER UDGET/ACCTG.	PROJECT NAME	PROJECT TYPE/FQP	ALLOC AMT/ PRICE	REVENUE CREDIT	NET PROJECT COST	% COST DISTRIBUTED WITHIN PROJECT	NET AMOUNT DUE
<u>PROGRAM: GENERIC REQUIREMENTS</u>							
15 234A2/TN7			-90,778.30	0.00	-90,778.30	100.00%	-90,778.30
234A2/TN7 RISK FEE			-10,118.79	0.00	-10,118.79	100.00%	-10,118.79
PROJECT TOTAL - D234A2/TN7							-100,897.09
18 W2022/EEE HDSL		MC/FQP	120,300.00	0.00	120,300.00	100.00%	120,300.00
PROJECT TOTAL - W2022/EEE							120,300.00
23457/TJ2 SVC NEGOTIATION & MGMT INTERFACE REQ'TS		MC/FQP	-120,692.85	0.00	-120,692.85	100.00%	-120,692.85
23457/TJ2 RISK FEE			-13,453.28	0.00	-13,453.28	100.00%	-13,453.28
PROJECT TOTAL - B23457/TJ2							-134,146.13
TOTAL PROGRAM - GENERIC REQUIREMENTS							-114,743.22

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ITEM NO. 1-838
ATTACHMENT 1-C
PAGE 1 OF 1

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RESTRICTED

BILLING SUPPLEMENT F

INTEREST CHARGES

MONTH/YEAR

7/91

CUSTOMER ACCOUNT NUMBER: 000000003

3700 COLONNADE PARKWAY, RM 6A1

BIRMINGHAM

ATTN: J.L. WILSON

AL 35243

INVOICE NUMBER	DESCRIPTION	PROJ. NUMBER	BUDGET/ACCTG	AMOUNT	DUE
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09110670	INTEREST CHARGES BUY-IN PROJECT EAI	0245AA/EAI		-52,037.00	
09110670	INTEREST CHARGES BUY-IN PROJECT EAN	006425/EAN		-1,334.90	
09110670	INTEREST CHARGES BUY-IN PROJECT EEE	1W022/EEE		2,432.97	
09110670	INTEREST CHARGES BUY-IN PROJECT EEP	126FRE/EEP		171.45	
09110670	INTEREST CHARGES BUY-IN PROJECT EHA3	424105/EHA3		-21,559.00	
09110670	INTEREST CHARGES BUY-IN PROJECT ELB	624515/ELB		-27,154.26	
09110670	INTEREST CHARGES BUY-IN PROJECT ET4	824210/ET4		-17,465.39	
09110670	INTEREST CHARGES BUY-IN PROJECT EZ2	824444/EZ2		-273.11	
09110670	INTEREST CHARGES BUY-IN PROJECT EZ8	824506/EZ8		-3,193.00	
09110670	INTEREST CHARGES BUY-IN PROJECT E1W	024201/E1W		-18,584.27	
09110670	INTEREST CHARGES BUY-IN PROJECT E2N	92441X/E2N		-32,966.48	
09110670	INTEREST CHARGES BUY-IN PROJECT E2S	006435/E2S		-2,486.57	
09110670	INTEREST CHARGES BUY-IN PROJECT E3A	8243AM/E3A		116,576.01	
09110670	INTEREST CHARGES BUY-IN PROJECT E3G	924220/E3G		-10,136.50	
09110670	INTEREST CHARGES BUY-IN PROJECT E3Y	0243NP/E3Y		123,064.86	
09110670	INTEREST CHARGES BUY-IN PROJECT E4G	82422B/E4G		-29,629.45	
09110670	INTEREST CHARGES BUY-IN PROJECT E4Z	02442Y/E4Z		-196.88	
09110670	INTEREST CHARGES BUY-IN PROJECT E58	82420B/E58		-3,880.44	
09110670	INTEREST CHARGES BUY-IN PROJECT E5C	824247/E5C		-9,142.91	
09110670	INTEREST CHARGES BUY-IN PROJECT E7C	924262/E7C		-5,683.26	
09110670	INTEREST CHARGES BUY-IN PROJECT I8B	925EPC/I8B		-2,719.81	
09110670	INTEREST CHARGES BUY-IN PROJECT I88	625715/I88		-8,422.62	
09110670	INTEREST CHARGES BUY-IN PROJECT 536	02447/536		-48.43	
09110670	INTEREST CHARGES BUY-IN PROJECT T02	923457/T02		-13,840.00	
09110670	INTEREST CHARGES BUY-IN PROJECT T07	0234A2/T07		-10,409.63	
09110670	INTEREST CHARGES BUY-IN PROJECT UHO	7241E/UHO		-13,509.13	
09110670	INTEREST CHARGES BUY-IN PROJECT UNE	924545/UNE		2,591.64	
09110670	INTEREST CHARGES BUY-IN PROJECT URC	824419/URC		-41,858.25	
09110670	INTEREST CHARGES BUY-IN PROJECT W52	026MBC/W52		9,195.50	
09110670	INTEREST CHARGES BUY-IN PROJECT WTI	02595A/WTI		-3,244.17	
09110670	INTEREST CHARGES BUY-IN PROJECT WU3	924UDA/WU3		-893.28	

TOTAL: THIS SUPPLEMENT

-70,836.21

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ATTACHMENT I-D
PAGE 1 OF 1

PAGE 1

AUGUST 1990 TELECORE BILLING TO GBT

<u>AUTHORITY</u>	<u>RCC</u>	<u>RCC</u>	<u>FUNCTION CODE</u>	<u>EXTC</u>	<u>MAINACCT</u>	<u>YAMOUNT</u>
ACT0234A2	J0100000	N3400000	561V98	477 M	5727	-69,947.76

52

05100 N10100

**P08/

04-20-93 06:26PM

DIVIDEND PAYMENT RECEIVED FROM BELLCORE

Attached are copies of the applicable materials related to the Bellcore dividend payment that BellSouth Services received third quarter, 1991.

The first item, letter from Beech to Simpson, gives a breakdown of the BSS dividends. Bellcore dividends were included in the BSS dividends when this was split 50/50 between South Central Bell and Southern Bell. As shown on this letter, the Bellcore dividend booked as an accrual was \$1,200,400.

This accrual is shown on Report: Form MP420 - Corporate Journal Entry Document dated September, 1991.

The next item, letter from Fitzgerald at Bellcore to Smith at BellSouth Services, indicates that the Bellcore dividend would actually be \$1,201,228.14 to be paid on November 13, 1991.

The next entry is the CASH RECEIPTS for BellSouth Services indicating the receipt of the Bellcore dividend of \$1,201,228.14.

The Report Account Balance Control Report shows the Bellcore dividend of \$1,201,228.14 included in BellSouth Services books.

The BellSouth Services Journal Entry shows where the accrual is reversed with the actual dividend amount.

The letter from Beech to Parker (South Central) and King (Southern Bell) indicates that BellSouth Services is sending them 50/50 the BSS Net Income. Southern Bell's portion is \$1,602,263.38 which includes the Bellcore dividend (difference between accrual and actual)

The last page is the Southern Bell Journal Entry that shows where the BSS dividend was posted.

FR: 710.0300 (C)

October 14, 1991

TO: J. E. Simpson, Treasurer
FROM: C. D. Beech, Operations Manager - Corporate Accounting
COPY TO: J. G. Butler, Assistant Comptroller
Billie Bridges, Secretary
SUBJECT: Third Quarter, 1991 Net Income

No distribution of accumulated net income is due our shareholders of record for the quarter ending September 30, 1991. BellSouth Services recorded net income of \$10,897,396.47 for the quarter thereby reducing the amount of accumulated net income to \$(4,414,177.89) as of September 30, 1991.

Attached is a breakdown of the net income between BellSouth Services income, BellSouth Products income, and BellCore income.

Please call me on (205) 977-3800 or Randy Beasley on (205) 977-3818 if you have any questions.

C. D. Beech

Attachment

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P10/**

04-20-93 06:27PM

001492 04100 M10710

BELLSOUTH SERVICES INCORPORATED

Breakdown of 1991 Third Quarter Net Income

	July	August	September	3rd Quarter
Amount Applicable to BSS Services Rendered & Product Sales				
Income Before Dividend Income and Income Taxes	3,275,473	7,482,957	3,526,866	14,285,296
Less: Income Taxes	1,051,876	2,803,869	1,500,269	5,356,114
Less: 84/85 Audit Adjustment	0	80,729	0	80,729
Net Income Applicable to BSS Services & Product Sales . . .	2,223,597	4,598,259	2,026,597	8,848,453
Amount Applicable to BSP & Product Sales				
Income Before Dividend Income and Income Taxes	485,656	832,879	211,490	1,530,025
Less: Income Taxes	165,124	283,178	71,906	520,208
Plus: Income Tax Refund	0	0	0	0
Net Income Applicable to BSP & Product Sales . . .	320,532	549,701	139,584	1,009,817
Amount Applicable to BELLCORE dividends received by BSS:				
BELLCORE Dividends	0	903	1,200,400	1,201,303
Less: Income Taxes	0	122	162,054	162,176
Net Income Applicable to BELLCORE	0	781	1,038,346	1,039,127
Total Net Income	2,544,129	5,148,741	3,204,527	10,897,397
Total Net Income Available For Distribution				0

Differences are due to rounding.
 Issued by BSS Corporate Accounting Office
 October, 1991

REPORT: FORM MP428 - CORPORATE JOURNAL ENTRY DOCUMENT
 MONTH: SEP, 1991
 PRODUCED: 09/27/91 AT 08:19:33

BELLSOUTH SERVICES
 SYSTEM: CORPORATE ONLINE PROCESSING SYSTEM
 RETENTION: PERMANENT

PAGE: 2

JOURNAL ENTRY: BCR

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95

DTC CODE	SRC ADJ	FA DATE	TRAN RCD	TRAN RCC	JSC FC/EC	EXTC	ACCOUNT MAIN SRC LTR TYPE	EDIT 9901 OK?	AMOUNT	TRAN NO.	ENTERED CK
CORP			MT3H02000	MT3H02000	5C2709/	CY1	121			DR 0001	
AUTH NUMBER -											
COMMENTS: TO RECORD ACTUAL DIVIDEND RECEIVED FROM BCR IN AUG 1991.											
CORP			MT3H02000	MT3H02000	5W20 /	RH1	512			DR 0002	
AUTH NUMBER -											
COMMENTS: TO RECORD ACTUAL DIVIDEND RECEIVED FROM BCR IN AUG 1991.											
CORP			MT3H02000	MT3H02000	5W20 /	RH1	512			DR 0003	
AUTH NUMBER -											
COMMENTS: TO REVERSE ACCRUAL MADE IN JUN 1991 FOR 2ND QUARTER BCR DIVD.											
CORP			MT3H02000	MT3H02000	5C2709/	CY1	121			DR 0004	
AUTH NUMBER -											
COMMENTS: TO REVERSE ACCRUAL MADE IN JUNE 1991 FOR SECOND QUARTER BCR DIVD.											
CORP			MT3H02000	MT3H02000	5C2709/	CY1	121		1,200,400.00	DR 0005	
AUTH NUMBER -											
COMMENTS: TO ACCRUE THIRD QUARTER 1991 BCR DIVIDEND.											
CORP			MT3H02000	MT3H02000	5W20 /	RH1	512		1,200,400.00	DR 0006	
AUTH NUMBER -											
COMMENTS: TO ACCRUE THIRD QUARTER 1991 BCR DIVIDEND.											
AUTH NUMBER -											
COMMENTS:											
AUTH NUMBER -											
COMMENTS:											
AUTH NUMBER -											
COMMENTS:											
AUTH NUMBER -											
COMMENTS:											

04-20-93 06:28PM

FORKIN 001494

Rev. 1,200,400.00

Assets 1,200,400.00

ITEM NO. 1-039
 ATTACHMENT 11
 4 OF 11



Marie E. Fitzgerald
Treasurer

November 7, 1991

Mr. Wilson Smith
Assistant Treasurer
BellSouth Services, Inc.
P. O. Box 2394
Birmingham, Alabama 25203

Dear Mr. Smith:

The Board of Directors of Bell Communications Research, Inc. has declared its thirty-first common stock dividend for the quarterly period ending September 30, 1991. This dividend will be payable on November 13, 1991 to the stockholders of record at the close of business on November 6, 1991.

In payment of the November dividend, a wire transfer in the amount of \$1,201,228.14 will be sent to the bank account shown below:

AmSouth Bank
BellSouth Services, Inc.
Account #271339834
Birmingham, Alabama

Please consider this letter as your written notice of the dividend payment.

Sincerely,

Marie E. Fitzgerald

aled
121

Copy to
B. Robinson

57

Wed 15-Nov

BELLSOUTH SERVICES CASH RECEIPTS

RF-1165

P14/**

CASH RECEIPTS		PAYMENT FROM					OTHER	TOTAL	
South Services - AmSouth October 1991		DR.113 CR.721	SOUTHERN DR.113 CR.120.1-51	SOUTH CENTRAL DR.113 CR.120.1-61	BAPCO DR.113 CR.120.1-21	BELLSOUTH CORP DR.113 CR.120.1-11	CR. ACCT.NO.	AMOUNT	DR+CF CR+H+J
RECEIVED FROM	EXPLANATION	D	E	F	G	H	I	J	K
Art M. Newbury	Payroll Overpymt	3005.63							3,005.63
r Gordon	Payroll Overpymt	3299.57							3,299.57
itell Geotype	Refund	145.00							145.00
o-Dade	Refund	100.00							100.00
ovia (wt) BSMP	Reimburse BSS Flexlife & LTD						159.2-6989	91466.55	91,466.55
ovia (wt) BSMP	Reimburse BSS Flexlife & LTD						159.2-289	452633.56	452,633.56
ovia (wt) BSMP	Reimburse BSS Flexlife & LTD						159.2-3989	6756.20	6,756.20
ovia (wt) BSPP	Reimburse BSS Flexlife & LTD						159.2-6989	39124.12	39,124.12
ovia (wt) BSPP	Reimburse BSS Flexlife & LTD						159.2-289	334719.68	334,719.68
ovia (wt) BSMP	Reimburse BSS for OLI						159.2-289	120293.10	120,293.10
ovia (wt) BSPP	Reimburse BSS for CLI						159.2-289	76159.93	76,159.93
hern Bell (wt)	SABR		7161836.79						7,161,836.79
(wt)	SABR			7023722.35					7,023,722.35
(wt)	Credit for CPE Equipment			-70020.70					(70,020.70)
lcore (wt)	Dividend						121	1201228.14	1,201,228.14
South Corp (wt)	Transfer from Investment A/C						116-01	14982000.00	14,982,000.00
South Corp (wt)	Dividends earned on Investment						513	2080.83	2,080.83
Daily Subtotal		6679.08	7161836.79	6953701.65	0.00	0.00		17350058.35	31,472,276.07
Cumulative Subtotal		-41540.56	16083217.31	14969905.45	8980.42	13825.15		225774575.25	256,808,963.02
as R. Stamps	Cancel Advance						115-02	1235.00	1,235.00
plate Comm Systems	Surplus Matl						120.2-11	778.00	778.00
ck Shepherd	Surplus Matl						120.2-11	159.00	159.00
non Associates	Scrap Matl						120.2-11	2301.81	2,301.81
non Associates	Scrap Matl						120.2-11	1404.27	1,404.27
non Associates	Scrap Matl						120.2-11	805.70	805.70
non Associates	Scrap Matl						120.2-11	750.23	750.23
non Associates	Scrap Matl						120.2-11	772.45	772.45
o Metals	Scrap Matl						120.2-11	42470.48	42,470.48
o Metals	Scrap Matl						120.2-11	42786.70	42,786.70
old Metals	Scrap Matl						120.2-11	15594.35	15,594.35
ilberg Inte Metals	Scrap Matl						120.2-11	43052.59	43,052.59
land Metal	Scrap Matl						120.2-11	9091.71	9,091.71
ronze Powders	Scrap Matl						120.2-11	44489.37	44,489.37
old Metals	Scrap Matl						120.2-11	17047.89	17,047.89
hern Bell	Final Bill Refund	5651.30							5,651.30
xuth	Interest						120.2-21	177.08	177.08
xuth	Interest						120.2-21	41.63	41.63
xuth	Interest						120.2-21	43.54	43.54
South Corp (wt)	Transfer from Investment						116-01	28582000.00	28,582,000.00
South Corp (wt)	Interest earned from Investment						513	4128.51	4,128.51
Daily Subtotal		5651.30	0.00	0.00	0.00	0.00		28809130.31	28,814,781.61
Cumulative Subtotal		-35889.26	16083217.31	14969905.45	8980.42	13825.15		254583705.56	285,623,744.63

04-20-93 06:30PM 96100 H10114

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ATTACHMENT 11

PROC ENTITY- BELLSOUTH STATE- BELLSOUTH
REPORT- FF90 ACCOUNT BALANCE CONTROL REPORT

AREA- BELLSOUTH

REPORT PERIOD- NOVEMBER , 1991
TODAYS DATE- 12/05/91

PASS- 28
PAGE- 124

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ACCOUNT	RESP CODE ORIG	OTC SRCE	FUNC CODE	EXTC	AUTH NUM	AMOUNT	SERIAL NUM	PAK ORIGIN	PAK NUM	SOC SEC NUMBER	VOUCHER SERIAL NUM
121	MT5H02103	CBOOK	5C2709	CY1		1,201,228.14-	504978	CAOCORP	017		
121					ACCOUNT TOTAL	1,201,228.14-					

65

04-20-93 06:30PM

FOLIOIN 001457

121

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ATTACHMENT 11
PAGE 7 OF 11

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09

CORPORATE JOURNAL ENTRY BCR
NOVEMBER, 1991

PREPARED BY:

NAME:

R.V.
Sandra Pavin

TITLE:

Staff Asst

DATE:

11-25-91

APPROVED:

NAME:

Cathy Han

TITLE:

Mgr CA^o

DATE:

11-25-91

ENTERED TO COPS:

NAME:

Sandra Pavin

TITLE:

Staff Asst

DATE:

11/25/91

04-20-93 06:31PM

FOI/KOIH 001498

121

SYSTEMS CORPORATE ONLINE PROCESSING SYSTEM
 REPERM: PERMANENT

PRODUCED ON 11/25/91 AT 14:36:13

JOURNAL ENTRY: BCR

OTC SRC TRAN ACCOUNT EDIT TRAN ENTERED
 CODE ADJ DATE RCO RCC JSC FC/EC EXT (MAIN SRC LTR TYPE) 9901 OKY AMOUNT NO. DR

CORP MT3H02000 MT3H02000 SC2709/ CY1 121 1,201,228.14 DR 0001
 AUTH NUMBER -
 COMMENTS:
 TO RECORD ACTUAL DIVIDEND RECEIVED FROM BCR IN NOV 1991. CR

CORP MT3H02000 MT3H02000 SW20 / RM1 512 DR 0002
 AUTH NUMBER -
 COMMENTS:
 TO RECORD ACTUAL DIVIDEND RECEIVED FROM BCR IN NOV 1991. 1,201,228.14 CR

CORP MT3H02000 MT3H02000 SW20 / RM1 512 1,200,400.00 DR 0003
 AUTH NUMBER -
 COMMENTS:
 TO REVERSE ACCRUAL MADE IN 4SEP1991 FOR 3RD QUARTER BCR DIVD. CR

CORP MT3H02000 MT3H02000 SC2709/ CY1 121 DR 0004
 AUTH NUMBER -
 COMMENTS:
 TO REVERSE ACCRUAL MADE IN SEP. 1991 FOR THIRD QUARTER BCR DIVD. 1,200,400.00 CR

CORP MT3H02000 MT3H02000 SC2709/ CY1 121 DR 0005
 AUTH NUMBER -
 COMMENTS:
 TO ACCRUE THIRD QUARTER 1991 BCR DIVIDEND. CR

CORP MT3H02000 MT3H02000 SW20 / RM1 512 DR 0006
 AUTH NUMBER -
 COMMENTS:
 TO ACCRUE THIRD QUARTER 1991 BCR DIVIDEND. CR

AUTH NUMBER -
 COMMENTS:
 DR
 CR

P17/**

19

06:31 PM

04-20-93

FOLKRI 001499

Rw 828.14

Assets 828.14

62

REPORT: PLAN HP428 - CORPORATE JOURNAL ENTRY DOCUMENT
MONTH: SEPTEMBER, 1991
PRODUCED ON 09/25/91 AT 18:17:56

SOUTHERN BELL
SYSTEM: CORPORATE ONLINE PROCESSING SYSTEM
RETENTION: PERMANENT

PAGE: 2

JOURNAL ENTRY: 20

DTC SRC	FA	TRAN	RCO	RCC	JSC	FC/EC	EXTC	ACCOUNT	EDIT	AMOUNT	TRAN	ENTERED
CODE	ADJ	DATE						MAXM SRC LTR TYPE	9802 OK?		NO.	OK
CORP			JA6200000	JJ0000000		SE2F98/	CY1 M	7360 3000	N		DR 0001	<input checked="" type="checkbox"/>

COMMENTS:
BSSI DIVIDENDS FOR CURRENT MONTH

676, 289 .74 CR ✓

CORP			JA6200000	JJ0000000		SE2F98/	CY1 M	7360 3000	G		DR 0002	<input checked="" type="checkbox"/>
------	--	--	-----------	-----------	--	---------	-------	-----------	---	--	---------	-------------------------------------

COMMENTS:
BSSI DIVIDENDS FOR CURRENT MONTH

480, 225 .57 CR ✓

CORP			JA6200000	JJ0000000		SE2F98/	CY1 M	7360 3000	N		DR 0003	<input checked="" type="checkbox"/>
------	--	--	-----------	-----------	--	---------	-------	-----------	---	--	---------	-------------------------------------

COMMENTS:
BSSI DIVIDENDS FOR CURRENT MONTH

263, 748 .57 CR ✓

CORP			JA6200000	JJ0000000		SE2F98/	CY1 M	7360 3000	S		DR 0004	<input checked="" type="checkbox"/>
------	--	--	-----------	-----------	--	---------	-------	-----------	---	--	---------	-------------------------------------

COMMENTS:
BSSI DIVIDENDS FOR

181, 999 .50 CR ✓

CORP			JA6200000	JJ0000000		5CH5 /	CY2 M	1400 1400			DR 0005	<input checked="" type="checkbox"/>
------	--	--	-----------	-----------	--	--------	-------	-----------	--	--	---------	-------------------------------------

COMMENTS:
BSSI DIVIDENDS FOR CURRENT MONTH

1, 602, 263 .38 CR ✓

COMMENTS:

COMMENTS:

COMMENTS:

COMMENTS:

COMMENTS:

FAK011 001501

P03/**
ITEM NO. 1-030
ATTACHMENT II
PAGE 11 OF 1

04-21-93 07:19AM

**BELLCORE'S COST ACCOUNTING/ALLOCATION PROCESS
OVERVIEW/SUMMARY OF CHANGES**

The Cost Accounting/Allocation Process outlines the procedures, objectives and methodologies utilized to accurately allocate cost to all Bellcore work endeavors (projects). In addition, it is the method which Bellcore uses to accurately report its financial status.

The following significant changes have been reflected in 1992:

- Section IV, "Corporate Expenses," paragraph 2.3, "Return on Investment (ROI)" has been revised to reflect that effective January, 1991, Bellcore has adopted the United States Telephone Association (USTA) generic formula for unregulated subsidiaries as the method of developing the rate base for its ROI calculation. *Beth Salak Reviewing*
- The basis of chargeback for Corporate Human Resources has been changed from Average Bellcore Employee and Average Resident Visitor - Reported Headcount to Average Bellcore Employee Headcount only.
- The basis of chargeback for Corporate Medical has been changed from Average New Jersey Bellcore Employee and Average New Jersey Resident Visitor - Reported Headcount to Average New Jersey Bellcore Employee Headcount only.
- The "Tactical Space Plan" project has been established within Overhead/Common Support. The basis of chargeback for Tactical Space Plan is Average Bellcore Management Headcount assigned to New Jersey locations.

PROPRIETARY

SPECIFIED CONFIDENTIAL

Bellcore
Comptroller's Accounting Instructions

Accounting Instruction 02
Effective Date: 01/01/84
Reissued: 05/22/92

1992
BELLCORE COST ACCOUNTING/ALLOCATION PROCESS

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IV. Corporate Expenses	6-8
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IX. Conclusion	20
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Cost Accounting/Allocation Process Flow Chart	B (Page 1)
Sequence of Cost Allocation Process	B (Pages 2-21)
Corporate Service Centers	C
Specialty Direct Charging Professional Employee Efficiency Centers (SDCPE/EC)	D
Definition of Bellcore's Allocation/Chargeback Bases	E
Project Variance Explanation Procedures	F
1992 Final Project Offering Cost Categories	G
Total Cost/DCPE	H
Supporting Documentation	I
	<u>Exhibit</u>
@ Bellcore Payroll Headcount	1
@ Bellcore Departmental Cost Summary - FB#4	2
@ Revised for 1992 reporting	
+ Revised for 1992 Final Project Offering	

PROPRIETARY

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Bellcore
Comptroller's Accounting Instructions

Accounting Instruction 02
Effective Date: 01/01/84
Reissued: 05/22/92
Page 1 of 20

1992
BELLCORE COST ACCOUNTING/ALLOCATION PROCESS

I. Purpose and Scope

This document outlines Bellcore's objectives and defines the allocation methodologies utilized to charge the costs associated with these work endeavors.

II. Corporate Policy

PROPRIETARY

The overriding goal in our Cost Accounting/Allocation Process (CAAP) is to establish a procedure which accurately reports the financial status of Bellcore and equitably bills our Customers for specific work endeavors. The CAAP is designed to achieve the following five key objectives:

1. Accurately measure all incurred cost by the "cost causers," regardless of whether it is directly or indirectly authorized by an organization.
2. Minimize the possibility of cross-subsidization by ensuring that all cost streams are properly charged to the appropriate project.
3. Establish a matrix cost management control environment, and provide that all incurred costs are identified by organization and expense categories and that all billed costs are identified at a work package level by organization and expense categories.
4. Provide auditability which can be accomplished in a reasonable time frame by internal and external auditors, our Owner-Clients, and regulators.
5. Ensure that costs Bellcore incurs in performance of projects are directly charged or charged-back to the projects in a manner consistent with the terms of the Service Agreement and Generally Accepted Accounting Principles.

In view of the above, Bellcore's billing process ensures that Customer bills for projects are based on the aggregation of the actual cost streams charged to the Project/Work Package and a size factor unique to each Customer, with the one exception of the Firm Quoted Price (FQP) Projects. Firm Quoted Price Projects are billed to Customers based on budget estimates. Monthly, the difference between revenue and cost on FQP Projects is booked to the Revenue Adjustment Account, "Adjustments - FQP Normalization Accrual." An explanation of the billing process is described in Comptroller's Accounting Instruction 03, "Bellcore Billing and Billing Allocation Process."

Each year, an independent auditor is engaged by Bellcore to examine the Cost Accounting/Allocation process. After the examination, the independent auditor is requested to provide an audit opinion stating that the Cost Accounting/Allocation process and the resulting distribution of cost to

* Revised for 1992 October Project Offering

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See Proprietary restrictions on title page.

Bellcore
Comptroller's Accounting Instructions

Accounting Instruction 02
Effective Date: 01/01/84
Reissued: 05/22/92
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1992
BELLCORE COST ACCOUNTING/ALLOCATION PROCESS

II. Corporate Policy (Cont'd)

- * External Projects is in accordance with the FCC's Joint Cost Orders issued in conjunction with FCC Docket 86-111 and the FCC's published rules and interpretations thereto.

The CAAP provides that all cost streams are disaggregated into two major categories, Departmental Expenses and Corporate Expenses (i.e., Controllable Expenses). These costs are defined and charged out to projects as explained below.

PROPRIETARY

III. Departmental Expenses

Departmental Expenses are all expenditures incurred directly by an organization. Expenditure types include Salaries, Contracted Services (e.g., RV - Reported Contractors, Management & Other Consultants, etc.), Materials and Supplies, Software, Travel and Living, Relocation, Rentals and Leases, Telecommunications, Tuition, Utilities, and Other General Expenses.

Departmental Expenses are disaggregated into two subcategories which are as follows:

1. External Project

An External Project is any Project undertaken for a Billable Customer. Specific work efforts associated with these External Projects can be identified via the use of a Work Package. A Work Package is a component of a Project which provides a method to isolate and track costs associated with an identifiable deliverable product or service. External Project/Work Package costs include all departmental direct expenses which are directly related to an External Project/Work Package. External Project expenses consist of expenses associated with Direct Charging Professional Employees (DCPEs) and Specialty Direct Charging Professional Employees (SDCPEs). See Section VII for further details.

1.1 Direct Charging Professional Employees (DCPEs)

Direct Charging Professional Employee (DCPE) expenses represent the bulk of External Project expenses and include expenditure types such as salaries and related expenses associated with Direct Charging Professional Employees (i.e., those employees who are directly and critically involved in the process of developing and delivering a Product/Project deliverable which will be purchased by an external client).

1.2 Specialty Direct Charging Professional Employee Efficiency Centers (SDCPE/ECs)

Specialty Direct Charging Professional Employee Efficiency Centers' (SDCPE/ECs) expenses include salaries and related expenses associated with Direct Charging Professional Employees who have been consolidated

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2.2 Area Support Expenses (Cont'd)

associated with the development of those External Projects. Area Support costs include Departmental Expenses charged to Area Support, Corporate Expense chargebacks, Overhead/Common Support chargebacks and Service Center chargebacks. These costs are charged to Projects based upon the project's headcount or an appropriate factor.

The categorization of Area Support costs is intended to provide better management control and improved chargeback algorithms to External Projects. The definitions of the two categories are:

* 2.2A Area Administrative Support Expenses

Area Administrative Support expenses include expenses associated with providing administrative support necessary to plan, develop, and monitor the Bellcore Segments, Programs, Products, and Organizations. This is intended to include activities such as portfolio management, product overviews, client interface, client relations, and planning and coordinating Bellcore's Owner-Client forums. Also included in Area Administrative Support expenses are Organizational expenses which cannot be directly assigned to specific External Projects. Area Administrative Support Expenses are not intended to include current year and future year budgeting or financial administration/coordination.

* Area Administrative Support Expenses are divided into the following categories:

- VP Administrative Support
- AVP Administrative Support
- Segment/Program/Product Support - Administrative
- Secretary/Support Staff Support

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Area Administrative Support expenses are charged-back to External and Internal Projects based on Average Bellcore Employee headcount and Average Resident Visitor - Reported headcount or fixed percentages.

2.2B Area Technical Support Expenses - Short Term

Area Technical support includes those costs for any technical work done to develop strategies, and to plan and develop the Bellcore Work Programs. The development of strategies, project profile work definition including deliverables, product overview content, and any other technical content work associated with Work Program development are reported here. Program Managers are included here, as well as the product planning support. The Technical Support category is intended to provide those technical functions that support multiple External Projects by agreement of the impacted

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1.2 Specialty Direct Charging Professional Employee Efficiency Centers (SDCPE/ECs) (Cont'd)

into specialty gatherings (i.e., organizations) to improve operational efficiency. Specialty Direct Charging Professional Employee Efficiency Centers are divided into the following categories:

- * # - Bellcore Applications Environment (BAE)
- * # - Bellcore Advanced Software Environment (BASE)

For additional information regarding SDCPE/ECs refer to Appendix D.

2. Internal Project

An Internal Project is an administrative and accounting mechanism utilized to accumulate and allocate departmental expenses which are not immediately chargeable to an External Project. These expenses are assigned to one of three accounting cost categories as follows:

2.1 Overhead/Common Support Expenses

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Overhead/Common Support is intended to include those functions which are generic and essential to any typical large U.S. Corporation. For Bellcore this includes those expenses for core functions which are performed on a centralized basis (e.g., Comptroller's, Corporate Human Resources, Integrated Business Processes and Systems, Legal Services, Corporate Communications, Corporate Medical, Internal Auditing, Corporate Security Administration, Corporate Legislative/Regulatory Support, Corporate Quality Group, Executives and Tactical Space Plan) and cannot be assigned to External or Internal Projects based on usage. These expenses are sub-divided into two allocation groups, Controllable Expenses and headcount.

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Overhead/Common Support Expenses for Comptroller's, Integrated Business Processes and Systems, Legal, and Executives are charged-back to both External and Internal Projects based on Controllable Expenses. Overhead/Common Support Expenses for Corporate Human Resources, Corporate Communications, Corporate Medical, Internal Auditing, Corporate Security Administration, Corporate Legislative/Regulatory Support, Tactical Space Plan and the Corporate Quality Group are charged-back to both External and Internal Projects based on headcount.

2.2 Area Support Expenses

Area Support expenses are subdivided into two functional entities (i.e., Administrative and Technical Support). Area Support represents those costs incurred by an organization which cannot be readily assigned to its External Projects, but are indirectly

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2.2B Area Technical Support Expenses - Short Term (Cont'd)

parties. That is, technical functions are provided on a centralized basis within a specific entity (AVP, VP, EVP, Segment, or Program) and the resulting costs charged-back to mutually agreed upon organizations/projects. Area Technical Support Expenses are divided into the following categories:

- Sector Support - Technical
- VP Support - Technical
- AVP Support - Technical
- Segment/Program/Product Support - Technical
- Technical Support - Other
- Bellcore Technical Education Center (Bellcore TEC) Training Support

Area Technical Support expenses are charged-back to External and Internal Projects based on Average Bellcore Employee headcount and Average Resident Visitor - Reported headcount and fixed percentages.

2.3 Corporate Service Center Expenses

Corporate Service Centers are functionally based and include those expenses for services (e.g., Computer, Graphics, Technical Publications, General Services, Segment Comptroller and Administration, Human Resources, etc.) which are performed on a centralized basis generally in support of all Vice Presidential areas. Corporate Service Center expenses are billed directly to External and Internal Projects based on a standard usage measurement (i.e., units of measure or headcount). For detailed information on all aspects of the Service Center chargeback accounting processes, refer to the Comptroller's "Internal Services Chargeback Manual" and the Comptroller's "Cost Allocation Manual." For detailed information on the functions of the Usage Data System which support the calculation and recording of Service Center chargebacks to the user organizations, refer to the Comptroller's "Usage Data System Reference Manual."

New Jersey Functional Service Centers generally provide services to New Jersey locations and are billed directly to External and Internal Projects based on a usage measurement (i.e., units of measure or headcount). For example, expenses associated with the General Services Service Centers are billed directly to External and Internal Projects based on Average New Jersey Bellcore Management Employee headcount and Average New Jersey Resident Visitor - Reported Management headcount.

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2.3 Corporate Service Center Expenses (Cont'd)

Functional Service Centers at remote locations (i.e., Washington Regulatory Internal Services and Bellcore TEC Internal Services) provide dedicated services (e.g., Hotel, etc.) to those locations and are billed directly to External and Internal Projects based on a usage measurement (i.e., units of measure or headcount), specific to the location.

IV. Corporate Expenses

Corporate Expenses are those expenditures which are primarily related to Corporate policy decisions. These expenses are disaggregated into three subcategories which are as follows:

1. Employee Related Expenses

Employee Related expenses include the expenses associated with the following expenditure types: Pensions, Savings Plan, Payroll Taxes, and other Employee Related Benefits. Management and Support Staff Pensions are charged-back to External and Internal Projects based on standard salaries and Average Bellcore Employee headcount, respectively. Savings Plan Expenses and Payroll Taxes are charged-back to External and Internal Projects based on standard salaries. Employee Related Benefits associated with Compensated Absences are charged-back to External and Internal Projects based on standard salaries. All other Employee Related Benefits (i.e., Benefit Expenses, Group Insurance, and Surety Bonds), are charged-back to External and Internal Projects based on Average Bellcore Employee headcount.

2. Capital Related Expenses

2.1 Depreciation and Amortization

Depreciation and Amortization expenses include the costs associated with booked depreciation on purchased assets and amortization of capitalized leases, software, and patents. Depreciation and Amortization expenses, which are based on the original book value, less applicable salvage value, and life of assets (i.e., net assets), are assigned directly to either External or Internal Projects. Depreciation and Amortization expenses associated with net assets which are assigned to External Projects are charged directly to those External Projects. Depreciation and Amortization expenses associated with net assets which are general and cannot be directly identified to specific External Projects are assigned to designated Projects within Area Support. Depreciation and Amortization, expenses assigned to designated Projects within Area

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2.1 Depreciation and Amortization (Cont'd)

Support are subsequently charged-back from those Area Support Projects to External Projects and Area Support Projects based on Average Bellcore Employee headcount and Average Resident Visitor - Reported headcount.

2.2 Property Taxes

Property Taxes associated with all locations except Lisle are charged to the Landlord Services Service Center and are charged-back to External and Internal Projects as part of that Service Center's charges. Property Taxes associated with Lisle are charged to a designated Area Support Project located at Lisle.

2.3 Return on Investment (ROI)

Similar to any other corporation, Bellcore is expected to provide its equity shareholders a fair return on their equity investment in the company. During Bellcore's first seven years of existence (i.e., 1984 to 1990), the Bellcore Board of Directors authorized Bellcore to develop their return amount by utilizing a Return on Equity factor which was applied to the average equity capital invested in Bellcore. Effective in 1991, the Board authorized that ROI would be developed by utilizing a Rate Base Rate of Return factor applied to an average authorized rate base per the United States Telephone Association (USTA) methodology for unregulated subsidiaries of regulated companies. The methodologies and procedures used by Bellcore to calculate Return on Investment (ROI) are described in detail in Comptroller's Accounting Instruction 08, "Return on Investment (ROI)."

Of the total ROI expenses calculated, 80% are charged-back to External and Internal Projects based on net assets utilized. ROI chargebacks assigned to Area Support projects based on net assets are subsequently charged-back to External Projects and Area Support Projects based on Average Bellcore Employee headcount and Average Resident Visitor - Reported headcount. The remaining 20% of ROI expenses calculated are charged-back to External and Internal Projects based on Controllable Expenses. Return on Investment chargebacks to External Projects associated with Government Contract work include only the State Income Tax portion of ROI expenses.

** Reflects that effective in 1991, Bellcore's Board of Directors authorized that ROI be calculated using the United States Telephone Association (USTA) methodology for unregulated subsidiaries of regulated companies.

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3. Other Corporate Expenses

Other Corporate Expenses include expenditure types such as insurance premiums, workers compensation, liability claims, and Corporate contributions. These expenses are charged-back to the Overhead/Common Support, Service Center, Area Support, Specialty Direct Charging Professional Employee Efficiency Center, and External Billable Projects based on Average Bellcore Employee headcount. External Billable Projects associated with Government Contract work do not receive the portion of Other Corporate Expenses associated with Corporate Contributions.

Also included in Other Corporate Expenses are expenses associated with Sales Tax and Use Tax. Sales Tax for all States and Use Tax for all States except Illinois are charged directly to each 5th level AVP organization or Corporate Service Center based on historical actual taxable purchases. These expenses are subsequently charged-back to all External and Internal Projects (except those assigned to Illinois locations) within the AVP organization or Service Center based on Average Bellcore Employee headcount. Illinois Use Tax expenses are charged-back to External and Internal Projects located at Illinois based on Average Bellcore Employee headcount.

A summary of these categories of cost and the general basis of chargeback is shown on Appendix A.

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V. Normalization Accruals

1. Corporate Service Centers Normalization Accrual

Bellcore presently has Corporate Service Centers which are structured to provide, on an economical basis, those services which are commonly required by most of the organizations in the company. Included in these Service Centers are areas such as Computer Services, Landlord Services, General Services, Telecommunications, Text Production, Segment Comptroller and Administration, Human Resources, and Education, Training and Development, etc. Expenses incurred by these Service Centers for the provision of services rendered are billed directly to the user organization on a usage basis, (e.g., units of measure or headcount) which is charged at "standard rate" or a "current rate."

1.1 Standard Rated Corporate Service Centers

Standard Rated Corporate Service Centers (refer to Appendix B, Pages 18 through 21, for a complete list of Standard Rated Corporate Service Centers) represent Service Centers that are billed based on a standard rate developed from the ratio of

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* 1.1 Standard Rated Corporate Service Centers (Cont'd)

estimated total annual costs of providing a service to the annual estimate of units to be consumed by the user organizations. Actual usage and cost associated with Standard Rated Corporate Service Centers may not always be synchronized within a given month. The resulting variance (positive or negative) is adjusted by a "normalization expense accrual" which allows for the rate to remain fixed for a reasonable period. Even if the ratio of costs incurred versus units consumed varies from month to month, the actual charges to a user organization can continue to be based upon a fixed rate for those units consumed. This allows the user organization to anticipate future charges based upon their prospective usage needs. As long as the estimate of the annual ratio of costs to units consumed remains the same as that which was originally estimated, there is rarely a need to adjust the rate simply because monthly experience is fluctuating around an average annual estimate.

However, if a significant over/under recovery situation exists or is anticipated, Standard Rated Corporate Service Centers are provided the opportunity to revise their rates twice during the calendar year. The ability to revise "Standard Rates" allows Corporate Service Centers to minimize any variances between actual usage charged to the user organizations and the cost associated with the Standard Rated Corporate Service Centers. The user community is notified of the new rate amount by the Service Center to allow them to anticipate future charges. Reports are available to the Service Centers and user communities for their evaluation of usage and charges.

Additionally, by having the Standard Rated Corporate Service Centers function as separate financial entities, Bellcore can evaluate the economics of the centers by comparing their standard rates to those of outside vendors who provide similar services. Thus, the use of standard rates is beneficial for both the user organizations and also for overall evaluation purposes.

* 1.2 Current Rated Corporate Service Centers

Current Rated Corporate Service Centers (i.e., Segment Comptroller and Administration and Human Resources) represent Service Centers that are billed based on a monthly rate developed from the ratio of total monthly costs of providing a service to the total monthly usage (e.g., average headcount) of the user organizations. The use of a current rate allows the costs associated with Segment Comptroller and Administration and Human Resources Service Centers to be fully recovered each month eliminating the need for any "normalization expense accrual."

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2. Revenue Accruals

* 2.1 Firm Quoted Price Projects Normalization Accrual

Firm Quoted Price (FQP) Projects are billed to Owner-Clients based on prices established during the annual budget cycle. Once developed, individual owner FQP prices are not adjusted to reflect changes in participation level or actual costs. As in the case of Standard Rated Usage Sensitive Projects, revenues and costs may not be synchronized, resulting in variances. Any difference between the FQP revenue on a project and the actual cost is normalized monthly to the Revenue Adjustment Account, "Adjustments - FQP Normalization Accrual." While the difference between revenue and cost for FQP projects is expected to be zero at year end, a true-up will be performed to align any differences between Owner FQP project billing and fully loaded cost. An explanation of the FQP true-up process is provided in Comptroller's Accounting Instruction 03, "Bellcore Billing and Billing Allocation Process."

VI. The Departmental Expense and Corporate Expense Chargeback Process

Although the above provides definitions of our cost streams and the allocation/chargeback process for each category of expense, it is also necessary to understand the sequence that is utilized in the CAAP to move costs from Departmental and Corporate Expenses ultimately to External Billable Projects. This knowledge will be beneficial in analyzing the various Project Reports available as management tools for the Project Manager. The cost allocation sequences for 1992 are depicted via the flow chart on Appendix B, with underlying supporting narratives contained on pages 2 through 21.

The flow chart shows how certain cost streams are driven to Overhead/Common Support, Corporate Service Center, and Area Support Projects as well as directly to SDCPE/ECs and External Billable Projects. For example, of the 1992 Final Project Offering total of \$146.4M for Employee Related Benefits, \$46.2M (31.5%) is driven to Internal Projects, while \$2.6M (1.8%) is driven directly to SDCPE/ECs and \$97.6M (66.7%) is driven directly to External Billable Projects. It is important to recognize that the \$46.2M of benefits charged to the Internal Projects is embedded in the chargebacks from these projects. For example, the chargeback of Computer Services includes the Employee Related Benefits associated with the employees working in the Computer Center, along with Depreciation and Amortization associated with the capital utilized by the Computer Center, Overhead/Common Support Expenses, and related Corporate Expenses.

Please note that the CAAP provides for specific allocations and chargebacks, similar to those of employee benefits, for all Internal Projects to minimize the potential for cross-subsidization. The costs charged-back from Corporate Service Center Projects (See Appendix B, Pages 18 - 21) include chargebacks associated with other Corporate Service Center Projects in order

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VI. The Departmental Expense and Corporate Expense Chargeback Process (Cont'd)

to drive costs more accurately to the "cost causers." However, to also provide for the ease of auditability and tracking of cost sources, chargebacks between Overhead/Common Support and Area Support Projects are limited to one iteration.

Of interest, the costs of Depreciation of purchased assets and Amortization of capitalized leases, software, and patents are assigned directly to External and Internal Projects based on original book value, less applicable salvage value, and life of assets (i.e., net assets). The Depreciation and Amortization costs associated with net assets related to External Projects which cannot be directly assigned to those External Projects are assigned to designated Projects within Area Support. These costs are subsequently charged-back to Area Support and External Projects based on Average Bellcore Employee headcount and Average Resident Visitor - Reported headcount. This is based, in part, on the assumption that there are assets within an organization that may have a useful life which transcends the life of the current projects being undertaken by that organization.

VII. Employee Work Category Classifications

The classification of employees into work categories generally relates to the mission of the organization and the organizational assignment of the individual. Employee work classifications are the same as those for Departmental Expenses, (i.e., Common Support, Service Center, Area Support, and Direct Charged to External Projects). Employees within these work categories who are on a "Disability Benefit Absence" or a "Leave of Absence" (e.g., Family Care Leave of Absence, Military Leave of Absence, etc.) are excluded from the employee work classifications of Common Support, Service Center, Area Support and Direct Charged to External Projects. Exhibit 1, "Bellcore Payroll Headcount" provides an example of Bellcore's headcount summarized by employee work and job classifications.

1. Employee Work Classifications Assigned to Internal Projects

For the most part, employees assigned to Common Support usually work in those overhead organizations, (i.e., Comptrollers, Corporate Human Resources, Integrated Business Processes and Systems, Executives, Legal Services, Corporate Communications, Corporate Medical, Internal Auditing and Corporate Security Administration, Corporate Legislative/Regulatory Support, and Corporate Quality) which charge all of their Departmental Expenses to Common Support. The only exceptions are employees assigned to Corporate Quality and Corporate Legislative/Regulatory Support. These employees are located in two line organizations whose primary focus is to provide technical products to external clients. For 1992, the number of employees assigned to these two functions is budgeted at 14, and the total assigned to Common Support is 793. Similar to Common Support, those employees assigned to Service Centers

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1. Employee Work Classifications Assigned to Internal Projects (Cont'd)

+ are those who reside in organizations that charge their Departmental Expenses to functions identified as Service Centers. For 1992, six AVP organizations have employees assigned to Service Center functions, (i.e., AVP - Human Resources, AVP - Comptroller, AVP - Support Services, AVP - Computing Technology, AVP - Bellcore TEC, and AVP - Public Policy and Regulatory Matters). The functions provided by these groups are explained in Appendix C.

+ a) The AVP - Human Resources, whose primary focus is to provide general Personnel services which are generally charged as Common Support, and as such, is considered an overhead organization, also has a group of employees who provide Education, Training and Development services to employees. Costs incurred for these services are charged-back to the organization of the employee attending the training session. Also included within this AVP, is the Human Resources Service Center which provides centralized Personnel related services to specific VP/AVP Areas. Costs associated with this Service Center are charged-back to the VP/AVP organizations supported based on usage/headcount.

* b) The AVP - Comptroller provides internal accounting and financial services to the corporation and is charged as Common Support. However, this AVP also includes the Segment Comptroller and Administration group, which provides current year and future year budgeting and financial support/administration coordination directly to specific Bellcore VP/AVP organizations as well as to Bellcore's Work Segments and Programs. The Segment Comptroller and Administration group is assigned to the Service Center category. Costs associated with the Segment Comptroller and Administration Service Center are charged-back to the areas supported based on usage/headcount.

c) The AVP - Support Services and the AVP - Computing Technology are considered line organizations whose primary focuses are to provide centralized services which are commonly used by all other Bellcore line and overhead organizations located in New Jersey. These two AVP organizations also have a few employees who provide technical products/services to external clients and a small number of employees assigned to Area Support who provide support functions for their AVP organization.

@ d) The AVP - Bellcore TEC is primarily responsible for providing low volume, high-level technical training to External Customer and Bellcore Employee Clients. To accomplish this mission, a large variety of technical courses are offered to Clients from the Bellcore TEC training facility which is located in Illinois. In support of the Illinois based efforts, any of the above-mentioned

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1. Employee Work Classifications Assigned to Internal Projects (Cont'd)

d) centralized services which are provided to New Jersey located line organizations, are also required by this Illinois operation. Rather than provide these services via a group supervised by a New Jersey organization, the AVP - Bellcore TEC has certain groups located in the organization who perform such functions and those individuals are assigned to the Service Center category.

*@

e) The AVP - Public Policy and Regulatory Matters is primarily responsible for New Services Public Policy Planning, Access Training and Consultation, Regulatory Research and Technical Analysis, and Central Office and Network Cost Support. This AVP is also responsible for providing many centralized services to the Washington location. The individuals and expenses associated with providing these services are assigned to the Service Center category.

With respect to all other AVP organizations at Bellcore, they are primarily responsible for providing various types of technical and/or service products to external clients. However, with the exception of the AVP - Bellcore TEC and the AVP - National Security Emergency Preparedness, all AVP organizations are located in New Jersey. As such, centralized services for these groups are generally received from the above mentioned AVP organizations. Therefore, these organizations are primarily comprised of employees who provide technical services to external clients and also employees who provide various administrative and financial support functions for the technical personnel.

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Administrative employees who are assigned to the Area Support Classification reflect those employees who provide administrative/management support necessary to plan, develop, and monitor the Bellcore Segments, Programs, Products, and Organizations. Although these functions are vital to a line organization's ability to produce a technical deliverable, they represent general administrative and/or management support and are not specifically involved in the direct process of developing and producing a technical deliverable.

2. Employee Work Classifications Assigned to External Projects

2.1 Direct Charging Professional Employees (DCPEs)

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Employees who are counted as Direct Charging Professional Employees (DCPEs) are those who are directly and critically involved in the process of developing and delivering a product which will be purchased by an external client. Depending upon the type of work being purchased by the client, the particular work efforts may vary. The two major work categories at Bellcore are Infrastructure and Elective Projects. For each of these categories of work, the

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* # 2.1 Direct Charging Professional Employees (DCPEs) (Cont'd)

process generally represents some variations on the cradle-to-grave efforts involved to produce a deliverable product. The process for the most complex project is generally described below:

- a) interfacing efforts with the client to determine the specificity of the technical delivery requested and may include council, forum, committee, subject matter expert and other meetings to gather such critical information to establish the client's need;
- b) the identification of the particular product vehicle which will be utilized to meet the client's need may include evaluation efforts to determine whether a new product group should be established to include the delivery vehicle, or if an enhancement to an existing product group will suffice; also may involve market analysis surveys and economics studies;
- c) collaboration efforts within Bellcore which are necessary to design and scope the development of the specific product deliverable, and those efforts necessary to actually produce the product requested by an external client, including supervision and production/quality control; status review with the client; modeling; teaching and/or pre-delivery testing of the product; field trial, such as on-site system integration testing; and also the efforts performed by an individual who may provide a portion of the above by producing a common standard work element which is a component or part of the process to produce this product and other products.

Given the wide variety of products offered by Bellcore line AVP organizations, we need to recognize that most products will not require all of the above-outlined efforts. There are some products which only require interfacing with the client and producing the deliverable specified. Some others also require internal collaboration efforts in addition to interfacing with the client and producing the deliverable.

There are some product deliverables which require all of the above efforts outlined; however, most usually require a select combination of these efforts. The only efforts which are common to each and every Bellcore product provided to a client are interfacing with the client to determine the client's needs, and providing a product which meets the clients needs as mutually agreed.

Depending on the scope of the product, it is possible that one department (division) may be able to solely produce a product for an external client. However, for many products, more than one

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* # 2.1 Direct Charging Professional Employees (DCPEs) (Cont'd)

department is required to produce the product. This is due to the fact that Bellcore departments generally deal with a narrowly-focused technical area and are staffed by highly-skilled individuals who are gathered to meet a particular technical role.

By gathering skilled individuals of similar specialties into one department, Bellcore is able to improve its overall operational efficiency. As such, the production of most products requires the aggregation of specialty skills which are located in different departments.

The Bellcore Product/Project Manager is the person who is responsible to select and coordinate the integration of the various skills required to produce the product that has been specified by the external client. Sometimes two or more departments within a line AVP's organization are involved in the production of a product. Other times, two or more departments are required to produce a product and are located in two or more different line AVP organizations. For many of these cases, the line AVP organizations reside in different line VP organizations.

One good example of this is the production of Information Network Services Products and Operations Support Products. Many of these products require the utilization of computer software developers who reside in specialty departments and AVP organizations within the VP - Software Technology and Systems. However, the individuals who primarily interface with the clients and determine the client's needs are located in a different VP organization, (i.e., one VP organization for Operations Support Products, and those for Information Network Services are yet in another VP organization).

While some may believe that the above appears complex, Bellcore believes that the gathering of similar specialties into departments and allowing the Product/Project Managers to select from the various departments those particular specialty skills required to produce a product is, in fact, the most efficient overall operational structure. As such, both internal accounting processes and internal management processes and reports must be designed to accommodate all of the various possible configurations utilized to develop organizations, (i.e., technical specialty gathering), and the selection of those skills utilized to produce a product/project.

2.2 Specialty Direct Charging Professional Employee Efficiency Centers (SDCPE/ECs)

As Bellcore has evolved over the last few years, new specialty gatherings (i.e., organizations), have been established in an

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2.2 Specialty Direct Charging Professional Employee Efficiency Centers (SDCPE/ECs) (Cont'd)

Efficiency Center (i.e. SDCPE/EC) expenses and headcount. This allows organizations to readily identify cost and numbers of employees charged to this category. Appendix D provides a description as to the functions performed in each of the following Specialty Direct Charging Professional Employee Efficiency Centers:

- * #
- Bellcore Applications Environment (BAE)
 - Bellcore Advanced Software Environment (BASE)

By use of these specialty groups, Bellcore has increased its operational efficiency and its product quality.

VIII. Bellcore Cost Monitoring Measurement System

1. Cost Monitoring Measurement Capabilities

Bellcore's cost accounting process provides for the monitoring of fully loaded costs at the organizational level and also on an individual project basis. Generally, organizational budgets are prepared at the VP, AVP, and Department level and actual cost results are usually available down through Group (District) level. Projects are used to monitor costs for external client work authorizations and also for internal centralized support functions.

Recognizing that Bellcore operates similar to the typical consulting/software products firm, External Project costs are monitored per Direct Charging Professional Employee (DCPE). The definition of a Bellcore DCPE is the same as that of any consulting firm, (i.e., those employees who work directly on producing the project deliverables). Where an employee works on more than one External Project, his/her time is charged to each project accordingly. Similarly, if an employee, who normally works on External Projects, has an occasion to work on an Internal Project, his/her time is charged to the Internal Project. Therefore, all costs are properly recorded to the appropriate project. Monitoring Bellcore's cost per DCPE also allows us to readily compare Bellcore's billing rates to those of other consulting firms.

In Bellcore, as in any consulting firm, real output is directly related to the number of Direct Charging Professional Employees. As such, Bellcore's cost of real output is measured on a basis of Total Cost per DCPE. This measurement includes both Corporate (i.e., costs for Employee Related Benefits, Capital Related Benefits, and Other Corporate Costs) and fully-loaded Departmental Expenses. The Departmental Expenses are subdivided into the traditional five categories (i.e., Direct to, External Billable Projects, Specialty Direct Charging Professional Employee Efficiency Centers (SDCPE/ECs), Area Support,

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1. Cost Monitoring Measurement Capabilities (Cont'd)

Service Center, and Overhead/Common Support). These are the cost categories which appear on all project cost tracking reports. As such, by aggregating the individual project costs for an organization, we can monitor the cost per DCPE for each organization by major cost category. This report can be developed by VP, AVP, and Department level (see Appendix H for Total Cost/DCPE).

In addition to monitoring costs on External Projects, Bellcore has established Internal Projects to track the costs of various internal support functions. Internal support functions are disaggregated into three categories: (1) Overhead/Common Support, (2) Area Support and (3) Corporate Service Centers (See Section III). Overhead/Common Support includes core functions such as Comptroller, Corporate Human Resources, Legal, Corporate Communications, Corporate Medical, Executives, and Corporate Legislative/Regulatory Support. Area Support includes those functions necessary to support the line VPA/AVP organizations.

Corporate Service Centers include functions such as Landlord Services, General Services, Secretarial Support, etc. By having fully-loaded costs available by each internal support function, we are able to develop proper cost comparisons of Bellcore's internal support functions to those of other similar firms. Equally important, we can compare the cost of each function relative to a meaningful benchmark (e.g., Landlord Services Costs per Assigned Square Footage, Secretarial Support Costs per Assigned Secretary, etc.).

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2. Financial Reports Available

In order to aid in the management and control of expenses, the Centralized Reporting Database System (CRDS) provides a series of Organizational/Project cost reports as described below.

The various cost categories of financial reports are reflected in Appendix G, along with the 1992 Final Project Offering, which is based on the figures provided by the budgeting representatives of each organization.

2.1 Organization Costs

Total organizational expenses are monitored by each organization via the use of the FB#4 series of reports. Exhibit 2 (Departmental Cost Summary - FB#4) provides a summary of the key financial reports available to organizations to better enable them to monitor and control organizational expenses.

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2.1 Organization Costs (Cont'd)

+ In order to assist in understanding the Departmental Cost Summary - FB#4 report and other financial reports, the following definitions of terms are provided:

- a) Average Headcount - represents the sum of Average Bellcore Employee headcount and Average Resident Visitor - Reported headcount.
- b) Other Contractor Headcount - represents Average RV Non-reported and Resident Contractor headcount.
- c) Controllable Expenses - represent the sum of Departmental Expenses and Corporate Expenses. These categories of expenses are defined in Sections III and IV.
- d) SDCPE/Efficiency Centers - represent expenses associated with the Specialty Direct Charging Professional Employee Efficiency Centers. These expenses represent the sum of Departmental Expenses, Corporate Expenses, and Chargebacks from other organizations.
- e) Chargebacks - represent expenses incurred for services and/or support provided by other organizations. These expenses are divided into two categories: those expenses which can be controlled by an organization in a fashion similar to Departmental and Corporate Expenses (e.g., Corporate Service Centers); and those expenses which cannot be controlled by an organization, that is, Overhead/Common Support. Controllable Chargebacks, such as Corporate Service Centers, can be controlled by reducing units of consumption; whereas, overhead expenses (representing approximately 7.1% of the 1992 Final Project Offering) are controlled by the incurring organizations (e.g., Comptroller's, Corporate Human Resources, and Corporate Medical) and are charged-back via an allocation basis. Details regarding each of these expense categories are provided in Sections III and V.
- f) Total Incurred Expenses - represent the sum of Controllable Expenses, SDCPE/EC Expenses, and Chargebacks.
- g) Chargeouts - represent that portion of Incurred Expenses charged-out to other organizations from the incurring organization.
- h) Net Cost - External Projects - represent the sum of Total Incurred Expenses less Chargeouts. This represents the total cost of External Projects.

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2.2 Project Costs

External Project Costs (i.e., Controllable Expenses, SDCPE/EC Expenses, and Chargebacks) and headcount (i.e., Average Bellcore employee, Average Resident Visitor - Reported, and SDCPE/EC headcount) information is monitored through the use of financial reports such as the PR#8 series. It should be noted that the PR#8 summary report for an External Project is linked directly to and equals the sum of the individual Budget Organizational PR#8 reports associated with a project. This allows a Project Manager to readily identify the source of cost and headcount deviations from budget. Appendix F provides a summary of some of the reports available which are most commonly utilized to prepare variance explanations.

The Corporate goal is to minimize the amount of costs which are charged to 5th level AVP Area Support Projects and subsequently charged-back to the projects serviced and/or supported by that organization.

For additional information regarding financial reports available, refer to Comptroller's Accounting Instruction 04, "Official Corporate Reports."

IX. Conclusion

Comptroller's is striving to have more of the Company's costs directly charged to each External Project, thereby minimizing the potential for cross-subsidization and aiding in the control and analysis of organizational/project costs.

This narrative provides the underlying structure and rationale behind Bellcore's Allocation methodologies. In addition, Corporate Accounting/Cost Operations has been provided with a "Cost Allocation Manual" and a "Cost Accounting/Allocation Changes Manual," which provide specific details regarding the operations and procedures related to the Cost Allocation process. Questions regarding interpretation and/or requests for additional information should be referred to Bellcore's Corporate Accounting/Accounting Methods Department.

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A. C. Penza
Comptroller

5/22/92
Date

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CATEGORIES OF COSTS & ALLOCATIONS

COST CATEGORIES

GENERAL BASIS OF COST
 ALLOCATION/CHARGEBACK

I. Departmental Expenses

A. External Projects

Directly charged to External Project

- Salaries, Contracted Services,
 Materials & Supplies, Software,
 Travel & Living, Relo., Rentals
 & Leases, Telecomm., Tuition,
 Utilities, Other General Expenses,
 and Specialty DCPE Efficiency
 Centers

B. Internal Projects

- Overhead/Common Support

Average Bellcore Employee Headcount
 & Average Resident Visitor - Reported
 Headcount/Controllable Expenses

- Area Support

- # - Area Administrative Support

Average Bellcore Employee Headcount
 & Average Resident Visitor - Reported
 Headcount/Fixed Percentages

- Area Technical Support - Short Term

Average Bellcore Employee Headcount
 Average Resident Visitor - Reported
 Headcount/Fixed Percentages

- Corporate Service Centers

Usage/Average Bellcore Employee
 Headcount & Average Resident Visitor
 - Reported Headcount

II. Corporate Expenses

A. Employee Related

- Pensions
 - Management
 - Support Staff

#

Standard Management Salaries
 Average Bellcore Support Staff
 Employee Headcount

- Savings Plan
 - Management
 - Support Staff

#

Standard Management Salaries
 Standard Support Staff Salaries

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CATEGORIES OF COSTS & ALLOCATIONS

COST CATEGORIES

GENERAL BASIS OF COST
ALLOCATION/CHARGEBACK

II. Corporate Expenses (Cont'd)

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A. Employee Related (Cont'd)

- Payroll Taxes
- Other Benefits
 - Flex Benefits, Group Insurance,
and Surety Bonds
 - Compensated Absences

Standard & Overtime Salaries
Average Bellcore Employee Headcount
Standard Salaries

B. Capital Related

- Book Depreciation & Amortization
- Property Taxes

Original Book Value & Life of Assets
All locations except Lisle are
charged to the Landlord Services
Service Center/Lisle is assigned to a
designated Area Support Project
located at Lisle

- ** - Return on Investment (ROI)
(Net Income, Taxes, and
Interest on Debt)

Net Assets Utilized and
Controllable Expenses

C. Other Corporate Expenses

- Insurance & Corporate
Contributions
- * - Sales Tax & Use Tax
 - All States Sales Tax
 - N.J. Use Tax
 - Illinois Use Tax

Average Bellcore Employee Headcount
Historical Actual Taxable Purchases
Historical Actual Taxable Purchases
Average Bellcore Employee Headcount
assigned to the Lisle location

● Revised for 1992 October Project Offering

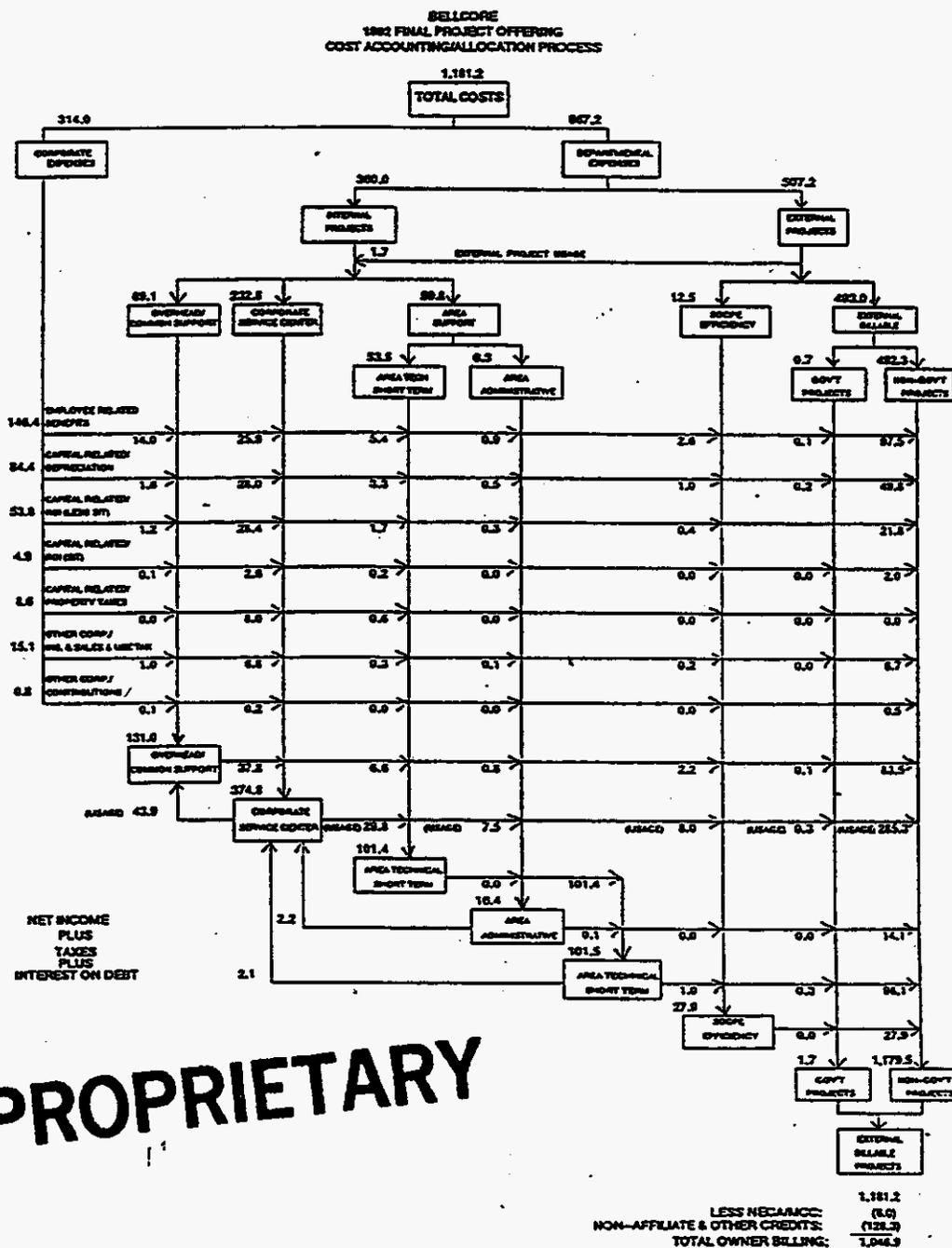
** Reflects that effective in 1991, Bellcore's Board of Directors authorized that ROI be calculated using the United States Telephone Association (USTA) methodology for unregulated subsidiaries of regulated companies.

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SEQUENCE OF COST ALLOCATION PROCESS

Steps

I. Corporate Expenses

Basis of Chargeback

- Employee Related

- Pensions
 - Management
 - Support Staff
- Savings Plans
 - Management
 - Support Staff
- Payroll Taxes
- Other Benefits
 - Flex Benefits, Group Insurance and Surety Bonds
 - Compensated Absences

- Standard Management Salaries
- Average Bellcore Support Staff Employee Headcount
- Standard Management Salaries
- Standard Support Staff Salaries
- Standard and Overtime Salaries
- Average Bellcore Employee Headcount
- Standard Salaries

- Capital Related

- Book Depreciation and Amortization

** Depreciation and Amortization expenses, which are based on the original book value, less applicable salvage value, and life of assets (i.e., net assets), are assigned directly to either External or Internal Projects. Depreciation and Amortization expenses associated with net assets which are assigned to External Billable Projects are charged directly to those External Billable Projects. Depreciation and Amortization expenses associated with net assets which are general and cannot be directly identified to specific External Billable Projects are assigned to designated Projects within Area Support. Depreciation and Amortization expenses assigned to designated Projects within Area Support are subsequently charged-back from those Area Support Projects to External Billable Projects and Area Support Projects based on Average Bellcore Employee Headcount and Average RV - Reported Headcount.

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Steps

I. Corporate Expenses (Cont'd)

Basis of Chargeback

- Capital Related (Cont'd)
- Property Taxes

Property Taxes for all locations except Lisle are assigned to the Landlord Services Service Center and charged-back to External and Internal Projects as part of Landlord Services. Lisle Property Taxes are assigned to a designated Area Support Project at Lisle and charged-back to Projects located at Lisle based on Average Bellcore Employee Headcount and Average Resident Visitor - Reported Headcount.

- + - Return on Investment (ROI)
- ** (Net Income, Taxes, and Interest on Debt)

80% of ROI expenses are charged-back to External and Internal Projects based on Net Assets utilized. ROI chargebacks assigned to Area Support Projects are subsequently charged-back to External and Internal Projects based on Average Bellcore Employee Headcount and Average Resident Visitor - Reported Headcount.

- + ROI chargebacks to External Projects associated with Government Contract work include only the State Income Tax portion of ROI expenses.

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- + 20% of ROI expenses are charged-back to External and Internal Projects based on Controllable Expenses. ROI chargebacks to External Projects associated with Government Contract work include only the State Income Tax portion of ROI expenses

- Other Corporate Expenses
- Insurance Premiums, Workers Compensation, and Liability Claims

Other Corporate Expenses associated with Insurance Premiums, Workers Compensation and Liability Claims are charged-back to Internal and External Projects based on Average Bellcore Employee Headcount.

- ** Reflects that effective in 1991, Bellcore's Board of Directors authorized that ROI be calculated using the United States Telephone Association (USTA) methodology for unregulated subsidiaries of regulated companies.
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Steps

I. Corporate Expenses (Cont'd)

Basis of Chargeback

- Other Corporate Expenses (Cont'd)

- Corporate Contributions

Other Corporate Expenses associated with Corporate Contributions are charged-back to Internal and External Projects (except External Projects associated with Government Contract work) on the basis of Average Bellcore Employee Headcount.

* - Sales Tax & Use Tax

- All States Sales Tax & N.J. Use Tax

Sales and Use Tax expenses are charged-back based on historical actual Taxable Purchases for each AVP or Corporate Service Center Area and subsequently

charged-back to Projects within those AVPs or Service Centers Based on Average Bellcore Employee Headcount assigned to all locations except Lisle

* - Illinois Use tax

Average Bellcore Employee Headcount assigned to the Lisle location

II. Overhead/Common Support

Project

Basis of Chargeback

Organization

Executives

900XX

Controllable Expenses

100,200,210-
270,510,800,
82

Legal Services

904XX

Controllable Expenses

510,511,512,
513,514

Corporate Communications

905XX

Average Bellcore Employee Headcount and Average RV - Reported Headcount

+ 800,807,826

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Steps

<u>II. Overhead/Common Support (Cont'd)</u>	<u>Project</u>	<u>Basis of Chargeback</u>	<u>Authorized Organization</u>
<u>Corporate Human Resources - All Locations</u>	906XX	+ Average Bellcore Employee Headcount	
Administration - Corporate Personnel	90601		822
Administration - Corporate Staffing and Personnel Utilization	90602		822
* Human Resources Information Systems	90603		822
Benefit Administration	90604		822
* Pension, Death Benefits, and Retirement	90605		822
* Savings Plans	90606		822
Flex Insurance, Disability and Reimbursement Accounts Practices	90607		822
Compensation	90608		822
General Employment/Staffing	90609		822
College and Univ. Tuition	90617		822
* Program and Career Development	90621		822
Benefit Planning and Development	90622		822
Pioneer Activities	90638		822
* Administration - Benefits, Human Resources Planning & Compensation	90640		822
Job Evaluation	90642		822
ERISA Compliance & Special Projects	90644		822
# Human Resource Planning	90647		822
	90675		822
<u>Corporate Human Resources -</u>	906XX	+ Avg. Bellcore Employee Headcount excluding Lisle	
Tech Employment - Market	90610		822
Tech Employment - Campus	90611		822
Professional Staffing/Employment	90612		822

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<u>Steps</u>	<u>Project</u>	<u>Basis of Chargeback</u>	<u>Authorized Organization</u>
II. <u>Overhead/Common Support (Cont'd)</u>			
<u>Corporate Human Resources - (Cont'd)</u>	906XX	+ Avg. Bellcore Employee Headcount excluding Lisle	
Employment Advertising	90613		822
Rotational Staffing	90614		822
University Relations	90615		822
* Diversity Management	90616		822
Relocation	90618		822
Tech Market Candidate -	90633		822
Travel & Living			
Tech Campus Candidate -	90634		822
Travel & Living			
Tech Market Candidate -	90650		822
Relocation			
Tech Campus Bachelors -	90651		822
Relocation			
Tech Campus Master Candidate -	90652		822
Relocation			
Tech Campus PHD - Relocation	90653		822
Tech Campus ATS - Relocation	90654		822
* Professional Employee -	90655		822
Candidate Relo.			
Bellcore Clubs	90670		822
# Exec. Dir. Administration Pool	90676		822
* Human Resources Administration	90678		822
<u>Comptrollers</u>	907XX	Controllable Expenses	801
<u>External Human Resource Relations</u>	908XX	Controllable Expenses	805
<u>Corporate Medical</u>	910XX	+ Average Bellcore Employee Headcount assigned to New Jersey Locations	825

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<u>Steps</u>	<u>Project</u>	<u>Basis of Chargeback</u>	<u>Authorized Organization</u>
II. <u>Overhead/Common Support (Cont'd)</u>			
<u>Corporate Security Administration</u>	911XX	Average Bellcore Employee Headcount & Average Resident Visitor - Reported Headcount assigned to New Jersey Locations	8001
<u>Internal Auditing</u>	912XX	Average Bellcore Employee Headcount & Average Resident Visitor - Reported Headcount	8001
* <u>Integrated Business Processes & Systems</u>	913XX	Controllable Expenses	252
<u>Corporate Legislative/Regulatory Support</u>	915XX	Average Bellcore Employee Headcount & Average Resident Visitor - Reported Headcount	82
# <u>Management Round Table (MART)</u>	916XX	Average Bellcore Management Employee Headcount	82
<u>Corporate Quality Group</u>	917XX	Average Bellcore Employee Headcount	27
@ <u>Tactical Space Plan</u>	918XX	Average Bellcore Management Employee Headcount assigned to New Jersey Locations	8072

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<u>Steps</u>	<u>Project</u>	<u>Basis of Chargeback</u>	<u>Authorized Organization</u>
III. <u>Area Support</u>			
1. <u>Area Administrative Support</u>			
* <u>VP Administrative Support</u>			
- VPA Support	70XX0	Avg. Bellcore Emp. Headcount and Average Resident Visitor - Reported Headcount Within each VP Area (except VP 27 which is charged-back based on Fixed Percentages to designated Projects within VP 27)	Assigned Organizations
<u>AVP Administrative Support</u>			
- AVP Staff Support	70XXX Excluding 70XX0	Average Bellcore Employee and Average Resident Visitor - Reported Headcount Within each AVP Area	Assigned AVP Organizations
<u>Segment/Program/Product Support - Administrative</u>			
- Segment Administrative Support	781XX	Average Bellcore Employee and Average Resident Visitor - Reported Headcount within Designated Bellcore Segments	Assigned Organizations
Applied Research Segment Administration Support	78101		
Network Segment Admin Support	78102		
Integrated Oper. Segment Admin. Support	78103		
Services Segment Admin. Support	78104		

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Steps

<u>Steps</u>	<u>Project</u>	<u>Basis of Chargeback</u>	<u>Authorized Organization</u>
III. <u>Area Support (Cont'd)</u>			
1. <u>Area Administrative Support (Cont'd)</u>			
<u>Segment/Program/Product Support - Administrative (Cont'd)</u>			
* - Program Administrative Support	780XX	Average Bellcore Employee Headcount and Average Resident Visitor - Reported Headcount Within each Bellcore Program	Assigned Organizations
Information Networking Platform	7800R		
Information Networking Technology	7800W		
Information Networking Services	7800Y		
Applied Research	78001		
Planning and Engineering	78006		
Provisioning	78007		
Operations	78008		
# Quality Technology	78009		
Technical Analysis	78010		
Training & Education	78011		
Computing Stds. & Architecture	78012		
Support Services	78013		
Integrated Operations	78014		
+ Public Policy & Regulatory Matters	78015		
# Number Administration Service Center (NASC)	78017		
National Security & Emergency Preparedness (NSEP)	78020		
Customer Services	78022		
Licensing	78024		
<u>Secretary/Support Staff Support</u>	73XXX	Average Bellcore Employee Headcount & Average Resident Visitor - Reported Headcount within each VP/AVP Area	Assigned Organizations

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Steps

<u>Steps</u>	<u>Project</u>	<u>Basis of Chargeback</u>	<u>Authorized Organization</u>
III. <u>Area Support (Cont'd)</u>			
2. <u>Area Technical Support - Short Term</u>			
<u>Sector Support - Technical</u>			
- Technical Services Sector Support - Technical	865XX	Average Bellcore Employee Headcount & Average Resident Visitor - Reported Headcount within Area 2XXXX assigned to External Billable Projects and SDCPE/EC Projects	26
<u>VP Support - Technical</u>			
- Technical Recruiting	864XX	Average Bellcore Employee Headcount & Average Resident Visitor - Reported Headcount within Area 2XXXX assigned to External Billable Projects and SDCPE/EC Projects	Assigned Organizations
- Graduate Study Program (GSP)			
Graduate Study Program (GSP) Tuition/Costs	7AXX0	Average Bellcore Employee Headcount & Average Resident Visitor - Reported Headcount within each VP Area	Assigned Organizations
Information Network Institute (INI) Student Tuition/Costs	7BXX0	Average Bellcore Employee Headcount & Average Resident Visitor - Reported Headcount within each VP Area	Assigned Organizations

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<u>Steps</u>	<u>Project</u>	<u>Basis of Chargeback</u>	<u>Organization</u>
III. <u>Area Support (Cont'd)</u>			
2. <u>Area Technical Support - Short Term (Cont'd)</u>			
<u>VP Support - Technical (Cont'd)</u>			
- VP Technical Support	7CXX0	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each VP Area (except VP 27 which is charged-back based on Fixed Percentages to designated Projects within VP 27)	Assigned Organizations
- VP Quality Improvement Support	7DXX0	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each VP Area (except VP 27 which is charged-back based on Fixed Percentages to designated Projects within VP 27)	Assigned Organizations
- Visiting Professor Program	7EXX0	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each VP Area (except VP 27 which is charged-back based on Fixed Percentages to designated Projects within VP 27)	Assigned Organizations
- VP Maintenance Control Center (MCC) Support	7FXX0	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each VP Area (except VP 27 which is charged-back based on Fixed Percentages to designated Projects within VP 27)	Assigned Organizations

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<u>Steps</u>	<u>Project</u>	<u>Basis of Chargeback</u>	<u>Authorized Organization</u>
III. <u>Area Support (Cont'd)</u>			
2. <u>Area Technical Support - Short Term (Cont'd)</u>			
<u>VP Support - Technical (Cont'd)</u>			
- Technology Seminar	7GXX0	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each VP Area (except VP 27 which is charged-back based on Fixed Percentages to designated Projects within VP 27)	Assigned Organizations
- Model Shop	7MXX0	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each VP Area (except VP 27 which is charged-back based on Fixed Percentages to designated Projects within VP 27)	Assigned Organizations
- Bellcore Education Seminar in Technology (BEST)	863XX	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. assigned to External Billable Projects and SDCPE/EC Projects	210
@ - Technology Strategy	766XX	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within Area 2XXXX assigned to External Billable Projects and SDCPE/EC Projects	Assigned Organizations

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Steps

<u>Steps</u>	<u>Project</u>	<u>Basis of Chargeback</u>	<u>Authorized Organization</u>
III. <u>Area Support (Cont'd)</u>			
2. <u>Area Technical Support - Short Term (Cont'd)</u>			
<u>VP Support - Technical (Cont'd)</u>			
@ - Time-to-Value	767XX	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within VP Areas 24 & 25 assigned to External Billable and SDCPE/EC Projects assigned to the Integrated Operations Segment	Assigned Organizations
<u>AVP Support - Technical</u>			
- AVP Technical Support	7CXXX	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each AVP Area	Assigned AVP Organizations
- AVP Quality Improvement Support	7DXXX	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each AVP Area	Assigned AVP Organizations
- AVP Technical Support - Misc:			
Maintenance Control Center (MCC) Support	7FXXX	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each AVP Area	Assigned AVP Organizations
AVP Technical Support - Misc	7HXXX	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each AVP Area	Assigned AVP Organizations

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<u>Steps</u>	<u>Project</u>	<u>Basis of Chargeback</u>	<u>Authorized Organization</u>
III. <u>Area Support (Cont'd)</u>			
2. <u>Area Technical Support - Short Term (Cont'd)</u>			
<u>AVP Support - Technical (Cont'd)</u>			
- AVP Technical Support - Misc (Cont'd)			
Relocation	7JXXX	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each AVP Area	Assigned AVP Organizations
Training	7KXXX	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each AVP Area	Assigned AVP Organizations
Model Shop	7MXXX	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each AVP Area	Assigned AVP Organizations
Chester Lab Support	7NXXX	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each AVP Area	Assigned AVP Organizations
Lab 254 Technical Support	837XX	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within the Operations Program within AVP 254	25
- Graduate Study Program (GSP)			
Graduate Study Program (GSP) Tuition/Costs	7AXXX	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each AVP Area	Assigned AVP Organizations

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<u>Steps</u>	<u>Project</u>	<u>Basis of Chargeback</u>	<u>Authorized Organization</u>
III. <u>Area Support (Cont'd)</u>			
2. <u>Area Technical Support - Short Term (Cont'd)</u>			
<u>AVP Support - Technical (Cont'd)</u>			
- Graduate Study Program (GSP)			
Information Network Institute (INI) Student Tuition/Costs	7BXXX	Average Bellcore Employee Hdct. & Average RV - Rptd. Hdct. within each AVP Area	Assigned AVI Organization
- Computer Technology Transfer	846XX	Fixed Percentage to designated Projects within VP Area 25	25
<u>Segment/Program/Product Support - Technical</u>			
- Segment Planning/Strategy Development	772XX	Average Bellcore Employee and Average Resident Visitor - Reported Headcount within designated Bellcore Segments	Assigned Organization
Applied Research Seg. Support	77201		
Network Segment Support	77202		
Integrated Oper. Seg. Support	77203		
Services Segment Support	77204		
* - Program Planning/Strategy Development	770XX	Average Bellcore Employee Headcount and Average Resident Visitor - Reported Headcount Within each Bellcore Program	Assigned Organization
Information Networking Platform	7700R		
Information Networking Technology	7700W		
Information Networking Services	7700Y		
Applied Research	77001		

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III. Area Support (Cont'd)

Project

Basis of Chargeback

Authorized Organization

2. Area Technical Support - Short Term (Cont'd)

Segment/Program/Product Support - Technical (Cont'd)

	Planning and Engineering	77006
	Provisioning	77007
	Operations	77008
#	Quality Technology	77009
	Technical Analysis	77010
	Training & Education	77011
	Computing Stds & Architecture	77012
	Support Services	77013
	Integrated Operations	77014
+	Public Policy & Regulatory Matters	77015
#	Number Administration Service Center (NASC)	77017
	National Security & Emergency Preparedness (NSEP)	77020
	Customer Services	77022
	Licensing	77024

Technical Support - Other

- Invalid Project Charges Awaiting Assignment	6CXXX	Average Bellcore Employee Hdct. & Average Resident Visitor - Reported Headcount within each VP/AVP Area	Assigned VP/AVP Orgs.
- Business Planning	6DXXX	Average Bellcore Employee Hdct. & Average Resident Visitor - Reported Headcount within each VP/AVP Area	Assigned VP/AVP Orgs.

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III. <u>Area Support (Cont'd)</u>			
2. <u>Area Technical Support - Short Term (Cont'd)</u>			
<u>Technical Support - Other</u>			
- External Technical Conf. Support	6FXXX	Average Bellcore Employee Hdct. & Average Resident Visitor - Reported Headcount within each VP/AVP Area	Assigned VP/AVP Orgs.
- Technical Liaison Office	6GXXX	Average Bellcore Employee Hdct. & Average Resident Visitor - Reported Headcount within each VP/AVP Area	Assigned VP/AVP Orgs.
- Other	6HXXX	Average Bellcore Employee Hdct. & Average Resident Visitor - Reported Headcount within each VP/AVP Area	Assigned VP/AVP Orgs.
- Information Network Institute (INI) Development	888XX	Fixed Percentage/ Average Bellcore Employee Hdct. & Avg. RV - Rptd. Headcount within Area 2XXX assigned to External and Service Center Projects	247
**+ Bellcore TEC Training Support			
- Organizational Support	7247A 784XX	Average Bellcore Employee Headcount and Average RV - Reported Headcount located at Lisle within AVP 247	247

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IV. <u>Specialty Direct Charging Professional Employee (DCPE) Efficiency Centers</u>			
- Bellcore Applications Environment (BAE)	840XX	Non-Infrastructure Projects Assigned to VP 25 Based on a Benefit Analysis to those Bellcore Programs Supporting VP 25	25
- Bellcore Advanced Software Environment (BASE)	841XX	Non-Infrastructure Projects Assigned to VP 25 Based on a Benefit Analysis to those Bellcore Programs Supporting VP 25	25
V. <u>Corporate Service Centers</u>			
@ <u>Bellcore TEC Internal Services</u>			
- Bellcore TEC Reproduction/Course Distribution	821XX	Standard Rate x Usage/Per Copy/Per Labor Hour	247
- Bellcore TEC Hotel	824XX	Standard Rate x Usage/Per Day	247
- Technical Education and Training	809XX	Standard Rate x Usage/Per Student Day	247
<u>Software Tech & Systems</u>			
# <u>Computer Center - General Purpose & Dedicated</u>	801XX	Standard Rate x Usage/Per Computer Usage	258
Computer Center - General Purpose & Dedicated	80100		258
IBM - General Purpose	80101		258
TIRKS - Integrated Record Keeping System	80102		258

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<u>Steps</u>	<u>Project</u>	<u>Basis of Chargeback</u>	<u>Organization</u>
<u>V. Corporate Service Centers</u>			
<u>Software Tech & Systems</u>			
# <u>Computer Center - General Purpose & Dedicated (Cont'd)</u>	801XX	Standard Rate x Usage/ Per Computer Usage	
COSMOS/MIZAR	80103		258
UNIX System	80104		258
Finance/Admin. Systems Computer Tech.	80105		258
Data Communications Systems	80106		258
System Z	80107		258
<u>Data Communications</u>	802XX	Standard Rate x Usage/Per Port/Per Connection	258
<u>Computer Center - UNISYS</u>	812XX	Standard Rate x Usage/Per Computer Usage	258
@ <u>Telecommunications</u>	832XX	Standard Rate x Usage/Per Line/ Per Connection	
Operations Support	83201		25
Operations & New Service Implementation	83202		25
Corporate Network/New Services Planning	83203		25
Telecommunications - WASH	83202		25
* <u>Finance and Administration</u>			
<u>General Services - Support Services</u>		Standard Rate x Usage/ Per Avg. Bellcore Mgmt. Employee Hdct. & Avg. Mgmt. RV - Reported Hdct. assigned to N.J. Locations	
Corporate Temporary Procurement	80402		807
Corporate Motor Pool	80404		807
Corporate Transportation	80407		807

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V. <u>Corporate Service Centers (Cont'd)</u>			
* <u>Finance and Administration (Cont'd)</u>			
<u>General Services - Support Services (Cont'd)</u>			
Corporate Travel Planning	80408		807
Corporate Conference Arrangement	80411		807
Corporate Purchasing	80416-80418		807
Corporate Mail/Fax	80441-80447		807
Corporate Stockrooms	80451-80458		807
Food Services	80461-80467		807
* Corporate Audio/Visual	80470-80479		807
Shipping/Receiving/Porters	80481-80487		807
Corporate Performance Measurement	80490-80499		807
** <u>General Services - Information Management Systems (IMS)</u>			
Corporate Records Management	80713		+ 800,807
Corporate Publications	80714		+ 800,807
Corporate Library	80715		+ 800,807
<u>Landlord Services</u>	835XX	Standard Rate x Usage/Per assigned Square Footage	
Space Management	83501		807
Corporate Engineering	83502		807
Building Operations (All Locations)	83507-83512		807
Building Engineering (All Locations)	83517-83521		807
Property Taxes	83598		807
Shared Facilities-Rent	83599		807
<u>Text Production</u>	805XX	Standard Rate x Usage/Per Line	807
<u>Reproduction Services</u>	806XX	Standard Rate x Usage/Per Copy	+ 807
<u>Graphics</u>	803XX	Standard Rate x Usage/Per Page of Output	+ 807

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<u>V. Corporate Service Centers (Cont'd)</u>	<u>Project</u>	<u>Basis of Chargeback</u>	<u>Authorized Organization</u>
* <u>Finance and Administration (Cont'd)</u>			
<u>Secretarial Support</u>	831XX 833XX	Standard Rate x Usage/Per Secretarial Headcount/Per Day	807
<u>Technical Publications</u>	830XX	Standard Rate x Usage/Per Hour	+ 807
<u>Education, Training and Development</u>	810XX	Standard Rate x Usage/Per Student Day	822
# <u>Human Resources Center</u>	814XX	* Current Rate x Usage/Per Avg. Bellcore Employee Headcount	822
<u>Washington Regulatory Internal Services</u>	815XX	Standard Rate x Usage /Per Average Bellcore Employee Hdct. & Avg. RV - Reported Headcount located at Washington	823
* <u>Segment Comptroller and Administration</u>	89XXX	Current Rate x Usage/Average Bellcore Employee and Average RV - Reported Headcount	801

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STANDARD RATED CORPORATE SERVICE CENTER

LANDLORD SERVICES

The Landlord Services Service Center consists of services required to provide, operate, maintain, and improve the Bellcore facilities located in New Jersey and Washington, D.C. Expenses incurred in the provision of these services include all costs associated with maintaining and operating the physical structures, such as rentals and leases of facilities, leasehold improvements (i.e., all requirements necessary to make space operable based on specifications of the user organization, not including fixtures not attached or apparatus bolted down), Janitorial Services, Grounds Services, Engineering and Construction, Maintenance and Repairs, Space Management, Utilities and Building Security. Also included in Landlord Services costs are expenses associated with the provision of permanent plant space such as corridors, stairways, elevators, mechanical equipment rooms etc., as well as common space associated with conference rooms, vending machine areas, lounges, and cafeterias.

Additional costs associated with the Landlord Services Service Center include Departmental Expenses (e.g., Salaries, Contracted Services, etc.), Corporate Expenses (i.e., ROI, Depreciation, Property Taxes, Employee Related, and Other Corporate Expenses), and Chargeback Expenses such as Overhead/Common Support, Area Support, and Corporate Service Centers. Included within Corporate Service Center chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Computer Center, Data Communications, Technical Education and Training, General Services, Text Production, Reproduction Services, Graphics, Segment Comptroller and Administration, Human Resources, etc.).

Charges for Landlord Services are billed directly to user organizations based on a "standard rate" per square footage/headcount. Landlord Services charges three different standard rates based on the type of space occupied: office space, laboratory space or production space. Square footage is subsequently charged-back to each organization/project based on Average Bellcore Employee and Average Resident Visitor - Reported headcount. The use of a "standard rate" allows the Landlord Services Service Center to recover its cost on an annual basis.

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STANDARD RATED CORPORATE SERVICE CENTER

COMPUTER CENTER - GENERAL PURPOSE & DEDICATED

The Computer Center - General Purpose & Dedicated provides data processing operations services to Bellcore employees utilizing various means of computer operations such as batch, interactive, etc.

Costs associated with the Computer Center - General Purpose & Dedicated include Departmental Expenses such as Computer Center Salaries, Contracted Services (e.g., Resident Visitor - Reported Contractors, Maintenance and Repairs of computer equipment, Other Contracted Services, etc.), Rentals and Leases, Software, and Materials and Supplies. Also included within Computer Center - General Purpose & Dedicated costs are Corporate Expenses (e.g., Depreciation and ROI) and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Center). Within Corporate Service Center Chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Landlord Services, Technical Education and Training, General Services, Text Production, Reproduction Services, Graphics, Segment Comptroller and Administration, Human Resources, etc.).

Computer Center - General Purpose & Dedicated charges are billed directly to user organizations based on an a "standard rate" per computer usage/projections (e.g., per CPU second, per year, etc.). This allows the Computer Center - General Purpose & Dedicated to recover its cost on an annual basis.

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STANDARD RATED CORPORATE SERVICE CENTER

COMPUTER CENTER - UNISYS

- * The Computer Center - UNISYS provides Bellcore employees with UNISYS data processing capabilities. This includes the availability of UNISYS Operating Systems for the PREMIS Information System (PREMIS), Service Order Analysis and Control System (SOAC), Loop Facility Assignment and Control System (LFACS), and Facility Assignment and Control System (FACS) projects which support owner groups.
- * Costs associated with the Computer Center - UNISYS include Departmental Expenses such as Salaries, Contracted Services (e.g., Resident Visitor - Reported Contractors, Maintenance and Repairs of computer equipment, etc.) and Rentals and Leases. Also included within Computer Center - UNISYS costs are Corporate Expenses (e.g., Depreciation and ROI) and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Center). Within Corporate Service Center Chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Landlord Services, Technical Education and Training, General Services, Text Production, Reproduction Services, Graphics, Segment Comptroller and Administration, Human Resources, etc.).

Computer Center - UNISYS charges are billed directly to user organizations based on "standard rate" per headcount. This allows the Computer Center - UNISYS to recover its cost on an annual basis.

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STANDARD RATED CORPORATE SERVICE CENTER

SECRETARIAL SUPPORT

The Secretarial Support Service Center provides personnel who perform secretarial functions for Bellcore organizations. The Secretarial Support Service Center also provides secretarial training to personnel as required.

Costs associated with the Secretarial Support Service Center include Departmental Expenses such as Salaries, Contracted Services (e.g., Temporary Services and Other Contracted Services), and Rentals and Leases. Also included within Secretarial Support costs are Corporate Expenses (e.g., Employee Related) and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Centers). Within Corporate Service Center chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Computer Center, Data Communications, Technical Education and Training, General Services, Text Production, Reproduction Services, Graphics, Segment Comptroller and Administration, Human Resources, etc.).

Secretarial Support expenses are billed directly to user organizations based on a "standard rate" per headcount utilized. In addition, charges for use of secretarial training services are assessed at a daily rate. It is important to recognize that Secretarial Support headcount is assigned directly to the Service Center itself, as such, Secretarial Support headcount does not generate additional loadings to the user organization. The use of a "standard rate" allows the Secretarial Support Service Center to recover its cost on an annual basis.

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STANDARD RATED CORPORATE SERVICE CENTER

TELECOMMUNICATIONS

The Telecommunications Service Center provides Centrex Telecommunication services to Bellcore including all InterLATA and IntraLATA voice communications, local lines, special services, and associated equipment.

Costs associated with the Telecommunications Service Center include Departmental Expenses such as Telecommunications Salaries, Contracted Services (e.g., Resident Visitor - Reported Contractors, Maintenance and Repairs), and Telecommunications expenses. Also included within Telecommunications costs are Corporate Expenses and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Centers). Within Corporate Service Center chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Computer Center, Data Communications, Technical Education and Training, General Services, Text Production, Reproduction Services, Graphics, Segment Comptroller and Administration, Human Resources, etc.).

Telecommunications services are billed directly to user organizations based on a "standard rate" per usage measurement (e.g., per line, IntraLATA/InterLATA usage, etc). The use of a "standard rate" allows the Telecommunications Service Center to recover its cost on an annual basis.

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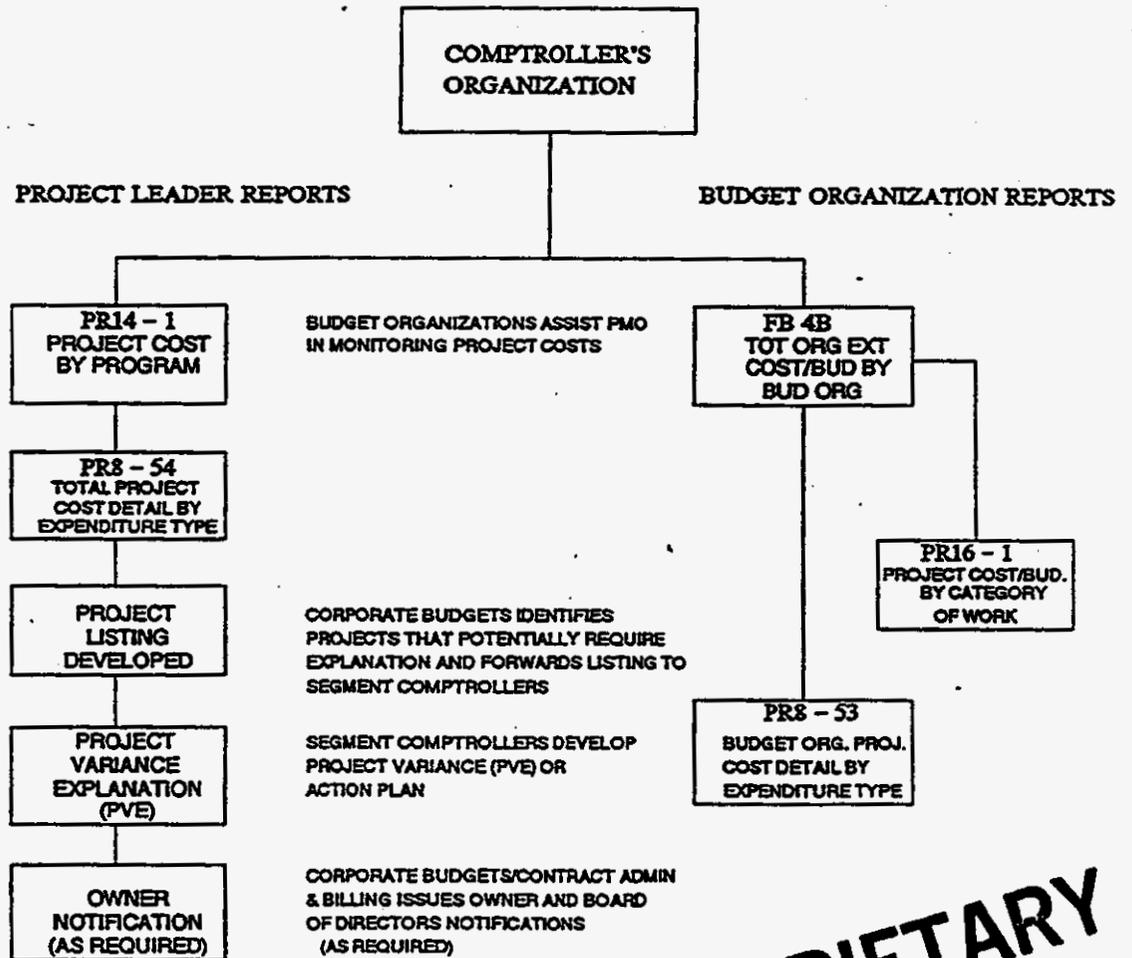
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PROJECT VARIANCE EXPLANATION PROCEDURES



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	<u>I. Controllable Expenses</u>	<u>Basis of Chargeback</u>	<u>SM</u>	<u>\$ Total</u>
12	- Salaries and Other Dept'l Expenses	- Direct Charge		
14	- Corporate Expenses			
	- Employee Related	- Salaries/Avg. Hdct.		
	- Capital Related			
	- Depreciation	- Orig. Bk. Value & Life of Assets		
	- Property Taxes	- Assigned to Landlord Services Service Ctr.		
	- ROI	- Net Assets Utilized and Controllable Expenses		
22	- Other Corporate Expenses	- Avg. Hdct./Taxable Purchases		
	Less External Project Usage	- Usage		
	Subtotal Dept'l Controllable Expenses			
	<u>II. Specialty DCPE Efficiency Centers</u>			
	- Bellcore Applications Environ. (BAE)	- Direct Charge		
	- Bellcore Advanced Software Environment (BASE)	- Direct Charge		
30	Subtotal SDCPE/EGs			
	<u>III. Chargebacks</u>			
	<u>A. Overhead/Common Support</u>			
33	* - Comptrollers, Legal, Integrated Business Processes and Systems, Executives, and External Human Resource Relations	- Controllable Expenses		
37	- Corp. Comm., Corporate Human Resources, Corporate Medical, Corporate Security, Internal Auditing, Corporate Legislative/Regulatory Support, Management Round Table (MART), Tactical Space Plan and Corporate Quality Group	- Average Headcount		
44	Subtotal Overhead/Common Support			

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#	B. <u>Area Support</u>	<u>Basis of Chargeback</u>	<u>SM</u>	<u>\$ Total</u>
13	<u>Area Administrative Support</u>			
14	- VP Administrative Support	- Avg. Hdct./Fixed %		
	- AVP Administrative Support	- Avg. Hdct./Fixed %		
	- Segment/Program/Product Support	- Average Headcount		
	- Secretary/Support Staff	- Average Headcount		
17	Subtotal Area Administrative Support			
19	<u>Area Technical Support - Short Term</u>			
	- Sector Support - Technical	- Average Headcount		
	- VP Support - Technical	- Average Headcount		
	- AVP Support - Technical	- Avg. Hdct./Fixed %		
	- Segment/Program/Product Support	- Average Headcount		
	- Technical Support - Other	- Avg. Hdct./Fixed %		
	- Bellcore TEC Training Support	- Avg. Hdct./Fixed %		
	Subtotal Area Technical Support			
20	Total Area Support			
28	C. <u>Corporate Service Centers</u>			
30	<u>Bellcore TEC Internal Svcs.</u>			
	- Bellcore TEC Repro/Course Distribution	- Usage/Per Copy/Course Distribution		
	- Bellcore TEC Hotel	- Usage/Per Day		
	- Technical Education & Training	- Usage/Per Student Day		
32	Subtotal Bellcore TEC Internal Svcs.			
	<u>Software Tech & Systems</u>			
#	- Computer Center - General Purpose & Dedicated	- Usage/Per Computer Usage		
	- Computer Center - UNISYS	- Usage/Per Computer Usage		
	- Data Communications	- Usage/Per Port/Connection		
@	- Telecommunications	- Usage/Per Line/Connection		
39	Subtotal Software Tech & Systems			
	<u>Finance & Administration</u>			
	- General Services - Support Services			
	- Corp Temporary Procurement	- Avg. NJ Mgmt. Headcount		
	- Corp Motor Pool	- Avg. NJ Mgmt. Headcount		
	- Corp Transportation	- Avg. NJ Mgmt. Headcount		
45	- Corp Travel Planning	- Avg. NJ Mgmt. Headcount		

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@ Revised for 1992 reporting
Revised for 1992 April Project Offering

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1992
 BELLCORE COST ACCOUNTING/ALLOCATION PROCESS

C D

1992 FINAL PROJECT OFFERING COST CATEGORIES

C. Corporate Service Centers (Cont'd) Basis of Chargeback SM * Total
Finance and Administration (Cont'd)

14
*
22
**
29
34
40
43
44
45

- General Services - Support Services (Cont'd)
- External Conference Arrangement - Avg. NJ Mgmt. Headcount
- Corp Purchasing - Avg. NJ Mgmt. Headcount
- Corp Mail/Fax - Avg. NJ Mgmt. Headcount
- Corp Stockrooms - Avg. NJ Mgmt. Headcount
- Food Services - Avg. NJ Mgmt. Headcount
- Corporate Audio/Visual - Avg. NJ Mgmt. Headcount
- Shipping/Receiving/Porters - Avg. NJ Mgmt. Headcount
- Corp Performance Measurement - Avg. NJ Mgmt. Headcount

Subtotal General Services - Support Services

- General Services - Information Management Systems (IMS)
- Corp Library - Avg. NJ Mgmt. Headcount
- Corp Records Management - Avg. NJ Mgmt. Headcount
- Corp Publications - Avg. NJ Mgmt. Headcount

Subtotal General Services - IMS

Total General Services

- Landlord Services - Usage/Per Assigned Sq.Ft.
- Secretarial Support - Usage/Headcount/Per Day
- Segment Comptroller and Administration - Usage/Per Avg. Bellcore & RV - Reported Headcount
- Reproduction Services - Usage/Per Impression
- Technical Publications - Usage/Per Hour
- Graphics - Usage/Per Page of Output
- Education, Training, & Dev. - Usage/Per Student Day
- Human Resources - Usage/Per Headcount
- Text Production - Usage/Per Line
- Washington Regulatory Internal Services - Usage/Per Avg. Bellcore & RV - Reported Headcount located at Washington

Subtotal Finance and Administration

Total Corporate Service Centers

Total 1992 Final Project Offering

100.0

Revised for 1992 April Project Offering
 * Revised for 1992 October Project Offering
 + Revised for 1992 Final Project Offering

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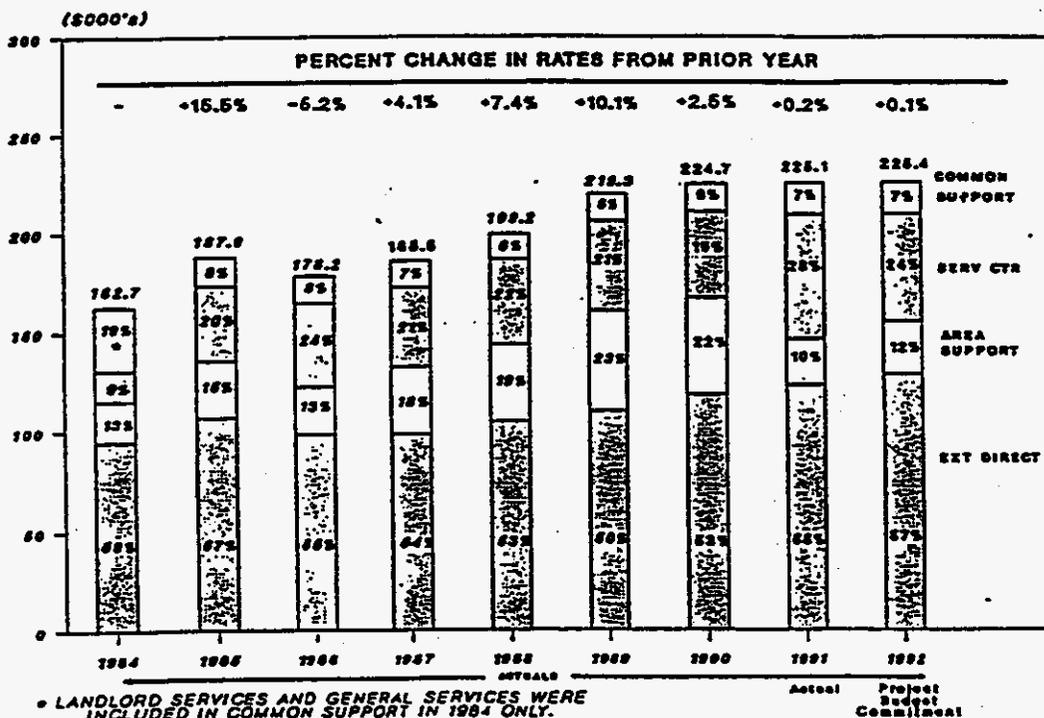
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BELLCORE
 TOTAL COST/DCPE
 TOTAL COMPANY 1984-1992



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SUPPORTING DOCUMENTATION *

<u>Document</u>	<u>Description</u>
Bellcore Cost Allocation Manual	This manual provides the detailed Cost Allocation methodologies and processes used for charging-back expense data at Bellcore. Also provided in this manual is detailed information on Projects, Accounts, Structures, etc. used in the Cost Allocation process. Refer to page 3 of Appendix I for the Table of Contents of the "Bellcore Cost Allocation Manual."
Comptroller's Chart of Accounts Manual	This manual provides a total listing of all Bellcore's General Ledger accounts and detailed account narratives. These detailed narratives include financial report classification, account responsibility, and the normal debit/credit transactions associated with the accounts. Refer to page 4 of Appendix I for the Table of Contents of the "Comptroller's Chart of Accounts Manual."
1992 Cost Accounting/ Allocation Changes Manual	This manual provides detailed information and supporting documentation on the 1992 Accounting/ Allocation changes. Provided in this manual are Allocation, Account, Structure, and System requirements for 1992 Cost Allocations. Refer to page 5 of Appendix I for the Table of Contents of the "1992 Cost Accounting/Allocation Changes."
Internal Services Chargeback Manual	This manual provides detailed information on all aspects of the Service Center chargeback accounting processes. Provided in this manual are overviews of each Service Center's operation/ chargeback policies and Budget and variance analysis procedures. Refer to page 6 Appendix I for the Table of Contents of the "Internal Services Chargeback Manual."

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SUPPORTING DOCUMENTATION *

<u>Document</u>	<u>Description</u>
Comptroller's Usage Data Reference Manual	This document describes the functions of the Usage Data System which support the calculation and recording of Service Center chargebacks to user organizations. Specific procedures relating to the UDS System are provided. Refer to pages 7 and 8 of the Appendix I for the Table of Contents of the "Comptroller's Usage Data System Reference Manual."

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BELLCORE COST ALLOCATION MANUAL
COMPTROLLER'S OPERATIONS AND PROCEDURES

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Purpose and Scope	1
Comptroller's Accounting Instruction 02, "Bellcore's Cost Accounting/Allocation Process" (CAAP)	2
System Process	3
Allocation Methodologies	4
Detailed Delineation of Cost Allocation Cycles and Sequences	5
Cost Allocation Accounts	6
Cost Allocation Controls	7
Glossary of Terms	8

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Bellcore
Comptroller's Chart of Accounts Manual
Account Narratives

COMPTROLLER'S CHART OF ACCOUNTS MANUAL

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Bellcore
1992 Cost Accounting/Allocation Changes

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1992 Chart of Account Changes	2
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1992 General Ledger Structures	5
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INTERNAL SERVICES CHARGEBACK MANUAL

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USAGE DATA SYSTEM (UDS)
REFERENCE MANUAL

<u>Table of Contents</u>	<u>This instruction covers the following topics:</u>	
	<u>Section</u>	<u>Topics</u>
	A	Introduction/System Overview
	B	Logon/Logoff for Usage Data System (UDS)
	C	System Screens
		1. Service Center ID Selection
		2. Main Menu
		3. Transaction File Screens
		a. Transaction File Options
		b. Data Entry
		1. Usage Transactions
		2. Credit Transactions
		c. Error Correction
		d. Transaction Maintenance
		e. Queries
		1. Query Selection
		2. Svc. Ctr. Batch Listing
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	G	Data Security - User Groups
	H	System Messages
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USAGE DATA SYSTEM (UDS)
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<u>Section</u>	<u>Topics</u>
L	Monthly Production Schedule
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O	Glossary of Commands
P	Glossary of Terms
Q	Service Center ID and Service Type Codes

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PROPRIETARY

BELLCORE
PAYROLL HEADCOUNT
AS OF MARCH 31, 1992

	TOTAL BELLCORE (a=d+h)	DCPE			NON-DCPE				SUB TOTAL (m+n+o+g+h)
		DCPE (b)	SDCPE (c)	SUB TOTAL (d=b+c)	OVRHD/ COMMON SUPPORT (e)	AREA SUPPORT (f)	CORP SERVICE CENTERS (g)	DISABILITY FAM CARE LEAVE (h)	
Officers	9	0	0	0	9	0	0	0	9
Assistant Vice President									
A805	33	0	0	0	4	29	0	0	33
M3 (Medical Director)	1	0	0	0	1	0	0	0	1
L3 (General Attorney)	4	0	0	0	4	0	0	0	4
Subtotal	38	0	0	0	9	29	0	0	38
Executive Director									
A704	100	130	2	132	13	9	14	1	37
M2 (Associate Medical Director)	2	0	0	0	2	0	0	0	2
L2 (Attorney)	20	0	0	0	20	0	0	0	20
Subtotal	101	130	2	132	35	9	14	1	59
Technical Director									
T603	659	580	13	593	11	21	25	9	66
Professional Director									
P603	130	60	0	60	29	8	33	0	70
Members of Technical Staff (MTS)									
T512	54	38	0	38	0	0	16	0	16
T502	3,306	2,939	104	3,043	15	117	96	35	263
T402	338	206	19	225	79	7	18	9	113
Subtotal	3,698	3,183	123	3,306	94	124	130	44	382
Professional Managers									
P502	543	245	0	245	120	26	144	8	298
P402	183	18	0	18	55	6	88	6	165
Subtotal	726	263	0	263	175	32	242	14	463
Other Technical Staff									
T301	67	63	0	63	1	1	0	2	4
T201	345	280	8	288	14	7	25	11	57
T101	79	67	1	68	1	3	3	4	11
T001	1	1	0	1	0	0	0	0	0
Subtotal	492	411	9	420	16	11	28	17	72
Other Professional Staff									
P301	498	77	0	77	143	27	240	9	419
P201	291	42	0	42	52	16	171	10	249
P101	235	44	0	44	45	16	122	8	191
P001	266	99	1	100	20	17	116	13	165
SL (Legal Assistant)	13	0	0	0	13	0	0	0	13
S5 (Executive Secretary)	1	0	0	0	1	0	0	0	1
S4 (Executive Secretary)	3	0	0	0	3	0	0	0	3
S3 (Executive Secretary)	7	0	0	0	7	0	0	0	7
S2 (AVP Secretary)	44	0	0	0	4	1	36	3	44
R2 (Staff Nurse)	2	0	0	0	2	0	0	0	2
R1 (Nurse)	6	0	0	0	6	0	0	0	6
Subtotal	1,364	262	1	263	296	77	685	43	1,101
Support Staff (Non-Mgmt)									
S1	154	1	0	1	1	1	147	4	153
OD	552	57	0	57	68	22	394	11	495
OC	138	13	0	13	15	2	105	3	125
OB	25	0	0	0	3	2	18	2	25
Subtotal	869	71	0	71	87	27	664	20	798
Total End-of-Month (FB#5) *	8,176	4,960	148	5,108	761	338	1,821	148	3,068
Current Month Average (FB#4) †	7,985.4	4,887.8	155.8	5,043.6	774.8	353.3	1,813.9	N/A	2,941.8

N/A - Not Applicable

* End-of-Month project category based on predominate project of standard work week.

† Current Month Average represents full time equivalent headcount (FTE) defined as the equivalent of 37.5 paid hours per week.

As such, FTE headcount excludes employees on Disability/Family Care Leave and hours not scheduled for part time employees.

Also FTE project classifications reflect actual Positive Time Reporting (PTR) input rather than Standard Work Week used for End-of-Month reporting.

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RUN DATE:		SYSTEM CROS:		DEPARTMENTAL COST SUMMARY		FOR THE PERIOD ENDING JANUARY 31, 1992		PAGE 1	
ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET
AVERAGE HEADCOUNT									
PAYROLL									
RV CONTRACTOR - REPORTED									
TOTAL AVERAGE HEADCOUNT									
OTHER CONTRACTOR HEADCOUNT:									
RV CONTRACTOR - NON REPORTED									
REPORTING CONTRACTOR									
TOTAL OTHER CONTRACTOR HECT									
CONTROLLABLE EXPENSES									
DEPARTMENTAL EXPENSE									
SALARY									
OTHER DEPARTMENTAL									
SUBTOTAL DEPARTMENTAL EXPENSE									
CORPORATE EXPENSES									
CAPITAL RELATED									
SALES TAX & OTHER									
SUBTOTAL CORPORATE EXPENSES									
SUBTOTAL CONTROLLABLE EXPENSES									
SOC/EFFICIENCY CENTERS									
CHARGEBACKS									
OVERHEAD/COMMON SUPPORT									
AREA SUPPORT									
AREA ADMIN SUPPORT									
AREA TECH SUPPORT									
SUBTOTAL AREA SUPPORT									
CORPORATE SERVICE CENTERS									
BELLCORE TECH INTERNAL SERVICES									
SOFTWARE TECH & SYSTEMS									
FINANCE & ADMINISTRATION									
SUBTOTAL CORP SVC CENTERS									
EXTERNAL USAGE PROJECTS									
SUBTOTAL CHARGEBACKS									
TOTAL INCURRED EXPENSES									
LESS: CHARGEBACKS									
OVERHEAD/COMMON SUPPORT									
CORPORATE COMMON SUPPORT									
AREA SUPPORT									
SHARED FACILITIES									
TOTAL CHARGEBACKS									
NET COST - EXTERNAL PROJECTS									

58
50
44
42
40
37
35
30
25
23
21
19

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STANDARD RATED CORPORATE SERVICE CENTER

GENERAL SERVICES - SUPPORT SERVICES *

The General Services Service Center within the Support Services Organization provides various administrative Corporate support services available to all New Jersey Bellcore locations. Each specific type of service is described below.

Corporate Temporary Procurement - Responsible for the procurement of temporary support services, on demand, for Bellcore employees.

Corporate Motor Pool - Responsible for the provision of standard passenger vehicles to Bellcore employees for local company business transportation when employee vehicles cannot be used.

Corporate Transportation - Responsible for the provision of all Corporate vehicles "as-needed" for business ground transportation services for Bellcore employees.

Corporate Travel Planning - Responsible for arranging travel related services for Bellcore Employees and visiting Executive Officers from the Owner/Client Companies.

External Conference Arrangement - Responsible for coordinating external conference logistics.

Corporate Purchasing - Responsible for generation and implementation of purchase orders. Corporate Purchasing is also responsible for coordinating all Purchasing activities associated with the Technical Systems and Services Organizations. It is also responsible for the development, negotiation and execution of contracts associated with major building construction/operations, furniture, transportation, instrumentation, printing/graphics, safety equipment and chemicals.

Corporate Mail/FAX - Responsible for inter-company and intra-company mail pick-up and delivery, facsimile and telex services, the posting of information on + Corporate bulletin boards, payroll and employee voucher check distribution, employee travel ticket distribution, and vendor supplied Express mail distribution.

+ Corporate Stockrooms - Responsible for the management and administration of general Corporate material and supply stock items (i.e., Corporate forms, stationary, etc.). Also included in Corporate Stockrooms is the management of the technical and chemical stockrooms, FLASH, and the Corporate warehouse.

Food Services - Responsible for the provision of meals for Bellcore employees and visitors, the administration of vending machine food products, and refreshments for meetings and special functions.

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STANDARD RATED CORPORATE SERVICE CENTER

GENERAL SERVICES - SUPPORT SERVICES (Cont'd) *

- Corporate Audio/Visual - Responsible for the provision of a wide range of audio/visual/video services to clients, which include: general conference services, provisioning of audio/visual/video equipment, video conferencing support and operational instructions to client users.

Shipping Receiving/Porters - Responsible for the provision of services and packaging which enable Bellcore employees to ship and receive materials and equipment between Corporate and external locations.

Corporate Performance Measurement - Responsible for the administration and coordination of Corporate Performance Measurement surveys, analyses, and results, as well as the analysis of all external Bellcore measurements.

Costs associated with the General Services - Support Services Service Center include Departmental Expenses such as General Services Salaries, Contracted Services (e.g., Maintenance and Repairs, Other Contracted Services and Printing, Reproduction and Graphics), Materials and Supplies. Also included within General Services - Support Services costs are Corporate Expenses and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Centers). Within Corporate Service Center chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Computer Center, Data Communications, Technical Education and Training, Text Production, Reproduction Services, Graphics, Segment Comptroller and Administration, Human Resources, etc.).

The costs associated with General Services - Support Services are billed directly to user organizations based on a "standard rate" per unit of measurement (i.e., per Average Bellcore Management Employee headcount and Average Resident Visitor - Reported Management headcount assigned to New Jersey locations). The use of a "standard rate" allows the General Services Service Center to recover its cost on an annual basis.

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STANDARD RATED CORPORATE SERVICE CENTER

GENERAL SERVICES - INFORMATION MANAGEMENT SYSTEMS (IMS) **

The General Services Service Center within the Information Management Systems (IMS) Organization provides various administrative Corporate support services available to all New Jersey Bellcore locations. Each specific type of service is described below.

Corporate Records Management - Responsible for vital and inactive record handling, storage, retention, and destruction, as well as record disaster recovery.

Corporate Publications - Responsible for publication of Corporate magazines, Corporate Administrative Practices, and Corporate Instructions. Also responsible for the production and distribution of internal Bellcore information products, Corporate forms management, and the review and clearance of proprietary speeches and papers.

Corporate Library - Responsible for the provision of library resources, information retrieval and analysis services, and subscription services.

Costs associated with the General Services - IMS Service Center include Departmental Expenses such as Salaries, Contracted Services (e.g., Maintenance and Repairs, Other Contracted Services and Printing, Reproduction and Graphics), Materials and Supplies. Also included within General Services - IMS costs are Corporate Expenses and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Centers). Within Corporate Service Center chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Computer Center, Data Communications, Technical Education and Training, Text Production, Reproduction Services, Graphics, Segment Comptroller and Administration, Human Resources, etc.).

The costs associated with General Services - IMS are billed directly to user organizations based on a "standard rate" per unit of measurement (i.e., per Average Bellcore Management Employee headcount and Average Resident Visitor - Reported Management headcount assigned to New Jersey locations). The use of a "standard rate" allows the General Services Service Center to recover its cost on an annual basis.

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CURRENT RATED CORPORATE SERVICE CENTER

SEGMENT COMPTROLLER AND ADMINISTRATION *

The Segment Comptroller and Administration Service Center within the Finance and Administration organization provides all organizations with current and future year expense and capital budgeting and financial administration/coordination. This includes all aspects of Organizational, Program, and Service Center financial development and financial management responsibilities. This does not include administrative support necessary to plan, develop, and monitor the Bellcore Segments, Programs, Products, and Organizations.

Costs associated with the Segment Comptroller and Administration Service Center include Departmental Expenses (e.g., Salaries, Contracted Services, etc.), Corporate Expenses, Overhead/Common Support Chargeback Expenses, and Corporate Service Center Chargeback Expenses. Within Corporate Service Center chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Computer Center, Data Communications, Technical Education and Training, General Services, Landlord Services, Secretarial Support, Reproduction Services, Human Resources, Graphics, etc.).

Costs associated with the Segment Comptroller and Administration Service Center are charged-back to the areas supported based on a "current rate" per month per average Bellcore Employee and average Resident - Visitor Reported headcount. The use of a "current rate" allows the Segment Comptroller and Administration Service Center to fully recover its cost on a monthly basis.

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* Revised for 1992 October Project Offering

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DATA COMMUNICATIONS

- The Data Communications Service Center provides Bellcore employees with computer connectivity within and outside of Bellcore. Services provided include Distributed Computer, (MICOM) port connections, ETHERNET and LANS communications, and Personal Computing Support Center (PCSC) services, etc.

Costs associated with the Data Communications Service Center include Departmental Expenses such as Data Communications Salaries, Contracted Services (e.g., Maintenance and Repairs), Telecommunications and Rentals and Leases. Also included within Data Communications Service Center costs are Corporate Expenses (e.g., Depreciation and ROI) and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Center). Within Corporate Service Center Chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Computer Center, Technical Education and Training, General Services, Landlord Services, Segment Comptroller and Administration, Human Resources, Text Production, Reproduction Services, Graphics, etc.).

The Data Communications Service Center charges are billed directly to user organizations based on a "standard rate" per usage (e.g., per MICOM port, per connection, etc.). The use of a "standard rate" allows the Data Communications Service Center to recover its cost on an annual basis.

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* Revised for 1992 October Project Offering

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REPRODUCTION SERVICES

The Reproduction Services Service Center provides three types of services for Bellcore users: Central Reproduction, Self-Service Reproduction, and Computer Output Microfiche, etc. Central Reproduction provides centralized reproduction services for Bellcore users when high volume or special copying needs are required. Self-Service Reproduction provides the equipment, maintenance, and supplies available to Bellcore users to make self-service copies as required. The Computer Output Microfiche service allows users to request microfiche via user generated computer tapes.

Costs associated with Reproduction Services Service Center include Departmental Expenses such as Reproduction Services Salaries, Contracted Services (e.g., Printing, Reproduction Services and Graphics and Maintenance and Repairs on the reproduction equipment), Rental and Leases associated with the reproduction equipment and Materials and Supplies. Also included within Reproduction Services costs are Corporate Expenses and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Centers). Within Corporate Service Center chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Computer Center, Data Communications, Technical Education and Training, General Services, Landlord Services, Segment Comptroller and Administration, Human Resources, Text Production, Graphics, etc.).

Reproduction Services are billed directly to user organizations based on a "standard rate" per unit of measurement (e.g., per impression, etc.). The use of a "standard rate" allows the Reproduction Services Service Center to recover its cost on an annual basis.

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TECHNICAL PUBLICATIONS

The Technical Publications Service Center provides technical writing, editing, and document production services to all Bellcore users, including the rewriting of existing material, assisting in the preparation of new material, document review, and quality assurance.

Costs associated with Technical Publications include Departmental Expenses such as Salaries and Contracted Services (e.g., Maintenance and Repairs, etc.). Also included within Technical Publications costs are Corporate Expenses and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Centers). Within Corporate Service Center chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Computer Center, Data Communications, Technical Education and Training, General Services, Reproduction Services, Telecommunications, Graphics, Segment Comptroller and Administration, Human Resources, etc.).

Technical Publications services are billed directly to user organizations based on a "standard rate" per hour charged to a client's job by a technical writer. The use of a "standard rate" allows the Technical Publications Service Center to recover its cost on an annual basis.

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TECHNICAL EDUCATION AND TRAINING

The Technical Education and Training Division (TETD) Service Center provides technical education and training courses to Bellcore employees. These courses are either group-paced instructor-led classes, self-paced audio-visual and/or computer assisted courses, or satellite courses broadcast to Bellcore locations.

Costs associated with the Technical Education and Training Service Center include Departmental Expenses such as Salaries, Contracted Services (e.g., Management and Other Consultants services related to the provision of instructors), Rentals and Leases, and Materials and Supplies. Also included within Technical Education and Training costs are Corporate Expenses and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Centers). Within Corporate Service Center chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Computer Center, Data Communications, Telecommunications, General Services, Landlord Services (TETD is charged for classroom space through Landlord Services) Text Production, Reproduction Services, Graphics, Segment Comptroller and Administration, Human Resources, etc.).

Technical Education and Training services are billed directly to user organizations based on a "standard rate" per student day. The use of a "standard rate" allows the Technical Education and Training Service Center to recover its cost on an annual basis.

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GRAPHICS

The Graphics Service Center provides Bellcore with a wide variety of Graphic Arts, Visual Arts, Visual Output and Technical Drafting services. These services include business graphics for visual presentations, creation and design of brochures, and other print media.

Costs associated with the Graphics Service Center include Departmental Expenses such as Graphics Salaries, Contracted Services (e.g., Maintenance and Repairs and Print, Reproduction, and Graphics), and Materials and Supplies. Also included within Graphics Service Center costs are Corporate Expenses and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Centers). Within Corporate Service Center Chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Computer Center, Data Communications, Technical Education and Training, General Services, Landlord Services, Segment Comptroller and Administration, Human Resources, Text Production, etc.).

Graphics services are billed directly to user organizations based on a "standard rate" per page of output (e.g., per graph or chart). The use of a "standard rate" allows the Graphics Service Center to recover its cost on an annual basis.

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EDUCATION, TRAINING AND DEVELOPMENT

The Education, Training and Development (ET&D) Service Center provides management and professional development, diversity management, American language studies, career development, and quality related training courses to Bellcore employees.

Costs associated with the Education, Training and Development Service Center include Departmental Expenses such as Salaries, Contracted Services (e.g., Management and Other Consultants' services related to the provision of instructors), Other General Expenses, and Materials and Supplies. Also included within Education, Training and Development costs are Corporate Expenses and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Centers). Within Corporate Service Center chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Computer Center, Data Communications, Technical Education and Training, General Services, Landlord Services (Classroom space is charged to Education, Training, and Development through Landlord services), Text Production, Reproduction Services, Segment Comptroller and Administration, Human Resources, Graphics, etc.).

Education, Training, and Development services are billed directly to user organizations based on a "standard rate" per student day. The use of a "standard rate" allows the Education, Training, and Development Service Center to recover its cost on an annual basis.

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CURRENT RATED CORPORATE SERVICE CENTER

HUMAN RESOURCES SERVICE CENTER #

The Human Resources Service Center within the Human Resources Organization provides specific VP Areas with centralized Personnel related services. Included within these services are activities associated with the development and administration of salary planning, performance evaluation, work force placement and work force adjustment, etc.

Costs associated with the Human Resources Service Center include Departmental Expenses (e.g., Salaries, Contracted Services, etc.), Corporate Expenses, Overhead/Common Support Chargeback Expenses, and Corporate Service Center Chargeback Expenses. Within Corporate Service Center chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Computer Center, Data Communications, Technical Education and Training, General Services, Landlord Services, Segment Comptroller and Administration, Text Production, Reproduction Services, Graphics, etc.).

- * Costs associated with the Human Resources Service Center are charged-back to specific VP Areas based on a "current rate" per month per average Bellcore Employee headcount. The use of a "current rate" allows the Human Resources Service Center to fully recover its cost on a monthly basis.

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- # Revised for 1992 April Project Offering
- * Revised for 1992 October Project Offering

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STANDARD RATED CORPORATE SERVICE CENTER

TEXT PRODUCTION

The Text Production Service Center provides Bellcore with a centralized pool of typists who utilize computer aided systems and standard typewriters to type, format, and revise technical and business documents.

Costs associated with the Text Production Service Center include Departmental Expenses such as Text Production Salaries, Contracted Services (e.g., Maintenance and Repairs associated with Text Production machines and equipment), Rentals and Leases and Materials and Supplies. Also included within Text Production costs are Corporate Expenses and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Center). Within Corporate Service Center Chargebacks are Chargeback Expenses associated with other Corporate Service Centers (e.g., Computer Center, Data Communications, Technical Education and Training, General Services, Landlord Services, Segment Comptroller and Administration, Human Resources, Reproduction Services, Graphics, Secretarial Support, Telecommunications, etc.).

Text Production is billed directly to user organizations based on a "standard rate" per line of typing. The use of a "standard rate" allows the Text Production Service Center to recover its cost on an annual basis.

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STANDARD RATED CORPORATE SERVICE CENTER

BELLCORE TEC INTERNAL SERVICES +

The Bellcore TEC Internal Services Service Center provides dedicated administrative/technical support services to the Bellcore TEC/Lisle Location. These services include the following individual types of services:

Reproduction/Course Distribution - provides self service copiers as well as specialized reproduction services, such as, assembly and distribution of Bellcore TEC course materials for Bellcore TEC Courses.

Hotel - provides Bellcore TEC students with room, dining and classroom facilities.

Costs associated with the Bellcore TEC Internal Services Service Center include Departmental Expenses such as Salaries, Contracted Services (e.g., Other Contracted Services, Maintenance and Repairs), as well as Rentals and Leases and Materials and Supplies. Also included within Bellcore TEC Internal Services costs are Corporate Expenses and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Centers).

Bellcore TEC Internal Services are billed directly to user organizations based on a "standard rate" per usage (e.g., per hotel day, etc.). The use of a "standard rate" allows the Bellcore TEC Internal Services Service Center to recover its cost on an annual basis.

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+ Revised for 1992 Final Project Offering

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WASHINGTON REGULATORY INTERNAL SERVICES

The Washington Regulatory Internal Services Service Center provides dedicated administrative support functions directly associated with the Washington D.C. based location such as mail service, secretarial support, reproduction services, etc.

Costs associated with the Washington Regulatory Internal Services Service Center include Departmental Expenses such as Salaries, Contracted Services, Corporate Expenses and Chargeback Expenses (i.e., Overhead/Common Support, Area Support, and Corporate Service Centers).

Washington Regulatory Internal Services are billed directly to user organizations based on a "standard rate" per headcount (i.e., per Average Bellcore Employee headcount and Average Resident Visitor - Reported headcount assigned to Washington). The use of a "standard rate" allows the Washington Regulatory Internal Services Service Center to recover its cost on an annual basis.

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BELLCORE COST ACCOUNTING/ALLOCATION PROCESS

SPECIALTY DIRECT CHARGING PROFESSIONAL EMPLOYEE EFFICIENCY CENTERS

SDCPE/ECs

* * Specialty Direct Charging Professional Employee Efficiency Centers (SDCPE/ECs) provide specialty gatherings of technical expertise to produce services and develop and deliver common subsystems which will be purchased by external clients. These centers ensure that common subsystems are developed once and built to a common standard to allow for the eventual connectivity of all major systems. The use of SDCPE/ECs allows Bellcore to achieve common standards, as well as build products in a more efficient manner.

These Efficiency Centers include the following:

- Bellcore Applications Environment (BAE)
- Bellcore Advanced Software Environment (BASE)

The Bellcore Applications Environment (BAE) Center supports the implementation of Bellcore software products in a more cost-effective and timely manner. The BAE Center is a repository of common software services and code necessary to effect adherence to Operations Systems Computing Architecture (OSCA) principles in new Bellcore software products, and to increase Bellcore software development productivity, quality, and connectivity.

The Bellcore Advanced Software Environment (BASE) Center is responsible for the BASE Standard Development Environment, which is comprised of a set of Software Engineering tools necessary to produce the product requested by an external client including supervision of the production/quality control, modeling, maintenance request tracking, source code development and management standards, product build and packaging, system test tracking and documentation management, and development of common standard work element components.

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- * Revised for 1992 April Project Offering
- * Revised for 1992 October Project Offering

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DEFINITION OF BELLCORE'S ALLOCATION/CHARGEBACK BASES

Average Headcount

- Average Bellcore Employee Headcount represents the distribution of salaries associated with full-time and part-time employees as charged to Projects via Bellcore's Positive Time Reporting (PTR) process. Average headcount for full-time employees is calculated using the sum of all salary transactions booked at the organization/project level per employee. The salaries booked against each organization/project for an employee are divided by the total salary paid to that employee, the resulting calculation translates to a fractional average headcount. Headcount associated with part-time employees is calculated based on a ratio of hours worked divided by total hours within the standard work week, the resulting calculation translates to part-time headcount.
- Average Bellcore Management Employee Headcount represents average headcount as calculated above, associated with all Bellcore Employees classified as Management employees. The Salary grades associated with Management employees are listed below:
 - P0, P1, P2, P3, SL, S2, S3, S4, S5, T1, T2, T3
 - P4, P5, T4, T5
 - P6, T6
 - A7
 - A8
- Average Bellcore Support Staff Employee Headcount represents average headcount as calculated above, associated with all Bellcore Employees classified as Support Staff employees. The Salary grades associated with Support Staff employees are listed below:
 - QA, QB, QC, QD, S1
- ** - Average Resident Visitor - Reported Headcount represents non-employees working at Bellcore Locations who meet the following criteria:
 - Perform functions such as technical, professional, or administrative in nature.
 - Generally work at a Bellcore location for more than three days a week, over a three-month period.
 - Occupy dedicated workspace, have an assigned telephone number, and have a published mail stop at a Bellcore location.
 - Generally does have access to proprietary information.

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Controllable Expenses represent all Departmental Expenses charged directly to a Project plus Corporate Expenses (i.e., Employee Related, Capital Related, and Other Corporate Expenses) charged-back to the project during the Cost Allocation process.

Fixed Percentages represent a percentage of a Project's anticipated level of support to be charged-back to a designated Organization/Project/Program.

** Revised to reflect the "Corporate Administrative Practices" definition of Resident Visitor - Reported Headcount.

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 BELLCORE COST ACCOUNTING/ALLOCATION PROCESS

DEFINITION OF BELLCORE'S ALLOCATION/CHARGEBACK BASES

Salaries

- Standard Salaries represent actual salary expenses for the current period which are included as a component of Departmental Expenses.
- Standard Management Salaries represent standard salaries associated with all Bellcore Employees classified as Management employees. The Salary grades associated with Management employees are listed below:
 - P0, P1, P2, P3, SL, S2, S3, S4, S5, T1, T2, T3
 - P4, P5, T4, T5
 - P6, T6
 - A7
 - A8
- Standard Support Staff Salaries represent standard salaries associated with all Bellcore Employees classified as Support Staff employees. The Salary grades associated with Support Staff employees are listed below:
 - QA, QB, QC, QD, S1

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Usage represents the unit of measure used by Corporate Service Centers to directly bill External & Internal Projects for services provided. The usage measurement associated with each Corporate Service Center is identified below:

	<u>Corporate Service Center</u>	<u>Usage Measurement</u>
@	- Bellcore TEC Internal Services	Per Copy/Per Day/Per Course Registration
@	- Technical Education and Training	Per Student Day
#	- Computer Center - General Purpose and Dedicated	Per Computer Usage
	- Computer Center - UNISYS	Per Computer Usage
	- Data Communications	Per Port/Connection
*	- General Services - Support Services	Per NJ Management Headcount (Average Bellcore & Resident Visitor - Reported)
	- Landlord Services	Per Assigned Square Footage
	- Text Production	Per Line
	- Reproduction Services	Per Copy
	- Graphics	Per Page of Output
	- Secretarial Support	Per Secretarial Headcount/ Per Day
	- Telecommunications	Per Line/Connection
	- Technical Publications	Per Hour
*	- General Services - Information Management Systems (IMS)	Per NJ Management Headcount (Average Bellcore & Resident Visitor - Reported)

- @ Revised for 1992 reporting
- # Revised for 1992 April Project Offering
- * Revised for 1992 October Project Offering

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DEFINITION OF BELLCORE'S ALLOCATION/CHARGEBACK BASES

Usage (Cont'd)

	<u>Corporate Service Center</u>	<u>Usage Measurement</u>
	- Education, Training, and Development	Per Student Day
#	- Human Resources	Per Headcount (Average Bellcore Employee)
	- Washington Regulatory Internal Services	Per Washington Headcount (Average Bellcore & Average Resident Visitor - Reported)
*	- Segment Comptroller and Administration	Per Headcount (Average Bellcore Employee and Average RV-Reported)

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Revised for 1992 April Project Offering
* Revised for 1992 October Project Offering

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BELLCORE'S BILLING AND BILLING ALLOCATION PROCESS OVERVIEW/SUMMARY OF CHANGES

The Billing and Billing Allocation Process outlines the procedures, objectives and methodologies utilized to accurately bill Bellcore's Owner-Clients for all work endeavors (projects) undertaken on their behalf. It highlights the accumulation of project costs, project classifications and the sharing of project costs among the Owner-Clients. In addition, the document describes the billing process utilized for Industry Clients, as well as, the credits to the Owner-Clients for revenues generated as a result of Industry Client licensing (sharing of costs) of Bellcore services or products.

The following significant changes have been reflected in 1992:

- The Firm Quoted Price (FQP) Project section has been updated to include a description of the Optimization process and the Unique Executive Partnership billing arrangement.
- Revisions to SNET and CBI's Service Agreements, including the Common Work Program funding requirements and a revised markup factor of 1.30, have been incorporated within the document.
- A description of Miscellaneous Billing which does not generate revenue (e.g., Conduit bills, Employee bills, etc.) has been added.

It is also important to note that, based upon the approval of Bellcore's Board of Directors in June 1991, Bellcore performs a true-up of FQP projects to actual cost in November and December of each business year. An FQP overrecovery would be reflected on each Owner-Client's November and December bill as a lump sum credit. Industry Client revenue credits are held in reserve to offset any potential underrecoveries. If, after using all of the revenue credit reserve, an Owner-Client is still underrecovered, that Owner would be billed for the underrecovered amount. The reserve is based on a nominal percentage of Industry Client revenue credits, and any credits not used in the FQP true-up process are distributed to the Owner-Clients as credits to their Infrastructure projects in December. The Owner-Clients will then decide internally as to the distribution of FQP project by project variance amounts based upon specific Regional Company Owner-Client accounting and regulatory requirements.

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BELLCORE BILLING & BILLING ALLOCATION PROCESS

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BELLCORE BILLING & BILLING ALLOCATION PROCESS

I. Purpose and Scope

The purpose of this document is to describe the Bellcore Billing and Billing Allocation Process. Bellcore's billing function begins with the accumulation of all costs related to providing centralized services or "Projects" to its Owner-Clients. Project costs are then allocated to Owner-Clients and billed.

The following narrative describes Bellcore's billing methodology, highlighting Bellcore Project Costs, Project Classifications, and the sharing of Project Costs among Owner-Clients. Further, the document describes billing to Non-Owners as well as crediting to Owner-Clients for revenues generated as a result of Non-Owner licensing (sharing of costs) of Bellcore services or products.

II. Corporate Policy

The Bellcore Billing and Billing Allocation Process has been developed in recognition of the key principles underlying the establishment of Bellcore. The process reflects Bellcore's mission to "support the provision of engineering, applied research, technical training and other operational support services which can most efficiently be provided on a centralized basis". Services provided by Bellcore, with the exception of "Client-Specific" work which has an associated limited "Access Period," are available for use by all seven Owner-Clients. This enables them to share costs and eliminates the potential of a seven fold increase in the cost of duplicating the services on an individual basis. It should be noted that Project costs are generally not proportionately increased by the number of Owner companies participating in a Project.

The concept of cost-sharing was studied extensively by the seven Owner-Clients prior to the institution of operations at Bellcore on January 1, 1984. It was deemed critical that sharing of Project costs be consistent among the Owner-Clients and related to the benefits received by the Owner-Clients. It was also agreed that billing for costs of commonly utilized Projects would be shared based on the principles summarized in the following paragraph.

Bellcore's Billing and Billing Allocation Process should ensure that Owner billing is:

- o Related to the anticipated benefit of the Project.
- o Related to the nature of the work performed.
- o Common to all participating Owner-Clients.
- o Based on readily available and standard data.

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BELLCORE BILLING & BILLING ALLOCATION PROCESS

- o Consistent with past (pre-divestiture) billing allocation procedures.
- o Supportable in regulatory proceedings.

The Billing & Billing Allocation Process ensures the appropriate processing for Non-Owner Revenues including Licensing in the areas of cost recovery and allocation of Revenue Credits.

Each year, an independent auditor is engaged by Bellcore to examine the Billing & Billing Allocation process. After the examination, the independent auditor is requested to provide an audit opinion stating that the Billing & Billing Allocation Process and the resulting distribution of billable cost to Owner-Clients is in accordance with the FCC's Joint Cost Orders issued in conjunction with FCC Docket 86-111 and the FCC's published rules and interpretations thereto.

III. Project Costs

In order to avoid cross-subsidization, External Project costs must be developed accurately. The costs that Bellcore incurs in performance of Projects are directly charged or allocated to the external Projects in a manner consistent with the terms of the Service Agreement and Generally Accepted Accounting Principles. This Cost Allocation Process is described in Comptroller's Accounting Instruction 02, "Bellcore Cost Accounting/Allocation Process (CAAP)" and is not discussed in this document.

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IV. Project Classifications

Bellcore external billable Projects are provided to Owner-Clients and/or Non-Owners. Projects billed to Owner-Clients are those Projects that constitute the Bellcore Work Program of which the vast majority are Projects having basic requirements and/or benefits which are common to two or more Owner-Clients.

1. Owner Project Classifications

1.1 Infrastructure

"Projects which are within one of the definitions of Applied Research, Standards and Architecture or Generic Technology Procurement Support, or of substantial benefit to each Owner and are of such nature that this substantial benefit cannot be prevented from accruing to an Owner who might elect not to participate in such Projects." Projects are specifically designated as Infrastructure by Bellcore's Board of Directors.

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1.2 Elective

All other Projects that are not Infrastructure and which one or more Owner-Clients may fund are Elective. Included are Multi-Client, Usage-Sensitive and Client-Specific and are defined as follows:

- A. Multi-Client Projects - These are Elective Projects that are not Usage-Sensitive and are funded by two or more Owner-Clients.
- B. Usage-Sensitive Projects - These are Elective Projects for which costs are charged to individual Owner-Clients based on usage. Usage-Sensitive Projects are billed out on a standard-price basis (actual units x standard rate). The basis of the standard rate is determined by each Project's specific usage measurement (e.g., hours, student weeks, CPU utilization, etc.).
- C. Owner-Client Specific Projects - These are Elective Projects that are funded by one Owner-Client (when the term "Client-Specific" is used, it may include a Regional customer or any Regional subsidiary providing exchange telecommunication and exchange access services).

2. Non-Owner Project Classifications

2.1 Common

Non-Owner Common represents Licensing sales of previously purchased Owner-Client product deliverables which are priced consistent with the general principles of Non-Owner Pricing (see Section VII paragraph 1) and Owner-Client Projects with Non-Owner participation for Southern New England Telephone Company (SNET), Cincinnati Bell Inc. (CBI), AT&T and numerous other Non-Owners for Bellcore Products (e.g., Common Language, Bellcore TEC Training, Traffic Routing Administration)

2.2 Specific

Non-Owner Specific projects represent work performed exclusively for Non-Owners. These projects are related to existing areas of work already performed for Owner-Clients and are requested by one or more Owner-Clients - (e.g., Vendor Funded Equipment Analysis, Vendor Funded - Operations Systems Modifications for the Integration of Network Elements (OSMINE), Vendor Funded Technical Auditing, and Vendor Funded Software Product Ports or Reimplementations (VESPPOR)). SNET and CBI may also request specific work to be performed which is related to Owner-Client previously purchased product deliverables.

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In addition, Bellcore and various government agencies collaborate in performing research and telecommunications planning on such Non-Owner Specific projects. All Non-Owner Specific Projects are billed consistent with the general principles of Non-Owner Pricing (see Section VII paragraph 1).

V. Firm Quoted Price Projects

* All Multi-Client and Client-Specific Elective Projects (other than Usage-Sensitive) are provided to the Owner-Clients based upon a Firm Quoted Price (FQP) which is developed and established during the budget process (or subsequent to the budget process) and does not change during the budget process or billing cycles. The annual price for a Firm Quoted Price Project is based on estimated fully loaded Project cost, estimated Owner-Client participation and potential cost - sharing from both Owners and Non-Owners. In an effort to maximize Owner participation in FQP Projects, an Optimization process is used. This process utilizes a statistical model which maximizes an Owner-Client's participation in desired FQP Projects at minimal additional cost. As a result of the Optimization process, Firm Quoted Prices will be repriced for those projects in which Owner-Client participation has changed.

The monthly price for a Firm Quoted Price Project is calculated by one of two methods, according to the Owner-Client's preference. The first method divides the annual price by the number of months the Project will exist during the current year. The second method uses monthly spread factors which match revenue more closely with cost streams. These factors are derived using the number of paid days per month, estimated annual salary increase percentages and average Direct Charging Professional Employee (DCPE) per month over total company average annual DCPE as reflected in the 1992 Commitment Budget. These factors are applied to annual Owner-Client FQP prices to determine the monthly FQP price for all projects.

Monthly, a calculation is made by subtracting revenues from the cost of FQP Projects with the resulting amount then booked to a Revenue Adjustment account (302-812 Adjustments - FQP Normalization Accrual) and a corresponding entry made to either a current asset account (109-311) if an under-recovery of FQP revenue exists, or, a current liability account (214-241) if an over-recovery of FQP revenue exists. If total FQP revenue exceeds total FQP cost (over-recovery), the Revenue Adjustment will be a negative normalization accrual. If total FQP revenue is less than total FQP cost (under-recovery), the Revenue Adjustment will be a positive normalization accrual.

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* While the difference between revenue and cost for FQP projects is expected to be zero at year end, a true-up will be performed initially in November and again in December to align each Owner-Client's FQP Project billing with their allocated Fully Loaded Cost. On a project by project basis, the Owner-Client's FQP billing is compared to the allocated fully loaded cost amount to determine the over/under-recovery of FQP revenue. The over/under-recovery amounts for all FQP Projects are then summed and the net over/under-recovery amount is reflected on the Owner-Client's bill on a specially designated true-up project. The billing amount on this specially designated true-up project will be a credit if a net over-recovery of FQP revenue exists or a charge if a net under-recovery of FQP revenue exists.

* It is important to note that the true-up credit/charge amount will also reflect the billing associated with an Owner-Client's Unique Executive Partnership work effort. On a monthly basis, costs incurred by Bellcore on behalf of each Owner-Client's Unique Executive Partnership work efforts are collected on separate projects. Billing the Owners to recover these costs, however, is achieved through the FQP True-up process. During this process, each Owner's Unique Executive Partnership costs are allocated to their participating FQP projects, using allocated project cost as a basis for distribution. Once the Unique Executive Partnership costs are allocated, they are incorporated into each effected Owner-Client's Fully Loaded Project Cost.

To reduce the impact of the true-up on the Owner-Clients, an FQP reserve has been established. This reserve is funded on a monthly basis using a portion of Non-Owner revenue (i.e., all or a portion of Infrastructure revenue credits from Elective projects). To perform the true-up, the difference between each Owner-Client's FQP billing and allocated Fully Loaded Cost will be determined. If the true-up results in additional billing to an Owner-Client (i.e., allocated Fully Loaded Cost is greater than FQP billing), the Non-Owner Infrastructure revenue credits held in reserve will be applied equally to each Owner-Client to offset the amount due. Any amount remaining in the reserve will be returned to the Owner-Clients as credits on Infrastructure projects. If no Owner-Client's allocated Fully Loaded Cost is greater than their FQP billing, the entire reserve will be returned as Infrastructure credits. As a result, the FQP reserve will be zero at year-end.

The Board of Directors may direct that some (or all) of Bellcore's work shall not be covered by Firm Quoted Prices. In that event, the pricing for any Project subject to such directive shall compensate Bellcore for its fully loaded costs.

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VI. Billing (Cost-Sharing) for Owner-Clients

Costs for work in each of the Project classifications discussed in Section IV are shared or allocated among Owner-Clients differently in recognition of the nature and anticipated benefit of each type of work. These allocated costs are reduced by cost sharing revenue credits generated by Non-Owner participation. This revenue crediting process is discussed in Section VIII. A discussion of the allocation of Project costs to Owner-Clients follows. (For further clarification, a flowchart of Bellcore's Billing and Billing Allocation Process is provided in Appendix A).

1. Infrastructure Projects

Benefits associated with deliverables for Infrastructure Projects cannot be denied to Owner-Clients who might otherwise elect not to participate in them. Accordingly, all Owner-Clients participate equally in Infrastructure Projects and costs are funded on a 1/7 basis.

2. Elective Projects

Unlike the benefits associated with services provided under Infrastructure Projects, benefits from Elective Projects can be denied to Owner-Clients who elect not to participate in such Projects. Owner-Clients electing to participate in Elective Projects share the costs on the basis of benefits derived as described for each subcategory of Elective Project Types as follows:

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2.1 Multi-Client Projects

Multi-Client Projects are Projects elected by Owner-Clients and costs are allocated based upon each Owner-Client's relative Total Operating Expenses (TOE) and Total Plant in Service (TPIS) for each year over a four year period. Specifically, each Owner-Client's TOE and TPIS will be separately calculated and averaged for each of the four individual years 1984 through 1987. For each Owner-Client, these four (4) separate averages will then form the basis for a single four year average percentage which will be used as an allocation factor. Appendix B reflects the Allocation factor values used in the development of the 1992 Bellcore Budget. These Projects are billed on a Firm Quoted Price basis.

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2.2 Usage Sensitive Projects

All Usage Sensitive Projects are billed on a standard-price basis (actual units x standard rate). Additionally, Usage Projects that have only one Owner-Client participating may bill certain incidental costs directly incurred on behalf of one Owner-Client and not included in the standard rate (e.g., Travel & Living Expense incurred while making a presentation to a single Owner-Client at that Client's request).

* To accommodate the Owner-Client's requirements of billing certain Usage work under separate projects, External Cost Projects (ECPs) and related External Billable Projects (EBPs) are used. Specifically, Project cost for the particular Usage work effort is charged to a single ECP project whereas each participating Owner-Client is billed on a separate and unique EBP project.

Standard rates are developed based on forecasted annual usage and expense levels, including anticipated surcharge amounts to be billed to Non-Owners. This approach reduces the standard rates charged to Owner-Clients and ensures pricing consistency throughout the year. A true-up is performed, generally at year-end, at which time rates are retroactively adjusted to reflect actual expenses incurred on the Usage Project.

Billable Hourly Standard Rates consider the total budgeted cost (see note below) and headcount for the Project. The budgeted cost is divided by the budgeted Direct Charging Professional Employee (DCPE) headcount for the Project to determine the budgeted average annual cost per DCPE. This average annual cost per DCPE is then divided by the number of annual productive staff hours worked per DCPE, which may vary by Organization and Project, to yield the Billable Hourly Standard Rate. Productive staff time includes the hours incurred by a DCPE which directly relate to the completion of a specific deliverable on the Project. Productive hours (units) are multiplied by the standard rate to yield the billed amount. Non-productive staff time does not directly relate to the completion of any specific deliverable, but is comprised of time spent otherwise (e.g., meetings, vacation, etc.) and is tracked for cost collection purposes.

Note: Incidental costs (i.e., Travel and Living or other direct costs not driven by hours worked) are not normally considered in the development of billable hourly rates and are billed, as incurred, in addition to the standard rated billing.

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Billable Hourly Standard Rates will differ by level of DCPE when a variety of employee levels charge to a Project. In addition, a separate rate will be utilized for contractors if a significant number of such contractors charge to the Project.

Specifically, Usage projects fall into one of the following:

- A. For Projects such as Technical Analysis, the actual units are multiplied by the standard rate and the resulting amount is divided by the number of Owner-Clients receiving the related deliverable (e.g., Technical Requirements document).
- B. Bellcore TEC Usage projects are standard rated based on the number of student weeks attended multiplied by a price per student week. The Advanced Technology Internship Project provides for the delivery of the Advanced Technology Innovation (ATI) program in association with the Information Networking Institute (INI) at Carnegie-Mellon University (CMU). This Project provides the means to flow-through tuition charges on a usage basis (i.e., the number of participating students for each Owner-Client). Bellcore acts as an agent for the Owner-Clients in collecting and disbursing tuition to CMU under the terms and conditions of Bellcore's agreement with CMU. The INI Project represents cost for the development of courses for the ATI program and is allocated to the Owner-Clients on a 1/7th basis.
- C. Other standard rated Usage Projects which use specific measurements (e.g., hours, CPU time, number of pages) include:
 - Information Management Distribution
 - Information Research Center
 - Microwave, Radio & Satellite Engineering & Licensing System (MRSELS) II Computer System
 - Basic Security Training
 - SOAC - TIRKS Service Order Planning
 - 800-NASC (Number Administration & Service Center)
 - Key Network Product Quality Management

2.3 Owner Client Specific Projects

Owner Client Specific Projects are Elective Projects that are based on the requirements of an individual Owner. These Projects are billed on a Firm Quoted Price basis. On an exception basis, the Board of Directors may determine that a Client-Specific Project be billed its fully loaded costs.

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2.1 Pricing to Non-Owners for Participation on Owner Infrastructure, Multi-Client and Client Specific Projects

A. SNET and CBI

Because of the special preinvestiture relationship which existed between the Owner-Clients and the Southern New England Telephone Company (SNET) and Cincinnati Bell Inc. (CBI), SNET and CBI are permitted to participate in Projects via a contractual arrangement offered to them under the terms of the individual service agreements which have been negotiated with each company.

* These contractual agreements also known as the 'Annual Fee' and 'Retainer Fee' for SNET and CBI, respectively, require SNET and CBI to fund all projects contained within the Common Work Program (CWP). The projects in the CWP consist of all Infrastructure, Multi-Client, offered Common Usage and Owner Client Specific Projects which Bellcore in its reasonable discretion makes available to SNET and CBI. Funding on Owner Client Specific projects may be optional providing that the project is not common nor is there any dependency in connection with any other Owner Project.

Pricing to SNET and CBI for those Projects contained in the CWP shall be in accordance with the contractually agreed price equal to total actual Project cost, multiplied by their respective Size Allocation Factor (i.e., 1.67% for SNET and 0.65% for CBI), multiplied by a 1.30 markup. For an example of this calculation, see paragraph 2.1 of Section VIII. This markup factor of 1.30 reflects a volume discount from the standard Non-Owner markup.

Both companies are obligated to fund new projects created subsequent to the final Bellcore Commitment Budget that fall under the CWP criteria as follows:

- o CBI is obligated to fund all new CWP projects when offered.
- o SNET is obligated to fund all new CWP projects but has the ability to defer billing to the following year. If billing for subsequent projects is deferred, that billing is added to the following year's CWP billing.

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VII. Billing for Non-Owners

As a means of reducing Project costs to the Owner-Clients, Bellcore offers Non-Owners the opportunity to share in or obtain Project deliverables and/or services. Revenues derived in this manner are used to offset Project costs to the funding Owner-Clients. This section will provide the underlying principles used in billing Non-Owners and specific details concerning Non-Owner Common and Specific revenues.

1. General Principles of Non-Owner Pricing

The price to Non-Owners for licensing of Bellcore products, participation in Bellcore Projects or for Non-Owner Specific work takes into consideration that a Non-Owner should be charged an equitable share of the cost of deliverables produced or services provided (including Bellcore's cost of capital), plus a surcharge which recognizes long term employee obligations and financial risk, and/or the market value of the services and products provided by Bellcore. Bellcore has established pricing guidelines which are intended to implement Bellcore's Board of Directors principles for Non-Owner pricing. These guidelines state that the pricing for products or services to Non-Owners should be the highest of:

- o Size-based allocation of Project costs plus a minimum surcharge, or
- o Threshold price based on the total Project cost. A threshold price is used where a size-based price falls below a predetermined minimum level, or
- o Market or Value price (where available). Such pricing algorithms may include a provision for surcharges above the minimum pricing level.
- o Additionally, Non-Owner Pricing may be based on standard rates (including a surcharge).

2. Non-Owner Common Revenues

Amounts billed to Non-Owners for participation in Bellcore projects as well as licensing of "off the shelf" deliverables resulting from work in support of the Owner-Clients are developed consistent with the Principles of Non-Owner Pricing (see paragraph 1 of this section). Generally, billing depends on the type of Non-Owner who is participating on the Owner-Client project.

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- * Non-Common Usage based Projects and Non-Owner Specific Projects are billed outside the CWP discussed above. Such projects are billed on a fully loaded actual cost plus surcharge basis.

- * The SNET and CBI Service Agreements are in effect for a ten year period ending December 31, 1998. The surcharge levels in the agreements have been renegotiated and are fixed (i.e., surcharge factor of 1.30 for both SNET and CBI) for the remaining seven years of the agreements (1992-1998).

B. Other Non-Owners

Amounts billed to Non-Owners other than SNET and CBI for participation on Owner Infrastructure, Multi-Client and Client Specific projects are developed consistent with the Principles of Non-Owner Pricing (see paragraph 1 of this section). Billing generally falls into these categories:

- o Purchase of Equipment Coding services based on a standard rate per unit to recover actual incurred cost (i.e., Common Language).
- o Purchase of Traffic Routing Administration products and Technical Documentation at a unit price which includes a surcharge.

2.2 Pricing to Non-Owners for Participation on Usage Projects

Amounts billed to Non-Owners for participation on Owner Usage Projects are developed consistent with the Principles of Non-Owner Pricing (see paragraph 1 of this section). Standard rates, based on forecasted annual usage and expense levels, are billed to Non-Owners for Projects such as Bellcore TEC and Information Management Distribution. A surcharge is included in the standard rate charged.

Amounts billed to Non-Owners for maintenance, support and minor tailoring of Licensed "off the shelf" deliverables which result from work in support of the Owner-Clients are billed on a standard rated basis or fixed price which includes a surcharge.

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3. Non-Owner Client Specific Revenues

Amounts billed to Non-Owners for Non-Owner Client-Specific Projects are developed consistent with the Principles of Non-Owner Pricing (see paragraph 1 of this section). Non-Owner Specific work is offered on an actual cost plus surcharge basis which is often incorporated in a standard rate. Firm Quoted Prices (FQP) are not used for Non-Owner Projects. Exceptions to this can be made with the approval of the Senior Vice President, Finance and Administration.

3.1 Pricing for Non-Owner Specific Work

If Owner-Client Projects and deliverables are not adversely impacted, Bellcore may perform specific work for Non-Owners which falls into the following categories:

A. SNET, CBI and Exchange and Exchange Access Companies

At the request of SNET, CBI and other Exchange and Exchange Access Companies, Bellcore may perform specific work for these Non-Owners based on their individual requirements. In these instances, these Non-Owners are billed for actual incurred costs, as well as a surcharge amount.

B. Non-Exchange and Non-Exchange Access Companies

This category includes the following types of Non-Owner specific work:

B.1 Vendor Funded Equipment Analysis - Bellcore performs technical analysis of digital switching systems and digital terminal equipment at the request of one or more Owner-Clients and in agreement with the equipment Vendor. These vendors are billed for actual incurred costs using standard rates per level of employee involved in the analysis, as well as a surcharge amount. Travel and living expenses are billed at cost in addition to the above amounts.

B.2 Vendor Funded Operations Systems Modifications for the Integration of Network Elements (OSMINE) - Bellcore performs Operations Systems Modifications for the Integration of Network Elements at the request of one or more Owner-Clients and in agreement with the Vendor. The vendors are billed for actual incurred costs using standard rates per level of employees involved in the analysis, as well as a surcharge amount. Travel and living expenses are billed at cost in addition to the above amounts.

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- B.3 Vendor Funded Software Product Port or Reimplementation (VESPPOR) - Bellcore performs Vendor Funded Software Product Port or Reimplementations at the request of one or more Owner-Clients and in agreement with the computer hardware vendor. The vendors are billed for actual incurred costs using standard rates per level of employees involved in the work effort, as well as a surcharge amount. Travel and living expenses are billed at cost in addition to the above amounts.
- B.4 Vendor Funded Technical Auditing - Bellcore performs technical auditing of telecommunications products, systems and processes against selected objective criteria obtained from Bellcore's published generic requirements and industry/supplier specifications. The vendors are billed for actual incurred costs using standard rates per level of employees involved in the work effort as well as a surcharge amount. Travel and Living are billable at cost in addition to the above amount.
- B.5 Government Contracts - Bellcore has collaborated with various Government agencies in performing research and telecommunications planning in the Applied Research and Generic Requirements - related disciplines. In these instances, billing is based on actual, allowable, incurred cost (including travel and living) in accordance with Federal Acquisition Regulations as well as a fee.
- B.6 AT&T - At the request of AT&T and based on their requirements, Bellcore may perform specific work for AT&T. In these instances, AT&T is billed for actual incurred costs, as well as a surcharge amount.
- B.7 Other Non-Exchange/Non-Exchange Access Companies - Bellcore may provide "off-the-shelf" deliverables which may require minor tailoring to companies which do not provide Exchange and Exchange Access services. These deliverables are provided at actual cost plus a surcharge amount.

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VIII. Cost Sharing Revenue Crediting Process

In accordance with the Service Agreement, revenues realized from the provision of Project services or deliverables to Non-Owners are treated as payments for sharing in the benefits/costs of the Projects. These revenues are comprised of two components, Size Allocated Cost (SAC) and Surcharge, and are applied to Owner Projects as cost sharing revenue credits, thereby reducing the cost to the Owner-Clients.

*** 1. Revenue Credit Types**

There are three categories of cost-sharing revenue credits designated as CR1, CR2, and CR3 which are described as follows:

*** 1.1 CR1 - Infrastructure Credits from Infrastructure Projects**

CR1 cost-sharing revenue credits represent Infrastructure credits generated from direct or indirect Non-Owner participation on Infrastructure projects. Both direct and indirect sources are detailed below.

Direct sources of CR1 revenue credits include those revenue credits which are generated from direct Non-Owner participation (primarily SNET and CBI) on Infrastructure Projects. Specifically, direct participation entails those Non-Owners who are billed on the same project that the Owners are credited. Both the Size Allocated Cost (SAC) and Surcharge components of the Non-Owner billed amount is credited to the Owners on a 1/7th basis on the Infrastructure Project which generated the Non-Owner revenue.

Indirect sources of CR1 revenue credits include those revenue credits which are generated from a Non-Owner project that is closely related to an Infrastructure work effort but is billed on a separate project. In this case, the Infrastructure project is known as the 'base' project. Since the Infrastructure base project's work effort was used to derive the Non-Owner deliverable, the Surcharge portion of the Non-Owner billed amount is credited to the Owners on a 1/7th basis on the Infrastructure base project. Examples of Non-Owner work which may be related to Infrastructure work efforts include Vendor-Funded and Licensing Unique Support Work Projects.

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1.2 CR2 - Infrastructure Credits from Elective Projects

* CR2 cost-sharing revenue credits represent Infrastructure credits generated from Non-Owner participation on Elective projects. For Non-Owner participation on Elective Projects, one-half of the Surcharge amount billed to Non-Owners is returned as a CR2 Infrastructure credit, 1/7 to each Owner on Infrastructure Projects (the other one-half is covered under CR3 below). Owner-Clients receive these credits whether or not they participate in the Elective Project which generated the CR2. This is in recognition of the utilization of common assets, including human resources who possess the knowledge and expertise gained from Infrastructure Projects.

CR2 revenue credits may be used to fund a reserve established for the year-end true-up of Firm Quoted Price (FQP) Projects. Monthly, the Comptroller's Contract Administration and Billing Department will make a determination as to the portion of CR2 credits which may be released from the reserve and be distributed via the revenue credit process described above. As described in Section V, this reserve will be used to ensure that the year-end true-up of FQP Projects will result in a net credit to each Owner-Client's Billing. It is anticipated that the reserve credit will offset additional charges from the FQP true-up and result in a net credit to each Owner's billing. Since any remaining FQP reserve amount is then returned to the Owner-Clients as a normal CR2 credit, the year-end balance of the reserve is always zero.

* 1.3 CR3 - Elective Credits from Elective Projects

CR3 cost-sharing revenue credits represent Elective credits generated from direct or indirect Non-Owner participation on Elective projects. Both direct and indirect sources are detailed below.

Direct sources of CR3 revenue credits include those revenue credits which are generated from direct Non-Owner participation (primarily SNET and CBI) on Elective Projects. Specifically, direct participation entails those Non-Owners who are billed on the same project that the Owners are credited. Both the Size Allocated Cost plus the remaining 50% of the Surcharge of the Non-Owner billing amount is credited to the Owners on the Elective project which generated the Non-Owner revenue. CR3 Credits are returned to the Elective Project's Owner-Client participants based on the allocation factor values used to allocate cost.

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Indirect sources of CR3 revenue credits include those revenue credits which are generated from a Non-Owner project that is closely related to an Elective work effort but is billed on a separate project. In this case, the Elective project is known as the 'base' project. Since the Elective base project's work effort was used to derive the Non-Owner deliverable, the Size Allocated Cost (SAC) plus the remaining 50% of the surcharge of the Non-Owner Billing amount is credited back to the Elective base Project participants based on the allocation factor values used to allocate cost to the Owner-Clients. Examples of Non-Owner work which may be related to Elective work efforts include Vendor-Funded and Licensing Unique Support Work.

Specifically, CR3 credits which are generated from FQP, Usage and Non-Owner Specific projects are processed as follows:

A. Revenue Crediting for Firm Quoted Price Projects

* Amounts billed to Owner-Clients for Multi-Client or Client Specific Firm Quoted Price (FQP) Projects incorporate estimated amounts for cost sharing revenue credits. As such, the FQP prices are inherently reduced and no CR3 type revenue credits are generated to offset Owner billing. Instead, these CR3 amounts are summed with Total Owner Revenues on a Project by Project basis and compared with corresponding Project cost. The difference between revenue and cost is then booked as the FQP Normalization Adjustment, described in Section V.

B. Revenue Crediting for Usage-Sensitive Projects

* Usage-Sensitive Projects are billed to Non-Owners using standard prices plus an appropriate Surcharge. The CR3 portion of anticipated Non-Owner revenues from Usage Projects are considered when standard prices are developed for Owner-Clients. Accordingly, the Size Allocated Cost (SAC) portion of the CR3 amount is used to reduce cost and results in lower standard rates for Owner-Clients. The portion of CR3 which represents 50% of the Surcharge is credited to the Owner-Funded Base Project (i.e., the project which is most closely related to the Usage work effort). The remaining 50% of the Surcharge is returned as a CR2 credit. At year-end, a true-up is performed to align revenue and actual cost. However, an exception exists for Information Management Services (IMS) and Bellcore TEC Projects where the total Non-Owner billing amount is credited back to the Usage project as CR3 revenue credits.

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C. Revenue Crediting for Non-Owner Specific Projects

Revenue Credits resulting from billing to Non-Owners for Specific Projects established solely for the Non-Owners are generated from the Surcharge applied to Project cost. Generally, these amounts are allocated as CR2 cost-sharing Revenue Credits on a 1/7 basis to all Owner-Clients on Infrastructure Projects. These Projects include all Non-Owner Client Specific work performed for SNET and CBI. However, revenue credits generated from Vendor Funded Projects are allocated back 100% as CR3 revenue credits to the Owner Funded "base" Projects if the "base" Project is an Elective Project or 100% as CR1 if the "base" Project is an Infrastructure Project.

*

* 2. Revenue Credit Sources

Major sources of revenue credits include those generated from SNET and CBI Common Work Program billing, Licensing Sales, Non-Owner Vendor Funded work and Government contracts.

* 2.1 Revenue Crediting from SNET and CBI Common Work Program (CWP) Billing

The use of market based values for distribution of revenue credits has been eliminated to support the terms of the new SNET and CBI service agreements. The use of market based values increased the amount of SNET and CBI revenue credits distributed from those selectively chosen Elective Projects to Infrastructure Projects. Revenue credits from the CWP are now aligned to meet our contractual agreements with SNET and CBI, as described in the following paragraph.

SNET and CBI's Common Work Program billing is based on the contractual arrangements described in paragraph 2.1 (A) of Section VII. Billing is calculated by multiplying the project cost by the relative size allocation factor (i.e., 1.67% for SNET and 0.65% for CBI). This resulting amount, also known as the Size Allocated Cost (SAC), is then multiplied by a contractual markup of 1.30.

* The following is an example of Common Work Program Billing for SNET and the calculation of revenue credits:

Example:	Elective Project	123456
Assumptions:	- Project Cost	\$2,000
	- SNET's Size Allocation Factor	1.67%
	- Contractual Markup	1.30

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* A. Calculation of SNET's Contractual Price:

Size Allocated Cost (SAC) = Project Cost x Size
\$33.40 = \$2,000 x 1.67%

Contractual Price = SAC x Contractual Markup
\$43.42 = \$33.40 x 1.30

* B. Calculation of Revenue Credits:

The Contractual billing amount of \$43.42 consists of the following components:

Size Allocated Cost (SAC) = \$33.40
Surcharge (\$43.42 - \$33.40) = \$10.02

The Size Allocated Cost and Surcharge components are used to derive revenue credits as follows:

CR2: 50% of Surcharge (\$10.02 x 50%) = \$ 5.01
CR3: Size Allocated Cost = \$33.40
CR3: Remaining Surcharge (\$10.02 - \$5.01) = \$ 5.01
Total Contractual Billing Amount
(CR2 + CR3) = \$43.42

2.2 Revenue Crediting from Licensing Sales Activities

The following reflects the crediting of revenues that result from the billing to Non-Owners for licensing of Bellcore Intellectual properties:

- A. The total gross Project revenue billed in a month to a Non-Owner is reduced by agent fees payable to an Owner-Agent and the applicable unique Project cost associated with fulfilling the terms of the License agreement (i.e., cost for unique maintenance, support and minor tailoring of the Licensed deliverables) and results in net Project revenue.

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- B. The net Project revenue is further reduced by the allocated Licensing Organizational cost which is prorated proportional to the year-to-date positive net revenue on each Project (i.e., projects with a net revenue less than or equal to zero are not allocated Licensing Organizational Cost). This allocated amount (cost) is developed by using a percentage derived from the specific Licensing Project's year-to-date net revenue divided by the total Licensing year-to-date positive net revenue. This percentage is then applied to the total current month incurred cost of the Licensing Organization to determine the cost funded by each License.
- C. The remaining revenue for each licensed product (after the reductions outlined in A and B above) is allocated in accordance with the Cost Sharing Revenue Crediting Process. It is important to note that all Licensing products have designated Owner-funded "base" Project(s).
- D. Each month, the applicable CR1, CR2 and CR3 revenue credits generated from the Licensing Sales activity are returned respectively to the Owner-Client Projects. In a given month, these CR1, CR2 and CR3 revenue credits may be either positive or negative amounts based upon the difference between the available Licensing Sales revenue and the sum of the associated unique Project cost for delivering each sales effort and the proportionate share of Licensing Organizational cost.

* Revenue credits are allocated using specific methodologies depending on the type of licensing Project. These methodologies are detailed as follows:

- o Revenue credits generated from Unique Support and Standard-Rated Unique support Licensing Projects are distributed 100% as CR1 credits to the Owner-Funded base Project if the base project is an Infrastructure Project. If the base Project is an Elective Project, revenue credits are distributed 50% as CR2 credits to Infrastructure Projects and the remaining 50% as CR3 credits to the base Project(s).
- o Revenue credits generated from Patent licensing Projects are allocated as CR2 cost-sharing Revenue credits on a 1/7th basis to all Owner-Clients on Infrastructure Projects.

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- o Revenue credits generated from Right-To-License, Right-To-Use and Common Maintenance Licensing Projects are distributed as 100% CR1 credits if the base Project is an Infrastructure Project or as CR2/CR3 credits if the base Project is an elective Project, using a cost/price ratio to approximate the Size Allocated Cost (SAC) portion of the net billed amount which is credited to the base Project. The remaining amount which represents the Surcharge portion of the Non-Owner billing amount is distributed 50% as CR2 and 50% as additional CR3 credits to the Base Project.

E. As noted in D, certain Licensing projects apply a Cost/Price Ratio to derive the size allocated cost portion of the net billed amount. The components of the Cost/Price ratio are as follows:

Size Allocated Embedded Development Cost (Cost) - The Size Allocated Embedded Development Cost is obtained from an approved price proposal document and represents the cost expended by the Owner-Clients to develop/produce the Licensed deliverable size allocated for the applicable Non-Owner client.

Contract Price (Price) - The Contract Price is obtained from an approved contract (which is supported by an approved price proposal) with a Non-Owner and represents the size allocated embedded development cost plus surcharge and market additive, if any.

The following is an example of the revenue crediting process for a Licensing Sales Project using the cost/price ratio for revenue crediting purposes:

<u>License of TIRKS Revenue Distribution</u>	<u>\$ M</u>
Gross Project Revenue:	
Right-to-Use Fee	7.8
Services	6.1
Total Gross Project Revenue	13.9
Less Unique Project Cost (see Section VIII 2.2 A)	(4.9)
Net Project Revenue	9.0

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Net Project Revenue	9.0
Less Allocated Cost of Licensing Organization (see Section VIII 2.2 B)	(4.9)
Revenue Available for Revenue Credits	4.1

Determine the Size Allocated Cost using
 the Cost/Price Ratio ($4.1 \times .72 = 3.0$)
 and determine the revenue credits from
 the Size Allocated Cost (see calculation
 of Cost/Price Ratio below):

100% To Base Projects (CR3)	3.0
-----------------------------	-----

Determine the Surcharge ($4.1 - 3.0 = 1.1$) and
 the revenue credits from surcharge:

50% To Base Projects (CR3)	
1.1 x 50% =	0.55

50% To Infrastructure Projects (CR2)	
1.1 x 50% =	0.55

Total CR3 Credits to Base Projects	3.55
Total CR2 Credits to Infrastructure Projects	0.55

Total Revenue Credits	4.1
-----------------------	-----

Cost/Price Ratio Calculation:

Cost/Price Ratio =	$\frac{\text{Size Allocated Embedded Development Cost}}{\text{Contract Price - Unique Cost}}$
	$\frac{\$14,982.8 \text{ K}}{\$20,726.8 \text{ K}}$
	= .72 Cost/Price Ratio

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* 2.3 Revenue Crediting from Vendor Funded Projects

The following reflects the crediting of revenues that result from billing Non-Owners for Vendor Funded work, which includes Vendor Funded Equipment Analysis, OSMINE, VESPPOR and Technical Auditing.

- A. On a monthly basis, these Non-Owner Specific projects are billed using either standard rates or a fixed fee, both of which include a surcharge amount. Monthly revenue credits, however, are not generated. Instead, on a project by project basis, the difference between revenue billed and actual costs incurred is recorded monthly as a normalization revenue adjustment, as noted in paragraph 3 of Section IX.
- B. At year-end, a true-up is performed to align each Vendor Funded project's revenue with actual project cost incurred. Specifically, the year-to-date project revenue is subtracted from year-to-date project cost. This difference represents the amount subject to true-up.
- C. The true-up amount calculated in "B" above is then reduced by the allocation of Pre/Post Costs. These costs represent the marketing and contract negotiation expenses incurred on behalf of each of the four Vendor Funded work categories (i.e., Equipment Analysis, OSMINE, VESPPOR and Technical Auditing) and are isolated on four separate cost collection projects. The year-to-date cost of each Pre/Post cost collection project is allocated to all Vendor Funded projects which constitute that specific work category. Allocation of Pre/Post Costs is based on the relative percentage of year-to-date project cost for each Vendor Funded project to the sum of project cost for the particular Vendor Funded work category.
- D. The true-up amount, after the allocation of PRE/POST costs, (positive or negative) is then credited 100% to each Vendor Funded project's Owner-funded Base project as a CR1 credit if the base project is an Infrastructure project or as a CR3 credit if the base project is an Elective project.

* 2.4 Revenue Crediting from Government Projects

Revenue credits will result from the collaboration with various government agencies in performing research and telecommunications planning in the Applied Research and Generic Requirements related disciplines. On a monthly basis,

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these Non-Owner Specific projects are billed actual, allowable, incurred cost in accordance with Federal Acquisition Regulations as well as a fee. Revenue credits, however, are not generated on a monthly basis. Instead, the difference between revenue billed and actual costs incurred is recorded monthly as a normalization revenue adjustment. Due to the nature of Government contracts, normalization may be carried over from one year to the next until the governmental contract and audit has been completed.

Once the audit has been completed, a true-up is performed to align project revenue and project cost with any residual revenue amounts given back to the Owner-Clients 100% as CR2 credits. However, if the contract audit is completed within the same year, a base project is designated and residual revenue amounts are given back to the Owners on the designated base project. Revenue credits are given back either as CR1 credits if the base project is an Infrastructure project or as CR3 credits if the base project is an Elective project.

IX. Adjustments to Revenue

In certain instances, Bellcore records Revenue Adjustment transactions to align Project cost with revenue on a monthly basis. These adjustments to revenue are temporary in nature and result from timing differences between the recognition of revenue and the incurrence of cost on certain projects. Such Revenue Adjustments fall into one of five categories as follows:

1. Firm Quoted Price (FQP) Cost/Revenue Variance

In accordance with the Firm Quoted Price (FQP) process described in Section V, the FQP cost/revenue variance is recognized as an adjustment to revenue under the following account:

302-812 Adjustments - FQP Normalization Accrual

In addition, an offsetting entry is made to one of the following Balance Sheet accounts:

109-311 Actual FQP Variance - Under-Recovery
214-241 Actual FQP Variance - Over-Recovery

At year end, the cost/revenue variance is distributed/charged to Owner-Clients via the true-up process described in Section V.

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2. Advanced Approval Projects

Advanced Approval projects isolate cost incurred on projects, undertaken at the request of one or more Owner-Clients or Non-Owners that are still awaiting formal approval by an authorized representative before being billed out. Since final Owner-Client or Non-Owner participation has not yet been established for an Advanced Approval Project, the initial revenue adjustment to record the value of the deferred cost associated with such a Project is recognized under one of the following accounts:

- 302-813 Adjustments - Advanced Approval Projects - Owners
- 302-818 Adjustments - Advanced Approval Projects - Non-Owners

In addition, an offsetting entry is made to one of the following Balance Sheet accounts:

- 110-997 Deferred Charges - Advanced Approval - Non-Owners
- 110-999 Deferred Charges - Advanced Approval - Owners

Once formal approval is received by the authorized representative(s), the adjustment to revenue is reversed and billed as Operating Revenue under the following accounts:

301 Owner Revenue

- 301-111 Operating Revenue - Telesector Resources Group
- 301-211 Operating Revenue - Bell Atlantic Network Services, Inc.
- 301-311 Operating Revenue - BellSouth Telecommunications, Inc.
- 301-411 Operating Revenue - Ameritech Services, Inc.
- 301-511 Operating Revenue - Southwestern Bell Telephone Co.
- 301-611 Operating Revenue - US West Advanced Technologies
- 301-711 Operating Revenue - Pacific Bell

- 301-112 Client Specific Operating Revenue - Telesector
- 301-212 Client Specific Operating Revenue - Bell Atlantic
- 301-312 Client Specific Operating Revenue - BellSouth
- 301-412 Client Specific Operating Revenue - Ameritech
- 301-512 Client Specific Operating Revenue - Southwestern Bell
- 301-612 Client Specific Operating Revenue - US West
- 301-712 Client Specific Operating Revenue - Pacific Bell

301 Non-Owner Revenue

- 301-911 Operating Revenue - Non-Owner
- 301-912 Operating Revenue - Non-Owner Client Specific
- 301-913 Operating Revenue - SNET
- 301-914 Operating Revenue - CBI
- 301-915 Operating Revenue - AT&T
- 301-916 Operating Revenue - Licensing
- 301-917 Operating Revenue - Patents/Licensing

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3. Revenue Normalization

Certain Bellcore projects are billed on a standard rated basis. These include all Usage projects and Standard Rated Non-Owner Specific projects (e.g., Vendor Funded, Government projects, etc.). Therefore, it is necessary to temporarily align revenue with Project cost by booking an adjustment to revenue (i.e., normalizing revenue). Revenue Normalization is recognized as an adjustment to revenue under the following account:

302-816 Adjustments - Normalization (External)

In addition, an offsetting entry is made to one of the following Balance Sheet accounts:

109-122 Under-Recovery - Normalization (External)

214-122 Over-Recovery - Normalization (External)

At year end, or, throughout the year at the direction of Comptroller's Contract Administration and Billing Department, residual cost/revenue variances are distributed/charged to Owner-Clients or Non-Owners via the true-up process.

4. Revenue Credit Reserve

As mentioned in paragraph 1.2 of Section VIII, the portion of CR2 credits held in reserve is recognized as an Adjustment to Revenue under the following account:

302-817 Adjustments - Revenue Credit Reserve

In addition, an offsetting entry is made to the following Balance Sheet account:

214-251 Revenue Credit Reserve

Monthly, the Comptroller's Contract Administration and Billing Department will make a determination as to the portion of CR2 credits which should be held in reserve or released and distributed via the normal revenue credit process discussed in paragraph 1.2 of Section VIII. This reserve will be used to offset any additional billing from the year-end true-up of FQP projects, resulting in a net credit to each Owner's billing.

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5. Deferred Billing

At the direction of the Owner-Clients, the billing or billing and associated crediting for a Project buy-in, which represents Owner-Client participation subsequent to the start of a Project, may be deferred in accordance with a schedule agreed upon by the participating Owner-Clients. Such deferrals are granted to the buying - in Owner - Client by the participating Owner-Clients. Related interest is calculated in a manner consistent with interest charged for overdue payments as described in Section 7.6 of the Service Agreement.

Bellcore recognizes any such deferred billing amounts, by Owner-Client, as a debit to Deferred Charges, long term or short term, under the following accounts:

109 Other Prepayments

- 109-211 Short-Term Deferred Charges - Ameritech
- 109-212 Short-Term Deferred Charges - Bell Atlantic
- 109-213 Short-Term Deferred Charges - BellSouth
- 109-214 Short-Term Deferred Charges - Telesector Resources Group
- 109-215 Short-Term Deferred Charges - Pacific Bell
- 109-216 Short-Term Deferred Charges - Southwestern Bell
- 109-217 Short-Term Deferred Charges - U S WEST

110 Deferred Charges

- 110-711 Long-Term Deferred Charges - Ameritech
- 110-712 Long-Term Deferred Charges - Bell Atlantic
- 110-713 Long-Term Deferred Charges - BellSouth
- 110-714 Long-Term Deferred Charges - Telesector Resources Group
- 110-715 Long-Term Deferred Charges - Pacific Bell
- 110-716 Long-Term Deferred Charges - Southwestern Bell
- 110-717 Long-Term Deferred Charges - U S WEST

* In addition, a corresponding credit is made, by Owner-Client, to Revenue Adjustments under the following accounts:

- 302-931 Adjustments - Ameritech Services, Inc.
- 302-932 Adjustments - Bell Atlantic Network Services, Inc.
- 302-933 Adjustments - BellSouth Telecommunications, Inc.
- 302-934 Adjustments - Telesector Resources Group
- 302-935 Adjustments - Pacific Bell
- 302-936 Adjustments - Southwestern Bell Telephone Co.
- 302-937 Adjustments - U S WEST Advanced Technologies

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- * When the subsequent payments of deferred billing amounts are made, the revenue adjustment account is debited and the Deferred Charges account is credited.

X. Miscellaneous Revenues

In addition to revenues from Owner and Non-Owner projects, Bellcore realizes miscellaneous revenue from both work performed on a centralized basis at the request of the Owner-Clients which does not produce any Bellcore technical deliverable and customary business practices which incidentally generate revenue.

The entities which represent such work performed on a centralized basis include National Exchange Carrier Association (NECA), Microelectronics Corp. (MCC) and the Number Administration & Service Center (NASC) for which these entities are billed the cost incurred by Bellcore. NECA and MCC revenues are recognized under account 302-911: Miscellaneous Revenues - Billed and NASC revenues are recognized under account 302-815: Miscellaneous Revenues - 800 NASC.

Examples of customary business practices which incidentally generate revenue fall into one of the four following categories:

1. Revenues resulting from Interest Income generated from overnight investments, overdue invoice payments or deferred billing are returned as CR2 cost sharing revenue credits on a 1/7th basis. Interest Income from overnight investments is recognized under account 302-311: Interest Income. Interest Income generated from either overdue invoice payments or deferred billing is recognized under account 302-411: Interest Income - Accounts Receivable Billing.
2. Revenues which reimburse Bellcore for related cost such as:
 - Systems Training revenue from Technical Education & Training Division (TEID) or Education, Training & Development (ET&D)
 - AT&T Employees Federal Credit Union rent
 - Parking space rent

These revenues are recognized under account 302-911: Miscellaneous Revenues - Billed.

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3. Revenues for which there is no directly related cost and which are returned to the Owner-Clients as a CR2 cost sharing revenue credit on a 1/7th basis:

- Vending machine sales
- American Express rebates
- Limited Partnership Distribution (Southgate Corp Office Center)
- Insurance reimbursement
- Waste paper sales
- Exchange Magazine subscriptions
- Royalties
- Proceeds from the sale of fixed assets

These revenues are recognized under account 302-811: Miscellaneous Revenues - Non-Billed.

4. Revenues from Other Owner-Affiliates represent usage billing to Owner entities separate from the Owner-Client with which Bellcore enters into the Service Agreement. These revenues are recorded separately and fall outside of the affiliated Owner-Client's Commitment Budget level of revenue. Examples of this type of revenue include Information Management Distribution and Information Research Center (IRC). These revenues are recognized under Account 302-911: Miscellaneous Revenues - Billed.

* **XI. Non-Revenue Generating Miscellaneous Billing**

Bellcore may produce bills which do not generate Owner, Non-Owner or Miscellaneous Revenue. Rather, the payments received are directly credited against cost associated with either a previous expenditure not incurred in the delivery of a Bellcore Project, or for those previously incurred employee expenses from which Bellcore has subsequently been reimbursed. Specifically, this type of miscellaneous billing falls within two categories, Owner Requested Flow-Thru Payments and Employee Reimbursements to Bellcore. These categories are described as follows:

1. **Owner Requested Flow-Thru Payments**

At the request of an Owner-Client, Bellcore may generate a Miscellaneous Bill and accept payment for the reimbursement of an equivalent expenditure made by Bellcore to third parties. These types of miscellaneous bills include the following:

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1.1 Conduit Billing

Conduit or "Flow-thru" billing is generated from services rendered (e.g., CMDS, IS-NET, STARS, SMS/800, T-TRAN) to Owner-Clients and Non-Owners by another Owner-Client for which Bellcore is both the billed party and the recipient of payment. As a service to the Owner-Client, Bellcore will pay the bill to the service providing Owner-Client and will offset this cost (recorded temporarily as a Deferred Charge) by billing the service receiving Owner-Clients and Non-Owners.

1.2 Rotational Employee Bonus Payments

Bellcore is often requested to pay a rotational employee's bonus for work performance prior to rotating to Bellcore. Bellcore will temporarily charge the cost of the bonus to Salary Expense and generate a bill to the employee's home company within the same month, thereby crediting Salary Expense on the appropriate Project. This corresponding credit to Salary Expense will offset the temporary bonus charge.

2. Employee Reimbursements to Bellcore

Bellcore may also generate a Miscellaneous Bill and credit related Project expense where an employee has reimbursed the company for a given expense. These types of miscellaneous bills are categorized as follows:

2.1 Tuition Aid Recovery

Employee tuition which is paid by Bellcore is done so on the condition of fulfilling certain requirements (i.e., minimum grade, continued service). Repayment of tuition is required if these conditions are not met. Bellcore will generate a Miscellaneous bill to recover the cost of the tuition, crediting the expense account on those Project(s) originally charged.

2.2 Voucher Repayment

If a vouchered employee expense exceeds allowance entitlements, repayment is required. Bellcore will generate a bill requesting employee repayment and will credit the expense account(s) on the Project(s) originally charged.

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XII. Billing Formats

Billing to Owner-Clients reflects the cost allocated to Infrastructure, and Elective (i.e., Multi-Client, Usage and Client-Specific) Projects, less cost-sharing revenue credits generated as a result of billing to Non-Owners. Specifically, Owner-Clients' bills currently consist of:

Invoice	Displays current principal billing supplement charges and adjustments, interest and total amount payable
Statement	Displays all open invoices, payments and unapplied credits
Principal Billing Supplement	Customized Bill Supplement for Infrastructure & Elective Projects (Multi-Client, Client-Specific & Usage-Sensitive)
Adjustment to Principal Billing Supplement	Customized Bill Supplement for Infrastructure & Elective Projects (Multi-Client, Client-Specific & Usage-Sensitive) Adjustments
Supplement F	Summary of Interest Due
Supplement T	Billing Detail for Standard Rated Projects
Supplement Y	Usage-Sensitive Project Credits
Supplement Z	Billing Detail Supplement on Usage-Sensitive Projects

The Supplements detail FQP price, Project type, cost associated with certain Projects, the basis for cost allocation, the allocated amounts and cost sharing revenue credits from Non-Owner participation. An overview of the Supplements is shown in Appendix C.

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XIII. Monthly Billing

- * In accordance with the Service Agreement, bills are rendered on or about the 10th working day of each month for services provided in the previous month. This billing is based on expenses incurred during the previous month and Firm Quoted Prices. Payment terms are net thirty days. Interest is charged on any overdue amounts. Bellcore will normally recognize revenue when a bill is issued. However, for certain Non-Owner work efforts, the recognition of revenue may be realized when cost is incurred or when a specific deliverable is produced, as opposed to the date of the invoice (e.g., Centel, Amdahl).

XIV. Financial Reports Available

In order to aid in the management and control of revenues, the Enhanced Budget / Accounting Cost System (EBACS) provides for each Project the budgeted cost and revenue versus actual cost and revenue. The key reports explained below reflect this level of detail by Project, Product, Work Program and Owner/Non-Owner.

The PR1 series is used to monitor total revenues at the Work Program level. PR1s detail cost/revenue by Work Program for actual and budgeted cost/revenue for the current month and year-to-date. These reports are available for Infrastructure, Multi-Client, Usage and Client-Specific Project types.

The PR20 series details current month and year-to-date Owner and Non-Owner billing by Project type and Work Program. The reports detail the actual and budgeted gross allocated cost, cost sharing revenue credit and the Net billed amount.

The PR30 series is for internal Bellcore use. These reports track the revenue/cost variance on Firm Quoted Price Multi-Client and Client-Specific Projects.

The PR70 series is used to monitor Owner revenue by Products/Work Programs. Eight versions of the report are produced, one set for each of the Owners based on their definition of Products/Work Programs and a set for internal Bellcore use based on its definition of Products and Work Programs.

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The NZR series (NZR-7 and NZR-8) is for internal Bellcore use. These reports detail actual and budgeted revenue normalization for standard rated projects on a current month and year-to-date basis by Bellcore Vice President and Assistant Vice President organization.

The RA#5 report is for internal Bellcore use. This report displays budgeted and actual earned revenue by Vice President and by Assistant Vice President organization. Earned revenue is equal to Net Cost for Infrastructure, Usage and Client-Specific Non-Owner Projects. For Owner Client-Specific and Multi-Client Projects, which are generally all Firm Quoted Price, earned revenue is Owner Firm Quoted Price plus Non Affiliate Revenue Credits (NARC). The RA#5 is available on a Year-to-Date and an Annual basis.

The Organizational Margin Analysis Report is for internal Bellcore use. The report displays organizational budgeted cost, budgeted revenue, actual revenue, actual cost, actual margin-surplus deficit and budgeted margin-surplus deficit by Vice President and by Assistant Vice President organization. The report is available on a monthly and an annual basis.

The BRL Series (BRL, BRLA and BRLB) is for internal Bellcore use. The reports detail actual and budgeted cost for total Bellcore, Owner and Non-Owner billing. The reports are available on an annual basis.

The PR8 report series is a cost/revenue report for internal Bellcore use. Pages 1-3 provide detailed cost information. Page 4 of the report provides actual versus budgeted earned revenue for each organization and Project for the current month and year-to-date. Earned revenue is total Owner and Non-Owner revenue that is credited to a particular Project or Organization. The report displays the earned revenue, if applicable to the Project, by Owner along with any Non-Owner revenue credits. Owner revenue is the amount billed to each Owner for a Project and credited to an organization based on cost. The Non-Owner revenue is displayed by revenue credit type (CR1, CR2 and CR3). For each credit type the earned revenue amount credited to the organization and Project is separated into the Non-Owner category that generated the revenue. The report also includes a funded cost category in the Non-Owner section for projects which are partially or totally funded by Non-Owners. The PR8 report series includes a summary by organization, Work Program and Project type. Appendix D contains the sample Total Company Summary report which displays the Owner and Non-Owner Revenue categories.

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BELLCORE BILLING & BILLING ALLOCATION PROCESS

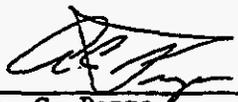
On an annual basis, the BR24 and BR25 are produced. These reports summarize annual revenue by Project, Project type and Work Program. The BR24 details Owner/Non-Owner gross allocated cost, cost sharing revenue credits by type (CR1, CR2 & CR3) and net billing. The BR25 is at the total Project level with the same cost and revenue detail. These reports are used in Bellcore's Annual Report to Shareholders.

The BR74 reports are available for year-end reporting. These reports are similar to the BR24, however, the BR74 summarizes gross allocated cost, revenue credits and net revenues by Product and Work Program. Seven versions of the BR74 report are produced based on each Owner's definition of Products and Work Programs.

Furthermore, actual revenue versus budget detail is reflected on a current month and year-to-date basis on the Administrative Statement of Income (FB#1) and the Financial Statement of Income (FB#2) and their respective supplements (FB#1 Supplement and FB#2 Supplement).

XV. Conclusion

This narrative has provided a description of Bellcore's Billing and Billing Allocation Process, and is intended to give a better understanding of the underlying structure and rationale behind Bellcore's Billing. In addition to this description, the Billing Allocation Manual is available for referencing the operating procedures which support the Billing Allocation Process. This description and the associated manual will be maintained on a current basis. Questions regarding interpretation and/or requests for additional information should be referred to Bellcore's Corporate Accounting/Accounting Methods Group.


A. C. Penza
Comptroller

7/15/92
Date

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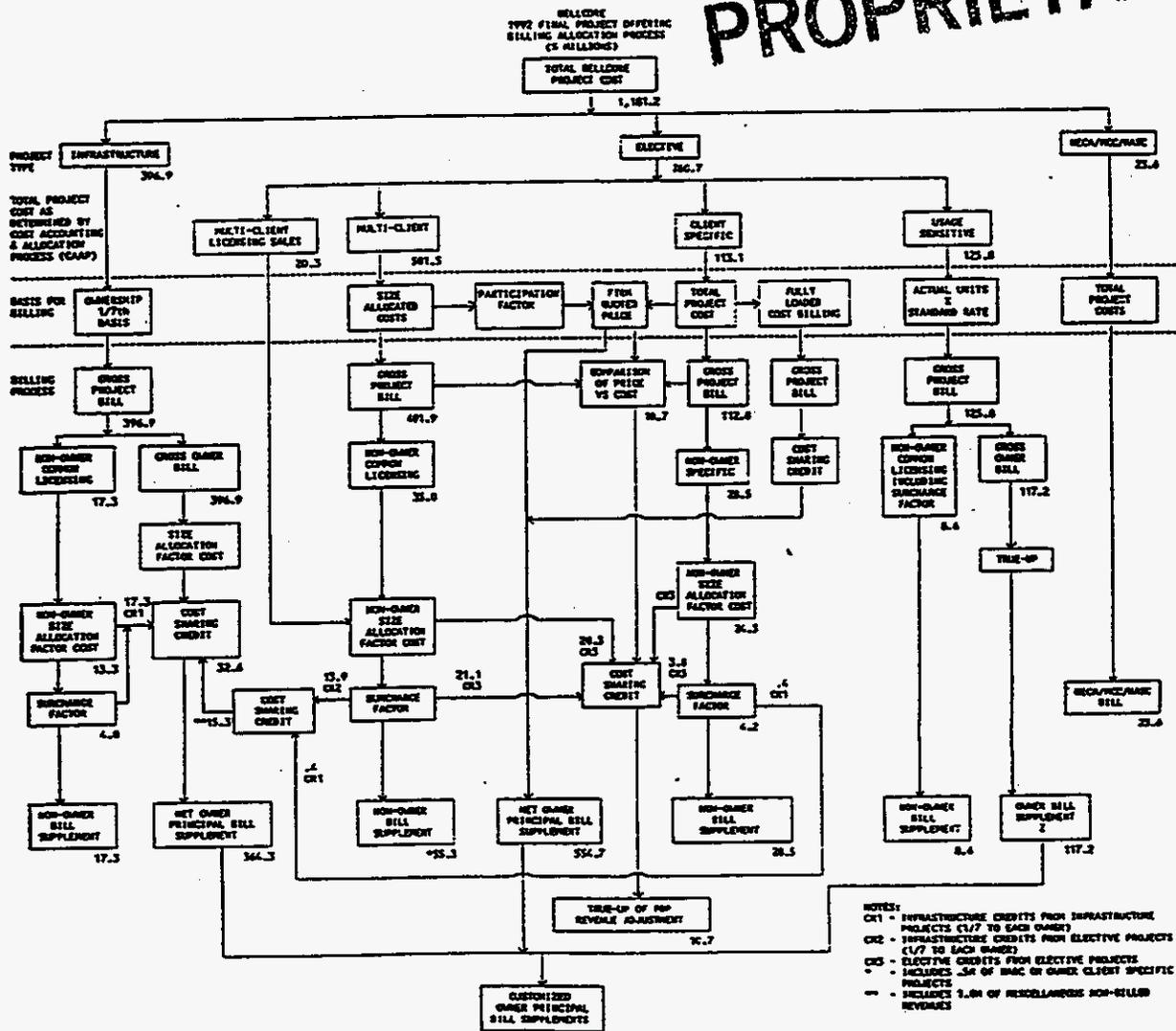
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BELLCORE BILLING & BILLING ALLOCATION PROCESS

1991/1992 FACTORS - BY OWNER-CLIENT (A)
 % of TOTAL

BASIS NO.	ALLOC. BASIS	AMERI-TECH	BELL ATLANTIC	BELL SOUTH	PACIFIC BELL	SOUTH-WESTERN BELL	TELE-SECTOR RES. GRP	US WEST
1	OWNERSHIP	14.3	14.3	14.3	14.3	14.3	14.3	14.3
7	4 YR. AVG. OF TOE & TPIS (a)	14.0	14.4	17.1	13.6	12.4	16.0	12.5

(a) SOURCE: Financial Data for 1984, 1985, 1986 and 1987. Based on the Average of Total Operating Expense (TOE) and Total Plant in Service (TPIS) for the above years as approved by the Board of Directors in October, 1989.

Note: The above allocation factors apply to current project work. However, these factors may be adjusted to accommodate billing and buy-ins associated with Board approved obsolescence discounts.

The following allocation factors no longer apply to current project work. However, their use may affect backbilling associated with buy-ins for multi-year projects.

1987 FACTORS - BY OWNER-CLIENT (B)
 % of TOTAL

BASIS NO.	ALLOC. BASIS	AMERI-TECH	BELL ATLANTIC	BELL SOUTH	PACIFIC BELL	SOUTH-WESTERN BELL	TELE-SECTOR RES. GRP	US WEST
3	EXPENSES	14.1	14.9	16.4	13.8	11.6	16.9	12.3
4	INVESTMENT	13.7	14.2	17.7	13.4	13.1	15.0	12.9
6	ACCESS LINES	15.7	16.5	16.1	12.9	11.8	14.9	12.1
AVERAGES:								
7	EXP. & INV.	13.9	14.6	17.0	13.6	12.4	15.9	12.6

(b) SOURCE: Year-End 1986 Financial Data.

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BELLCORE BILLING & BILLING ALLOCATION PROCESS

DETAIL OF BILLING SUPPLEMENTS

Principal Billing Supplement

Owner

This supplement details Owner billing on Infrastructure and Elective Projects. The supplement is customized to each Owner's requirements which includes billing at the product and program level.

Adjustment to Principal Billing Supplement

Owner

This supplement details any adjustments to Owner billing on Infrastructure and Elective Projects. The supplement is in the same format as the Principal Billing Supplement.

Supplement D

Owner

This supplement provides detail on Conduit (flow-through) billing. This billing is for services rendered to the Owners by non-Bellcore entities for which Bellcore is the billed party. Bellcore pays the bill to the service provider and recovers these amounts from the Owners through Conduit Billing. The amounts for services are shown on Supplement D and are provided to the Owners as a separate bill.

Non-Owners

This supplement provides detail on Conduit (flow-through) billing. This billing is for services rendered to Non-Owners by non-Bellcore entities for which Bellcore is the billed party. Bellcore pays the bill to the service provider and recovers these amounts from the Non-Owners through Conduit Billing. The amounts for the services are shown on Supplement D and are provided to the Non-Owners as a separate bill.

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Supplement F

Owner

This supplement details interest amounts due on unpaid balances and any interest charges associated with project buy-ins.

Non-Owner

This supplement details interest amounts due on unpaid balances.

Supplement I

Non-Owner

This supplement details the PTR/NEIR hours, standard rates and chargeable expenses (i.e. Travel and Living) for licensing revenue billing.

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Supplement T

Owner

This supplement provides billing detail associated with Standard-Rated Usage-Sensitive Work.

Non-Owner

This supplement provides billing detail associated with Standard-Rated Specific Work.

Supplement Y

Owner

This supplement provides detail associated with prior period credits on Usage-Sensitive Projects.

Non-Owner

This supplement provides detail associated with prior period credits on Usage-Sensitive Projects.

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Supplement Z

Owner

This supplement provides detail on Usage-Sensitive Projects (i.e., Bellcore TEC, IMS).

Non-Owner

This supplement provides detail on Usage-Sensitive Projects (i.e., Bellcore TEC, IMS).

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BELLCORE BILLING & BILLING ALLOCATION PROCESS

SUPPORTING DOCUMENTATION

<u>Document</u>	<u>Description</u>
Comptroller's Operations and Procedures - "Bellcore Billing Allocation Manual"	This manual documents the billing allocation methodologies and processes used for allocating billable project costs among Bellcore's Owner-Clients and Non-Affiliates. The manual is organized into two parts. The first part documents the Billing and Accounts Receivable System (BARS) while the second part documents the Standard Rated Billing System (SRBS), a subsystem of BARS. Refer to page 2 of Appendix E for the Table of Contents of the "Billing Allocation Manual".
Billing & Accounts Receivable System (BARS) Procedure and User Manual	This manual is designed to be a reference guide for the BARS user. The manual documents BARS processing and defines the functions and processing steps which the system performs. Each topic covered in the BARS Procedure and User Manual contains the following sections: Overview, Purpose and Scope, Inputs, System Processing, Outputs, Other Reference Areas, Other Considerations and Exhibits. Refer to pages 3-5 of Appendix E for the Table of Contents of the BARS Procedure and User Manual.

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SUPPORTING DOCUMENTATION

Bellcore
Comptroller's Operations and Procedures
Billing Allocation Manual

BELLCORE BILLING ALLOCATION MANUAL

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Purpose and Scope	1
Comptroller's Accounting Instruction 03, "Bellcore Billing & Billing Allocation Process"	2
BARS Processing:	
System Process	3
Allocation Methodologies	4
Detailed Description of Jobstreams	5
Billing Accounts	6
Billing Controls	7
Glossary of Terms	8
SRBS Processing:	
System Process	9
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SUPPORTING DOCUMENTATION

Bellcore
 Billing & Accounts Receivable System (BARS)
 Procedure and User Manual

BARS PROCEDURE AND USER MANUAL

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<u>Section</u>	<u>Part</u>	<u>Description</u>
1.0		Introduction
	.1	General Introduction
	.2	System Overview and Architecture
	.3	Profile Tracking System (PTS)
	.4	General Ledger Interface
2.0		On-Line Procedures/Inquiry
	.1	Logon/Logoff Procedures
	.2	Customer Inquiry
	.3	Invoice Inquiry
3.0		On-Line Functions
	.1	Payment Application and Posting
	.2	Payment Reversal
	.3	Credit Application/Reversal
	.4	Credit Writeoff
	.5	Interest Adjustments
	.6	Invoice Balance Reduction
	.7	BAS Credit Maintenance
	.8	Client Specific Revenue Credits
	.9	Recycle Reject Records
4.0		Miscellaneous Billing
	.1	Conduit
	.2	Miscellaneous
5.0		Journal Entry - on Demand
6.0		Billing Administration/Table Maintenance
	.1	Interest Rate Update
	.2	Disputable Items Update
	.3	Statement Messages

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BARS PROCEDURE AND USER MANUAL

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<u>Section</u>	<u>Part</u>	<u>Description</u>
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	.5	Invoice Mailing Address
	.6	Product Billing - Table Maintenance
	.7	BOC Codes - Table Maintenance
7.0		Balance Master Snapshot
8.0		Product Billing
	.1	Asynchronous
	.2	Monthly
9.0		Interest
10.0		File/Table Maintenance
	.1	Customer Maintenance
	.2	Non-Owner Participants
	.3	Project Participant Summary
	.4	Modify CAP and Retainer
	.5	Client Specific - Price Ceiling limit
	.6	Client Specific - G/L Accounts
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	.8	Allocation Factors
	.9	Project Administrative Information (PAE)
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11.0		Billing Adjustments
	.1	Selective, All Inclusive
	.2	Owner Buy-Ins
	.3	Owner Buy-In Window
	.4	Withdrawal
	.5	Obsolescence Buy-In
	.6	Royalty Fee Buy-In

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	.2	Pre-Pre-Edit Process
		Pre-Edit Process
13.0		Audit Reporting
14.0	.1	Bill Allocations Subsystem Process
	.2	Bill Allocations
	.3	Normal Adjustments
	.4	Revenue Credits
		CR2 Credits
15.0	.1	A/R Monthly
	.2	Accounts Receivable Posting
		Journal Entry Process
16.0		Bill Generation
17.0		Electronic Bill Tape
18.0		Customized Billing and Revenue Reporting
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