

**REDACTED**

AT&T's Responses to BellSouth's Third Set of Interrogatories

Docket No: 030851-TP

12/8/2003

PARTIALLY REDACTED Attachment 122

**PARTIALLY REDACTED ATTACHMENT  
TO  
INTERROGATORY NO. 122**

DOCUMENT NUMBER-DATE  
12656 DEC-98  
FPSC-COMMISSION CLERK



**AT&T Letter Number:** PO 98-XX-XXX  
**AT&T Letter Category:** AT&T Policy Letter  
**Subject:** AT&T Income Statement Classifications  
**Date:**  
**Distribution List(s):** HO689  
**Related Letters/  
Instructions:**  
**To:** Controllers of AT&T Business Units and Divisions, Corporate Vice Presidents  
and Directors in the CFO and Finance Organization in AT&T  
**From:** M. B. Tart  
**Description:** Transmits Accounting Letter (AL), AT&T Income Statement Classifications

The purpose of this letter is to provide general explanations of AT&T policy regarding definitions of income statement categories and items to be included in these categories to ensure consistent financial reporting across AT&T. This letter supersedes PO 90-01-003, *AT&T Financial Statement Classifications - Income Statement*.

This accounting letter contains some clarifications and changes to earlier practices to reflect current operations and practices at AT&T. These changes primarily reflect the refocus of the income statement to a services based format. Areas of significant change include:

- Depreciation and Amortization Expense is separately presented on the face of the external income statement.
- The entire Provision for Uncollectibles Expense is reported in Network and Other Communications Expense.
- Research and Development Expense was redefined to specifically exclude the development of internal management systems in accordance with GAAP.
- Advertising costs were redefined to ensure compliance with Generally Accepted Accounting Principles (GAAP) and AT&T policy that virtually all advertising expenses are expensed as incurred.

The basic principle behind this Accounting Letter is that business units/divisions need to produce reported results that are comparable and consistent with GAAP and customary reporting practices in the industries in which AT&T operates.

**Note:** This AT&T Letter was reformatted and updated in April 1998 as part of a project to provide for online access (via AT&T's internal Internet Web site) to AT&T Letters issued by the CFO Organization.

**AT&T - PROPRIETARY**  
Use pursuant to Company instructions

Questions related to the content of this letter may be directed to Janet Braun at (908) 221-8511.

[signed]

- M. B. Tart  
Corporate Vice President and Controller

Attachment

Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

## **AT&T Income Statement Classifications**

---

### **Executive Summary**

The purpose of this Accounting Letter (AL) is to provide general explanations of AT&T policy regarding definitions of income statement categories and items to be included in these categories to ensure consistent financial reporting across all AT&T entities. The basic principle behind this AL is that AT&T Business Units/Divisions (BU/Ds) need to produce reported results that are comparable and consistent with Generally Accepted Accounting Principles (GAAP) and customary practices in the industries in which AT&T operates.

The guidance for these accounting classifications is derived from a combination of authoritative accounting pronouncements, textbook accounting references, current professional literature, Financial Accounting Standards, Securities and Exchange Commission rules and interpretations, and a knowledge of industry reporting practices. In many areas, the management of a public reporting enterprise, such as AT&T, has some latitude in determining the presentation of line items on its external income statement, so long as the definitions are reasonable and comparable from period to period. To ensure consistent financial reporting, this AL is the authoritative internal document that sets forth AT&T's external income statement presentation and defines our interpretations of where revenues and expenses should be reported.

All account code definition and mapping documents issued throughout the Company, such as the Corporate Reporting Letter (CRL) and Accounting Instruction (AI) No. 2, must be in conformity with this AL. AT&T Corporate Accounting Policy should be consulted for the reporting of any new or unusual items not covered in this policy.

Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

## **AT&T Income Statement Classifications**

---

### Contents

<u>Section</u>	<u>Paragraph Numbers</u>
Purpose and Scope .....	01-02
For Compliance By .....	03
Background .....	04-07
Revenues .....	08-14
Communications Services .....	12
Other Services .....	13-14
Access and Other Interconnect Charges .....	15
Network and Other Communications Expense .....	16-20
Depreciation and Amortization Expense .....	21-22
Selling, General, and Administrative Expense .....	23
Research and Development Expenses .....	24-29
Marketing and Sales-Related Expenses .....	30-40
Marketing and Product Management.....	32
Advertising Expense.....	33-35
Promotions and Offer Costs .....	36-37
Sales and Sales Support.....	38-39
Customer Care .....	40
General and Administrative Expenses .....	41-46
Other Income - Net .....	47-51
Other Income .....	49
Other Expense .....	50-51
Earnings Before Interest and Taxes (EBIT) .....	52
Interest Expense.....	53-54
Income Before Income Taxes .....	55
Provision for Income Taxes .....	56
Contacts .....	57
References .....	58-69

Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

## **AT&T Income Statement Classifications**

---

### **Contents** (continued)

<u>Section</u>	<u>Paragraph Numbers</u>
<u>Attachment</u>	
Questions and Answers .....	70-71

Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

### AT&T Income Statement Classifications

---

[REDACTED]

---

[REDACTED]

[REDACTED]

[REDACTED]

---

[REDACTED]

[REDACTED]

---

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

**AT&T Income Statement Classifications**

---

*[The table content is completely redacted with black bars.]*



Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

### AT&T Income Statement Classifications

---

[REDACTED]

---

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

---

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

**AT&T Income Statement Classifications**

---

[Redacted]

---

[Redacted]

[Redacted]

[Redacted]

---

[Redacted]

[Redacted]

---

[Redacted]

[Redacted]

---

[Redacted]

[Redacted]

---

Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

## AT&T Income Statement Classifications

---

[REDACTED]

---

[REDACTED]

---

[REDACTED]

---

[REDACTED]

---

[REDACTED]

---

[REDACTED]

---

[REDACTED]

---

[REDACTED]

---

[REDACTED]

---

[REDACTED]

---

Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

**AT&T Income Statement Classifications**

---

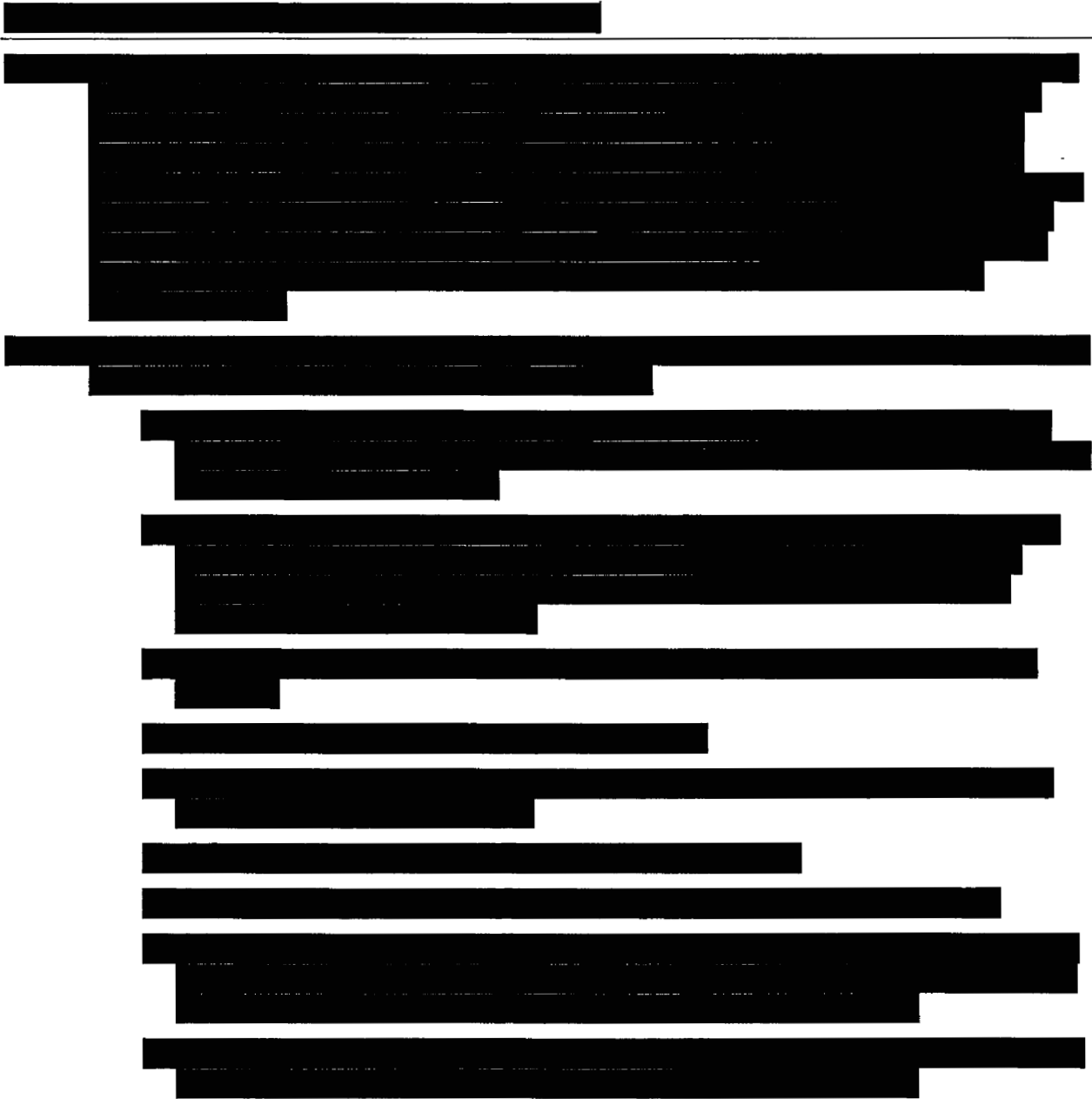
A large rectangular area of the document is completely redacted with black ink, obscuring all text and data that would otherwise be present in the income statement classifications.

Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

### AT&T Income Statement Classifications

---



Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

**AT&T Income Statement Classifications**

---

The table content is almost entirely redacted with black bars. Only the general structure of the table is visible, with some faint lines indicating the grid.



Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

## **AT&T Income Statement Classifications**

---

### **Marketing and Sales-Related Expenses (continued)**

---

#### **Customer Care**

40. Includes costs associated with managing and administering customer accounts. Customer Care includes the following functions and activities:
- Handling customer account inquiries via telephone or correspondence including handling of disputes, account changes (name/address), processing adjustments, and quoting rates and prices.
  - Entering and processing service orders and handling order inquiries.
  - New customer acquisition costs such as when a customer representative engages in "bridge to sales" activities
  - Planning, training and project management functions performed by Customer Care organizations

- 
41. This item includes those costs of an overall corporate nature, such as billing, executive policy development, legal, regulatory, or financial expenses, that are incurred primarily to benefit and support the enterprise as a whole and which cannot be assigned to other major categories of business cost and expense. Major components of G&A expenses are:

- Customer account management - billing operations, - This category includes bill rendering, customer payment processing, credit and collections, and bill printing and mailing costs.
- Contracted billing services - The amounts paid to local exchange carriers as well as other external companies for billing and collecting from AT&T customers should be included in general and administrative expense
- Development of internal sales/administrative/billing systems infrastructure.
- Direct employee benefits - Initial recording of expenses associated with furnishing active and retired employee benefits such as disability, pension, accident, savings plan contributions and retired employee insurance. Active employee insurance is reported in the same category as the employee wages. (Used only by HR Finance)
- Other G&A Expense - Expenses incurred for executive, general, and administrative support functions should be reported in Other G&A expense.



Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

## **AT&T Income Statement Classifications**

---

### **General and Administrative Expenses (continued)**

---

42. Other G&A expense includes the following functions:
- *Executive* – officer level and above (generally sixth level and above and any directly reporting executive support staff)
  - *Accounting and Finance* – accounting and financial reporting, billing and collecting, functions associated with taxes, treasury and insurance operations, financial management, etc.
  - *Public Relations* – media communications, corporate publications, employee information
  - *Human Resources* – policy development on matters relating to personnel, salary, benefits, etc.
  - *Corporate Information Technology Services* – management information systems designed to support corporate functions and general data systems functions which cannot readily be allocated to users
  - *Legal* – general counsel and litigation support, SEC, FCC, and other regulatory, antitrust expenses, etc.
43. In the case where fees are paid to external parties for legal and other services performed in direct connection with an acquisition of an asset, the costs associated with the acquisition should be capitalized as part of the acquisition rather than classified as G&A expense. See AT&T policies PO 93-05-003, AL 10-5, *Cost Recognition and Reporting* and AI 93-04-002, AL 3-6, *Accounting Guidelines for Mergers and Acquisitions*.
44. Examples of costs to be included in Other G&A expense include salaries, wages and expenses of employees performing G&A functions, allocated portions of employee benefit expenses, occupancy charges such as rent, utilities and house service, material and supplies and allocated portions of support services such as clerical and secretarial work, printing and reproduction, and allocated management information systems costs.
45. Overhead expenses which *directly support* business functions, e.g., payroll time reporting and input performed within a functional (e.g., Marketing) organization for functional (e.g., Marketing) workers, should be classified to accounts associated with the functions being supported (e.g., M&S).
46. Interest accruals on all tax related items is considered an overall corporate expense and should be reported in the general and administrative category.

Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

**AT&T Income Statement Classifications**

---

The table contains approximately 10 rows of data. Each row is almost entirely obscured by a thick black redaction bar. Only small fragments of text are visible at the beginning and end of each row, but the specific content is illegible.

Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

### AT&T Income Statement Classifications

---

The majority of the page is obscured by large black redaction boxes. These boxes cover the content under the 'AT&T Income Statement Classifications' header and extend down to just above the footer. The redactions appear to be in the shape of horizontal bars of varying lengths, suggesting they are covering rows of text or data in a table or list.

Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

### **AT&T Income Statement Classifications**

---

[REDACTED]

---

[REDACTED]

[REDACTED]

[REDACTED]

Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

**AT&T Income Statement Classifications**

---

[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]

Issued: April, 1998  
Effective: January, 1998  
Reformatted:

AT&T Letter No: PO 98-nn-nnn  
CFO Letter No: *Reserved for future use*  
Accounting Letter No: 1-4  
Issued By: Controller Division

**AT&T Income Statement Classifications**

---

[REDACTED]

---

[REDACTED]

---

[REDACTED]

---

[REDACTED]

---

[REDACTED]