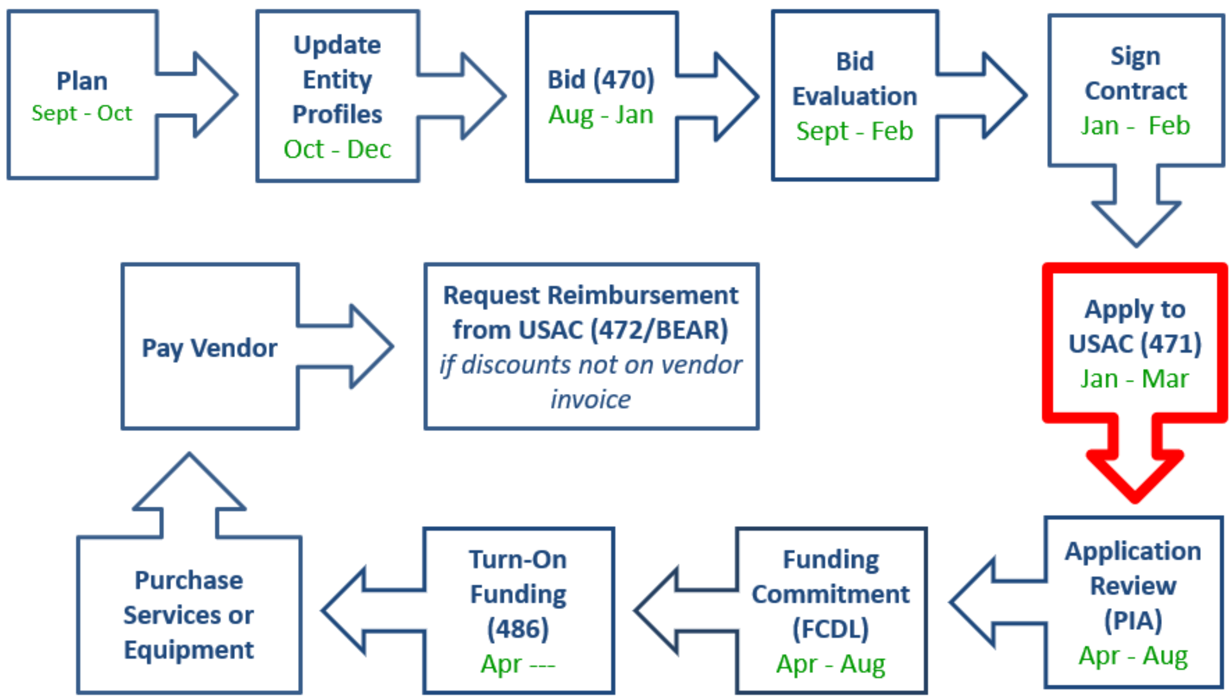
Filing the Form 471



To apply for Schools and Libraries (E-rate) Program discounts, file a Form 471 to provide USAC with information about the services or equipment you are requesting and the entities that will receive the services or equipment. USAC will review your request(s), may ask for additional information, and will then issue a funding decision for each request.

Applicants must file the Form 471 in the E-rate Productivity Center (EPC) during the specific application filing window each year. In general, the application filing window opens about six months before the start of the upcoming funding year and is open for about two and a half months. The specific opening and closing dates of the filing window are published in the fall before the filing window opens each year. Typically, the window is open from early January – mid March.

For each funding request, you must also provide the following:

- Information on telephone and internet access connections and speeds ("Funding Request" section)
- A description of services or equipment
- Specific information on each service, set of services, or equipment you are requesting:
    - Service provider name and Service Provider Identification Number (SPIN), also known as the service provider's 498 ID
    - Cost of the service or the equipment
    - Contract number and other contract details (if there is a contract)

- Start and end dates of service
- Worksheet(s) identifying the entity or set of entities receiving each service or the equipment

The Form 471 must be certified on or before the close of the application filing window.

Preparing to File the Form 471
The Form 471 must be filed online in the applicant's EPC portal. Before beginning the Form 471 application, the applicant should update all of the information that is stored in the portal, which is then incorporated into each Form 471 that the applicant may create.

The stored data that should be reviewed and/or updated each year to ensure accuracy, are:

- **Managing Organization Relationships** – link the billed entity to a consultant and/or a consortium.
- **Review and update all entities that are "child" entities of the "parent" billed entity.** All schools and non-instructional facilities that are part of a district must be linked in the billed entity's EPC portal and updated enrollment and NSLP information should be entered.
    - Contact Client Service Bureau at 888 203 8100 to request any of the following modifications:
        - the creation of a new entity
        - closing of an entity/moving it to inactive status
        - Link an existing entity to your billed entity including non-instructional facility buildings
- **Contracts** - enter information for contracted services

Cost Allocation Guidelines for Products and Services

Overview

E-rate funds may only be used for services and products used by eligible entities for an eligible purpose (i.e., a primarily educational purpose). When a product or service contains ineligible components, a cost allocation is required to remove the ineligible components so that only the eligible portion is funded.

A cost allocation requires a clear delineation between the eligible and ineligible components. Several methods of cost allocation can be used (see below), but they must be based on tangible criteria that reach a reasonable result. The price for the eligible portion must be the most cost-effective means of receiving the eligible service.

In isolated cases, ineligible features are an insubstantial and inseparable part of a product or service. For example, certain internet access services include built-in content filtering as part of the service. As this component is a part of the standard product offering and there are no itemized costs associated with this component, the filtering would be considered "ancillary" and would not require cost-allocation.

Ineligible functionality is considered “ancillary” if:

- A price for the ineligible component cannot be determined, and
- The product or service is the most cost-effective means of obtaining the eligible functionality without regard to the value of the ineligible functionality.

Applicants and service providers must be sure that they do not “hide” the attempted procurement of separable ineligible features in funding requests through the use of a single line item charge that is not cost allocated. If the ineligible costs can be separated from the overall charges, the applicant must exclude the ineligible amount from their funding request and pay for the ineligible features with their own funds.

For more information about ancillary use, please refer to **https://www.usac.org/e-rate/applicant-process/before-you-begin/eligible-services-overview/ancillary-use/**

Free or Discounted Services

When a package of products and services has mixed eligibility, applicants and service providers must follow the cost allocation procedures provided above. The allocation cannot be inappropriately weighted in a way that subsidizes the ineligible services. The Free Services Advisory provides further detail to help applicants and service providers avoid arrangements that are contrary to program rules.

USAC Review of Cost Allocation

In general, applicants are expected to provide cost allocation to USAC as a part of their funding requests on the Form 471 application to remove the ineligible portion. USAC reviewers will evaluate whether the cost allocation meets the criteria of being based on tangible criteria that reach a realistic result.

If no cost allocation information is submitted by the applicant and USAC determines that cost allocation is required, the following approach is used:

- **Cost of Ineligible Items Known:** If the service provider or manufacturer of the product has submitted cost allocation information to USAC, then that information may be used. Prior to modifying the funding request, USAC will inform the applicant of the intended modification. If the applicant does not agree with the intended modification, the applicant will be asked to provide an alternative cost allocation identifying the cost(s) of the ineligible item(s).

- **Cost of Ineligible Items Unknown:** USAC will request documentation from the applicant identifying these costs so they may be removed from the funding request. The applicant may choose to split the Funding Request Number (FRN). Splitting the FRN involves removing the ineligible items from the original FRN and placing the ineligible items in a new FRN.

In either case if the applicant disagrees or USAC does not have sufficient information, the 30% Rule may apply. The 30% Rule states that if 30 percent or more of the products or services included in a single funding request are ineligible, the funding request will be denied.

In all cases of cost allocation regardless of service type, USAC will contact the applicant to inform them of the intended funding request reduction. This additional contact allows the applicant to confirm the cost allocation (if they agree with it) or challenge the cost allocation by submitting alternative information and supporting documentation.

Note: If cost allocation is required for a component, then cost allocation is also required for the installation and maintenance and taxes of that component.

Methods of Cost Allocation
Possible methods for cost allocation include the following.

- If a product bundle has individualized pricing for the components, the individualized pricing can be used to determine a cost allocation.
- Components that have multiple purposes or support both eligible and ineligible functions can be cost allocated by using a simple average of the different functions for a product. (See example 3 below).
- Some, but not all, technical services are eligible for discount. Applicants may submit a fair and accurate determination of resources to be utilized for each part of a project, for example, a work log demonstrating the time spent on ineligible tasks.
- A service can in some cases serve both an eligible and ineligible location. An itemized bill identifying which locations are receiving services may be used to ensure only eligible sites are being funded. Absent itemized vendor documentation, a snapshot or statistical sample that shows the percent of use for each location may be submitted. Entities, including consortia, may review the number of lines/circuits each entity is receiving and perform a straight line allocation from the total charges to attribute costs per entity.
- In some cases, the up-front infrastructure costs of a telecommunications or Internet access service can be eligible for support, but only the portion that is attributable to the applicant.

Because products and services can be used in many different ways, no single cost allocation methodology is required. However, any methodology must meet the test of being based on tangible criteria that reach a realistic result.

Requesting Funding
When cost allocation is required, the FCC Form 471 should provide clear information that will allow an efficient review by USAC. It should contain separated pricing for the eligible and ineligible components and sufficient information to determine if the cost allocation is reasonable.

Applicants should be sure that they include accurate cost allocation information as part of funding requests.

Contracts for products and services should be tailored to indicate appropriate cost allocations in the event that a copy of the contract is requested as part of USAC's review.

Manufacturer and Service Provider Submissions for Cost Allocations
Manufacturers or service providers that wish to submit cost allocation information to USAC may submit the information via their EPC portal or via email to manufacturerproducts@sl.universalservice.org with the subject line of "Cost Allocation Information."

Cost Allocation Examples

The following examples are representative only rather than all-inclusive.

Example 1: A bundle of products and/or services consists of components that have individualized pricing.
If the standard costs of the service provider are available for the components of a product bundle, these costs can be used to determine the eligible portion. For example, assume that, for a firewall that costs $5,000, standard pricing of the components is as follows: Hardware $3,800, operating software $1,000, spam license (ineligible) $100, and intrusion prevention license (ineligible) $100. These individual prices must be separately identified in the documentation between the applicant and service provider. In this case, only the hardware and operating system software are eligible so the eligible cost of the product bundle is $4,800.

In some cases a single physical product will combine the functions of several components. The same approach is used in such cases, most typically by the manufacturer submitting acceptable cost allocation information to USAC.

Example 2: A bundle of products and/or services includes a discount.
Assume that an applicant leases an eligible telecommunications service bundle for $150 per month and that use of four ineligible telephone sets are provided with this service. Only the transmission component of this bundled offering is eligible for support.

Assume that the itemized individual price of the telecommunications service is $140 and the usual price for lease of the four telephone sets is $60 for a total price of $200 prior to the discount. The discount provided must be allocated evenly between the eligible and ineligible components. That is, the bundled price of $150 represents 75 percent of the sum of the itemized pricing for the eligible telecommunications service and the ineligible telephone sets. (Calculations: $150 / $200) Therefore the eligible portion of the bundled offering is the unbundled price of the eligible portion ($140) times the discount provided (75 percent), or $105.

Example 3: Components that have multiple purposes.
A component may support both eligible and ineligible devices depending on what it is being used for/with. If, for example, a UPS device supported a router (eligible), a switch (eligible) and an email server (ineligible), cost allocation can be based on these functions. In this example, two out of three functions are eligible. The applicant can show this determination as a part of its funding request and seek funding for the portion of the server (67 percent) that is eligible.

Example 4: A Category One service that is accessible from both eligible and ineligible locations.
Assume that a single Internet service is accessible from both a school and an ineligible facility. Applicants can submit an estimate of the percent of use at each location in order to obtain funding for the eligible portion. Such an estimate must be reasonable and must be compared with actual statistical information once service takes place. A true-up may be attached to an invoice submitted on paper to reconcile any differences between the initial estimate and the actual usage figures.

Cost Allocation for Ineligible Entities

Schools and libraries as well as service providers should consider these guidelines when:

- Schools and libraries and service providers negotiate their contracts for contracted services or agreements for tariffed or month-to-month services;
- Schools and libraries complete and submit their 471 applications;
- Service providers prepare their bills for services to eligible schools and libraries; and
- Service providers submit their invoices to USAC for payment.

Allocation of Discounts

When eligible and ineligible entities share services, discounts can only be provided for that portion of the service that eligible entities are receiving. Documentation establishing any cost allocations and related information must be retained for at least 10 years after the last day of service delivered in a particular funding year.

The Following Guidelines Should Be Followed:

1. Service or Connections Where Usage is Tracked - Service providers and customers must itemize the services for which the customers plan to apply for discounts in their contracts/agreements. Where usage of eligible services is tracked by the service provider, the service provider should itemize the bill so that costs attributable to eligible schools and libraries are separate. The bill submitted by the service provider must identify the pre-discount price of eligible services.

2. Service or Connections Where Usage Is Not Tracked - Eligible entities can receive discounts for eligible services that are shared with ineligible entities where it may not be feasible to track usage in order to allocate costs among these entities. In those cases, the consortium members cooperating to purchase the common service or connections have to agree in advance among themselves on how to allocate costs, based on their estimated relative use of the resulting service.

The cost allocation methodology must be based on a usage measure. Examples of such measures are:
- Number of connections (trunks or lines or wireless connections) operated by each consortium member;
- Number of connections (trunks or lines or wireless connections) operated by each consortium member and period of time of operation of the trunks or lines or wireless connections (a proxy for minutes of use)

The cost allocation methodology should be set forth in the contract/agreement for services executed with the service provider. If there is no contract for services (as may be the case for tariffed or month-to-month services), the customer should provide the service provider with a copy of its cost allocation methodology.

The cost allocation methodology may be established permanently, or it may be reviewed periodically. This methodology must be documented as part of the record keeping responsibilities of the Form 471 applicant, who must maintain records of how the costs of services shared with ineligible entities are allocated.

In those situations where the service provider remits one bill to the consortium for all the services rendered to all members of the consortium (which may include ineligible entities), then the allocation methodology must be provided by the lead consortium member to the service provider in advance, so that the service provider may compute the discount portion of the bill.

Examples of Allocation Methodologies

Number of Lines - A consortium comprising both eligible and ineligible entities may choose to allocate the pre-discount price among each member according to the number of lines used by each member.

For example, if there are five entities comprising the consortium, the service provider issues one bill to the lead consortium member, and there are five lines used by each consortium member, each member would be allocated 1/5 or 20% of the bill. The pre-discount price for the consortium would be the sum of the pre-discount price allocated to each eligible school or library. Thus, if only four of the five entities are eligible for discounts, then the discounts would be applied to 80% of the price billed by the service provider.

Number of Lines and Hours of Operation - The consortium also may decide to allocate the pre-discount price among each member according to the number of lines and the period of time each line is used by each member. In the above example, assume further that there are five entities comprising a consortium of eligible and ineligible entities, and there are five lines used by each consortium member.

Assume further that one member of the consortium operates 24 hours per day and the other entities use their lines 10 hours per day. The consortium could agree to weight the allocation methodology according to both the number of lines and the hours of use by each school or library as follows:

Consortium Member	No. of Lines	Hours of Use	Total
1	5	10/day	50 hours
2	5	10/day	50 hours
3	5	10/day	50 hours
4	5	10/day	50 hours
5	5	24/day	120 hours
			Total hours: 320

Each of the first four consortium members would be allocated 50/320 or 15.6% of the bill from the service provider. The fifth consortium member would be allocated 120/320 or 37.5% of the bill from the service provider.

471 Guidance Re Transition to New Broadband Service

When applicants select a new broadband service provider, the parties' contract often may plan for service to begin July 1 of the funding year but for various reasons, the installation and commencement of service may be delayed. When applicants prepare their Form 471 applications, they may be faced with the question of how to file their Form 471 application and reflect the potential for this delay of service with the new vendor.

E-rate rules limit applicants to request only 12 months of service (and costs) for the broadband service. This means that applicants **may not** file FRNs for both the new and old service providers' costs because this would violate the "duplicative services" restriction. The SLD's filing procedures also will not allow your Form 471 application to be held for processing until installation of the new service is completed.

With these conditions in mind, there are different scenarios that may arise with transitioning to a new service provider <u>when you are unsure of the date when the new service will be in operation</u>, depending on whether the transition will occur all at once or will be staggered; and depending on whether the new service is more expensive or less expensive than the old service. It is recommended that you review and use the following informal guidance when preparing your Form 471 application. Please note that this is informal guidance that has not been approved by the SLD or FCC.

The goal is to request 12 months of a service at the higher contract cost, and then after the new network is turned-up, do a true-up with USAC via a post-commitment process.

Summary of Form 471 Filing Guidance:

- **Always refer to the new contract record when creating the FRN:** Then request funding at the **higher contract cost even if it is for the old contract**. Whenever you rely on the old contract prices, explain in the FRN Narrative Box that there likely will be a DELAYED TRANSITION OF SERVICE where the new contract has lower prices than the old contract. PIA should then ask you to substantiate the higher prices and you can either send them a current invoice or refer them to your previous Contract Record in EPC (let me know if PIA balks at this).

- **Where all circuits will be cut-over on the same date**: Submit 1 FRN, requesting the higher cost and higher speed for 12 months.

- **Where circuits will be cut-over on different dates**: 2 OPTIONS: a) Submit 1 FRN for each circuit, requesting the higher cost and higher speed for 12 months, or b) Submit 1 FRN for all of the circuits, then submit a post-commitment request to break down the original FRN into multiple FRNs based on cut-over dates. Note: EPC will not allow for different line items with different number of months of service which is why the original FRN would have to be separated into multiple ones.

Other:

- If you know the EXACT date of your network cut-over (and are 100% sure it won't change), only then should you file 2 FRNs – one for the months with the old vendor and one for the months with the new vendor.
- If cut-over dates become known during PIA review (but prior to funding commitment), ask the PIA reviewer to split the FRN during their review.
- Recommendations to applicants/service providers: If at all possible, do these 2 things:
    1. Cut over all circuits on the same date.
    2. Have any and all circuits cut-over on the last/first day of the month so that no funding is lost (EPC currently cannot split months in system).

Then What Happens: After the network cut-over is complete, there will be a post-commitment process available to do a "true-up" with USAC where they will create multiple FRNs so you receive E-rate funding for both the new contract and the "hold-over" service that was provided before the cut-over was complete. We're working with USAC to provide "official" guidance on what that post-commitment process should entail to make it as easy as possible for affected applicants. If the new guidance is not issued by SLD, then the existing SPIN change procedure will have to be used and split FRNs will need to be created. Stay tuned for more information in the coming months.