



Interstate Telecommunications Cooperative, Inc.

312 4th Street West
P. O. Box 920
Clear Lake, South Dakota 57226-0920

Phone 605-874-2181
Fax 605-874-2014
Web <http://itctel.com>

October 27, 2003

Director, TA&I-FSP
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

RE: Comments on Proposed FSP

To Whom It May Concern,

As the General Manager of a Telephone Cooperative, I am writing to comment on Proposed FASB Staff Position FAS 150-c. Members of a cooperative join primarily to receive the benefit from patronizing the business, not to receive a return on their investment. Members provide equity capital to the cooperative to finance its business operations, but they may choose to redeem equity to deceased members or others no longer doing business with them in order to keep ownership in the hands of members actively doing business with the cooperative. However, attempts to align ownership of the cooperative with its use by members are always subject to the fiduciary duty of the board of directors to the financial well-being of the entire cooperative.

Member equity, though, always retains the character of equity and the board of directors has the discretion to redeem or not to redeem it. Courts have affirmed that the board of a cooperative can "exercise the discretion it has been granted to determine when the cooperative is financially able to redeem patronage equity," *Great Rivers Cooperative v. Farmland Industries*, 198 F.3d 685 (1999). The board does not have this discretion for debt owed by the cooperative. When a cooperative finds itself in bankruptcy, all of the creditors are paid before any of the equity held by members is redeemed.

Many accountants familiar with the policies and practices of cooperatives plan to continue presenting member equity in a cooperative as equity on its balance sheet. At least one accountant, though, has notified its cooperative client that it intends to reclassify member equity as a liability based on its interpretation of FAS 150. Since there appear to be divergent practices among accountants on this issue, the Board should clarify its position and hold that member equity is not mandatorily redeemable and will be treated as equity on a cooperative's balance sheet when the board of directors retain the authority to redeem that equity.

Reclassifying member equity in a cooperative as a liability on its balance sheet could also result in a legal obligation to redeem that equity. The authority of the cooperative's board of directors, now recognized by law, will be compromised and member equity would truly become mandatory obligations of the cooperative. This would seriously impair the ability of the cooperatives to raise and retain capital for their business operations.

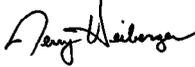
Interstate Telecommunications Cooperative, Inc.'s equity is approximately 45%, of that, approximately one half is member capital credits. If FASB 150 causes us to reclassify our equity,

we would no longer meet the requirements of our lenders. This would cause us to pay higher interest payments on debt. Just this past September, under the board's discretion, ITC paid out over 2 million dollars in Capital Credits. This paid out 100% of 1993 and 50% of 2001. This makes the oldest year of unpaid capital credits to be 1994.

We ask that you please consider the potential impact of FASB Statement 150, and the reasons that we feel make Capital Credits equity.

Sincerely,

Interstate Telecommunications Cooperative, Inc.

A handwritten signature in cursive script, appearing to read "Jerry Heiberger".

Jerry Heiberger
General Manager