

*TELECOM ACCOUNTING IN
A BRAVE NEW WORLD:
USOA AND OTHER ISSUES*

*NTCA 2006 Finance & Accounting Conference
September 7, 2006*

Presented by:

Rose Blakely, CPA

Curtis Blakely & Co., P.C.

P. O. Box 5486

Longview, TX 75608

903.758.0734

rblakely@cbandco.com

www.cbandco.com

RTB LIQUIDATION ISSUES

- On August 4, 2005, the RTB Board approved the liquidation and dissolution of the Bank
- On November 10, 2005, President Bush signed the Agriculture Act. The Act permits the retirement of RTB Class A stock in the event of the bank's liquidation
- On January 10, 2006, stock redemption agreements were shipped

ACCOUNTING FOR THE REDEMPTION

- RTB Class B and C stock will be redeemed at par value. Par Value is \$1 for Class B shares, and \$1,000 for Class C shares
- Any remaining funds at the end of the liquidation process will be shared pro-rata by Class A and B shareholders

ACCOUNTING FOR THE REDEMPTION

- RUS requires the original cost and stock dividends of the Class B and C shares to be accounted for in accounts 1402.1 and 1402.2 – Investments in nonaffiliated companies – Class B and Class C stock
- The par value of Class B stock received as a patronage refund are accounted for in account 1402.1 and as a credit to account 1402.11

ACCOUNTING FOR THE REDEMPTION

- Noting that the Ag Bill was signed in 2005, and the redemption agreements were shipped in 2006, creates an issue regarding the year the event should be recorded
- There are two schools of thought on this topic
 - 1) GAAP Concepts state that contingent assets should not be recognized until all contingencies have been resolved (i.e., record in 2006)
 - 2) An AICPA SOP 85-3 states that patronage refunds should be recorded in the period that the amount can be estimated and is expected to occur (i.e., record in 2005)

ACCOUNTING FOR THE GAIN

- The previously unrecognized portion of the redemption (i.e., Class B stock patronage dividends) represents patronage assignments for current and prior years
- Again there are differing schools of thought regarding the nature of the gain
 - 1) Operating (7160) – Supported by SOP 85-3
 - 2) Nonoperating (7360) – Supported by RUS and NECA
 - 3) Extraordinary (7610) – The event is unusual and infrequent – Supported by RUS

COST STUDY ISSUES

- Remove the cost of any RTB stock included in the interstate rate base
- Any future pro-rata gain received associated with the redemption must be reflected as a reduction in the revenue requirement
- Amounts received redeeming patronage refunds in the form of shares is not operating income and not reportable for interstate study purposes

COST STUDY ISSUES

- RTB stock is not recognized in reporting of USF data; and therefore, any gain and taxes associated with the redemption is not reportable for USF loop cost calculations

STATUS OF RTB LOANS

- The RTB loan portfolio and cash was transferred to the RUS in consideration for its Class A shares in the RTB
- Loan payments will continued to be billed and repaid in the same manner

STATUS OF RTB LOANS

- Un-advanced loan funds on loans approved on or after October 1, 1991, are still available for advance
- No additional funds for loans approved on or before September 20, 1991, will be advanced after September 30, 2005

STATUS OF RTB LOANS

- See RUS Draft Copy that follows relative to Current and Proposed Guidelines for Recording Dissolution of the Rural Telephone Bank and Redemption of all RTB Stock

Dissolution of the Rural Telephone Bank and Redemption of all RTB Stock

Current Guidance

102 Rural Telephone Bank Stock

A. Capital stock issued by the Rural Telephone Bank consists of Class A, Class B, and Class C stock. Class A stock is issued only to the Administrator of RUS on behalf of the United States in exchange for capital furnished to RTB.

B. Class B stock is issued only to recipients of loans under Section 408 of the Rural Electrification Act (RE Act). Borrowers receiving loan funds pursuant to Section 408(a) (1) or (2) of the RE Act are required to invest 5 percent of the amount of loan funds approved in Class B stock. ~~No dividends are payable on Class B stock. All holders of Class B stock are entitled to patronage refunds in the form of Class B stock under the terms and conditions specified in the bylaws of the RTB.~~

C. Class C stock is available for purchase by borrowers, corporations, and public bodies eligible to borrow under Section 408 of the RE Act, or by organizations controlled by such borrowers, corporations and public bodies. The payment of dividends is in accordance with the bylaws of the RTB.

Accounting Requirements

A. The purchase of RTB stock required by the RE Act shall be debited to Account 1402.1, Investments in Nonaffiliated Companies--Class B RTB Stock. Patronage refunds in the form of additional shares of RTB Class B Stock shall be debited to Account 1402.1 and credited to Account 1402.11, Investments in Nonaffiliated Companies--Class B RTB Stock--Cr.

B. Purchases of Class C RTB stock shall be debited to Account 1402.2, Investments in Nonaffiliated Companies--Class C RTB Stock. Cash dividends received on Class C RTB stock shall be credited to Account 7310, Dividend Income.

C. Once a borrower has repaid all of its RTB loans; it may request that its Class B stock be converted to Class C stock. When the conversion is made, Account 1402.2 shall be debited and Account 1402.1 shall be credited for the face value of the stock converted. Account 1402.21, Investments in Nonaffiliated Companies--Class C RTB Stock--Cr., shall be credited and Account 1402.11 shall be debited for the face value of the Class B stock that has been received as patronage refunds.

Original Purchase of Class B Stock

1402.1	Investments in Nonaffiliated Companies--Class B RTB Stock	XXX	
1120	Cash		XXX

Patronage Refunds

1402.1	Investments in Nonaffiliated Companies--Class B RTB Stock	XXX	
1402.11	Investments in Nonaffiliated Companies--Class B RTB Stock--Cr.		XXX

Original Purchase of Class C Stock

1402.2	Investments in Nonaffiliated Companies--Class C RTB Stock	XXX	
1120	Cash		XXX

Dividends on Class C Stock

1120	Cash	XXX	
7310	Dividend Income		XXX

Conversion of Class B to Class C Stock

1402.2	Investments in Nonaffiliated Companies--Class C RTB Stock	XXX	
1402.1	Investments in Nonaffiliated Companies--Class B RTB Stock		XXX
1402.11	Investments in Nonaffiliated Companies--Class B RTB Stock--Cr.	XXX	
1402.21	Investments in Nonaffiliated Companies--Class C RTB Stock--Cr.		XXX

Proposed Guidance

107 Dissolution of the Rural Telephone Bank

Dissolution of RTB and Redemption of Class B & Class C Stock

1120	Cash	XXX	
1402.11	Investments in Nonaffiliated Companies--Class B RTB Stock--Cr.	XXX	
1402.21	Investments in Nonaffiliated Companies--Class C RTB Stock--Cr.	XXX	
1402.1	Investments in Nonaffiliated Companies--Class B RTB Stock		XXX
1402.2	Investments in Nonaffiliated Companies--Class C RTB Stock		XXX
7360	Other Nonoperating Income		XXX

Note: If the effect of this transaction will significantly distort the income statement, this guidance will serve as prior approval to use Account 7610, Extraordinary Income Credits, if the criteria addressed in the account definition are met.

To reflect income tax effect of dissolution of bank

7420	Nonoperating Federal Income Taxes	XXX	
7430	Nonoperating State and Local Income Taxes	XXX	
4070	Income Taxes – Accrued		XXX

INCOME TAX ISSUES

- Redemption of Class B and C stock equal to the original cost of the stock is a return of basis
- Redemption of Class B Patronage Refunds and the portion of Class B Patronage Refunds converted to Class C stock (account 1402.21) results in a taxable gain
 - RTB gain equals credit in accounts 1402.11 and 1402.21
 - Taxable income in the year redeemed
 - Possible book-tax timing difference depending on the year recognized for book

INCOME TAX ISSUES

- Member vs. Non Member
 - RTB is not a member of the Coop
 - Gain (not proceeds) is included in the 85% test in the year it is received
 - Will likely cause the Coop to fail the 85% test and be taxable

INCOME TAX ISSUES

- Patronage vs. Non Patronage
 - The RTB stock was acquired from business done *with/for* the patrons of the Coop
 - The activity (financing capital improvements) is related to the business of the cooperative
 - Acquisition of B stock was mandatory
 - The B stock is included in rate base
 - Therefore Patronage

INCOME TAX ISSUES

For Investor Owned Corporations:

- Ordinary vs. Capital Gain
 - B stock follows IRS rules where amounts allocated on the basis of the business done in the form of capital stock is taxable as ordinary income in the year it is received - ordinary
 - Arguably, C stock should follow the same rules since it was acquired from the conversion of B Stock – ordinary
 - C stock follows the rules on capital assets since it was not received on the basis of business done with patrons - capital
 - Agway, Inc. vs. US (696 F2d 1367) decided that the redemption of cooperative stock is capital gain
 - Conclusion: Present both arguments to client and let them choose

INCOME TAX ISSUES

- Taxable Income in Year Booked vs. Year Received?
 - Included in income in the year it is received

INCOME TAX ISSUES

- Operating vs. Non Operating
 - B Stock–Operating – received as patronage dividend based on the interest expense paid to RTB
 - Is included in rate base and thereby increases operating revenue
 - C Stock–Non Operating – not included in rate base
 - Receives fixed annual dividend

INCOME TAX ISSUES

- Can the gain be excluded from income through the use of the patronage exclusion?
 - Patronage sourced operating income (from the B stock) is required to be allocated to members under all cooperative bylaws and constitutes a pre-existing legal obligation to allocate – yes

INCOME TAX ISSUES

- Patronage sourced nonoperating capital gain (from the C stock) is excludible from income if there is a pre-existing obligation to allocate it
- May require amendment of bylaws to require allocation of patronage sourced nonoperating income

INCOME TAX ISSUES

- What rules apply to the allocation of patronage income?
 - Allocation must be fair/equitable
 - Consistently applied
 - Based on business done with the Coop
 - Pre-existing legal obligation to allocate
 - Capital gains are normally allocated based on the historic patronage of the patrons served by the asset

INCOME TAX ISSUES

- Allocation over the entire life of the asset is not required
- Options
 - Based on current capital credit balances
 - Based on patronage over life of investment
 - Based on patronage over X years
 - Exclude former members?

INCOME TAX ISSUES

- Circular 230 Notice
 - The contents of this presentation and written handouts are not intended or written to be used, and cannot be used, by any taxpayer for the purpose of (1) avoiding penalties that may be imposed on the taxpayer by the Internal Revenue Code or (2) promoting, marketing or recommending to another party any transaction or other matter addressed herein. This notice is included pursuant to U.S. Treasury Regulations governing tax practice

IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS

- Occasionally, changes in operating conditions raise doubts about a company's ability to fully recover the carrying value of a particular long-lived asset. SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, provides guidance on the recognition and measurement of an impairment loss

WHEN IS IMPAIRMENT ASSESSMENT NECESSARY?

- Definition
 - *Impairment* is the condition that exists when the carrying amount of a long-lived asset (asset group) exceeds its fair value.
- Whenever events or circumstances indicate the carrying amount (typically, net book value) of an asset may not be recoverable and exceeds its fair value.

EXAMPLES OF IMPAIRMENT INDICATORS

- Market value of asset significantly decreases
 - For example: Competition drives prices down (revenue decreases)
- Adverse change in physical condition of asset or the way it is used
- Adverse change in legal factors or business climate (e.g., actions of regulators)

EXAMPLES OF IMPAIRMENT INDICATORS

- Cost to construct or acquire asset are higher than planned
- Historical and forecasted operating or cash flow losses from using the asset (could be the result of competition)
- Expectation that asset will be disposed of prior to end of useful life

EXAMPLES OF IMPAIRED ASSETS

- Fiber cable routes used to provide leased capacity to third parties
- Wireless equipment that will be replaced by newer technology
- Wireless equipment that produces decreased revenues due to loss of roamer revenues

THREE CLASSIFICATIONS

- Assets held and used
- Assets held for disposal, other than by sale (e.g., abandonment)
- Assets held for sale

ASSETS HELD AND USED OR HELD FOR ABANDONMENT

- Estimate undiscounted expected cash flows from the asset or assets
 - These estimates of future cash flows should include only the future cash flows that are directly associated with the use and eventual disposition of the asset or assets
- Determine carrying value (typically, net book value)
- If carrying value exceeds undiscounted cash flows, an impairment loss is recognized

ASSETS HELD AND USED OR HELD FOR ABANDONMENT

- Impairment loss is recorded at excess of carrying amount over fair value
- $\text{Book Value} (-) \text{Fair Value} = \text{Loss}$
- Reported as a current period expense and included in income from continuing operations
- If not separately presented on the face of the income statement, must disclose amount in footnotes

ASSETS HELD AND USED OR HELD FOR ABANDONMENT

- Suggest recording a valuation allowance rather than decreasing asset to maintain original cost history (which is the same as tax)
- Should not adjust for subsequent increases in fair value
- Adjusted carrying value is the basis for depreciation which should be calculated over the estimated remaining useful life

DETERMINING FAIR VALUE

- Fair value is the amount at which an asset could be bought or sold in a current transaction between willing parties, other than in a forced liquidation sale
- Best evidence is a quoted market price
- Prices for similar assets and present value techniques are acceptable (i.e., discounted cash flows)
- Must disclose method used

ASSETS HELD FOR SALE

- Management must have authority and be committed to sell
- Asset, in its present condition, is immediately available for sale
- Asset is being actively marketed
- Sale is expected within one year
- It is unlikely that the plan to sell will be abandoned

ASSETS HELD FOR SALE

- Recognize loss to the extent the carrying amount exceeds estimated fair value less selling costs
- Fair value can usually be determined from a firm offer
- Can recognize gain for subsequent increase in fair value but only to the extent of cumulative impairment losses

ASSETS HELD FOR SALE

- Once classified as held for sale, cease depreciation
- If decision to sell is withdrawn, classify as held and used and adjust to lower of carrying value had it continued to be depreciated or fair value at date of decision not to sell

APPLYING SFAS 144 TO A GROUP OF ASSETS

- Lowest identifiable level may be a group of assets for a particular business segment
- Allocate impairment loss to individual assets in proportion to carrying amounts
- If fair value is readily determinable for some individual assets, the allocation should not reduce carrying amount below fair value

ACCOUNTING FOR DSL OFFERINGS

NECA'S DSL TARIFF OFFERINGS

- ADSL and DSL – Retail
- DSL Discount Pricing Arrangement (DPA) - Wholesale

COMPONENTS OF DSL SERVICE

- Digital Subscriber Line Access Multiplexer (DSLAM)
 - Used to multiplex DSL subscribers' lines
 - Separates voice and data
 - Normally located in central office, field cabinet or remote
- Local Loop

COMPONENTS OF DSL SERVICE

- POTS Splitter
 - Filters telephone service signal from DSL signal
- Modem
 - Establishes translation
- Telephone Filter
 - Provides filtering of voice service

REGULATED ILEC IS PROVIDING RETAIL DSL TO END USER

- DSLAM – Recorded in account 2232
“Circuit Equipment DSL”
- Software Upgrades – Separate 2232
account or 2690 intangibles (3 year
amortization)

REGULATED ILEC IS PROVIDING RETAIL DSL TO END USER

- Local Loop
 - ADSL and SDSL Voice-Data use the existing copper loop, therefore no additional costs are recorded
 - Data-Only requires separate copper facilities and should be recorded in account 2421 “Aerial Cable” or account 2423 “Buried Cable”

REGULATED ILEC IS PROVIDING RETAIL DSL TO END USER

- CPE (modems, splitters and filters)
 - Companies may elect to lease DSL modems, etc. to customers or to sell/give away
 - If leased, accounted for the same as other customer premises equipment, account 2311
 - If sold or given to end user, expense as cost of sales, account 6311

REGULATED ILEC IS PROVIDING RETAIL DSL TO END USER

- Revenues
 - All recurring and non-recurring charges billed using the NECA tariff for the provision of interstate DSL are recorded as Special Access (5083) and reported to NECA; suggest sub accounts. Revenues greater than NECA tariff are non-regulated

REGULATED ILEC IS PROVIDING RETAIL DSL TO END USER

- Revenues (continued)
 - ILEC records total billed to customer to 5280
 - ILEC is ISP and therefore should charge the non-regulated side for interconnection
 - Requires entry charging non-regulated expense and crediting Special Access (5083)

REGULATED ILEC IS PROVIDING RETAIL DSL TO END USER

- Expenses associated with DSLAM
 - Central office type maintenance, etc.
 - Charged to account 6232 “Repair of Circuit Equipment DSL”
 - Charges incurred with initial setup of DSLAM should be capitalized with DSLAM

REGULATED ILEC IS PROVIDING RETAIL DSL TO END USER

- Costs associated with installation and sale of modem and splitter
 - Cost of Goods Sold
 - Installation at the customer's premises
 - Charged to 6311 – Cost of Non-regulated Equipment Sold and Installation of CPE

REGULATED ILEC IS PROVIDING WHOLESALE DSL TO SUBSIDIARY VIA DPA

- Regulated equipment and upgrades recorded on the regulated ILEC's books essentially the same as "Retail" scenario
- CPE (modems, splitters and filters)
 - Non-regulated subsidiary provides to end user and records appropriately on subsidiary books

REGULATED ILEC IS PROVIDING WHOLESALE DSL TO SUBSIDIARY VIA DPA

- Regulated ILEC bills subsidiary using NECA tariff
- Revenues
 - Regulated ILEC reports revenue billed under the NECA tariff to NECA. Revenues should be recorded in 5083
 - Subsidiary is free to charge end user whatever rates they feel are appropriate. Subsidiary assumes responsibility for DSL service

REGULATED ILEC IS PROVIDING WHOLESALE DSL TO SUBSIDIARY VIA DPA

- Expenses
 - ILEC charges expenses much the same as “retail” scenario. Segregate as much as possible to maximize revenue requirement. DSL 100% interstate
 - Subsidiary classifies amounts paid to ILEC as access or expense classification management feels is most useful. Sub accounts are recommended

RECENT REGULATORY CHANGES TO DSL

- In late 2005, the FCC approved a docket to allow small companies to choose between two options for DSL
 - Option 1 – Continue to pool with tariffed NECA rates applied
 - Option 2 – Offer DSL as a non-tariffed service. DSL would still be regulated but not pooled

RECENT REGULATORY CHANGES TO DSL

- Companies would make decision based on DSL costs. Using Part 69, DSL would be a new access element using fully distributed costs. If Option 2 were made, these costs would be removed from the pool

NON-REGULATED SUBSIDIARY IS PROVIDING DSL TO END USER

- Subsidiary owns equipment and assumes responsibility for DSL service
 - Free to charge rates management determines are appropriate
 - ILEC might need to charge subsidiary for interconnection and/or transport if subsidiary does not have facilities
 - ILEC charges subsidiary cost based loop rental

WHERE TO GET MORE INFORMATION

- NECA.org
- Teri Kessler, NECA Southwest Region

ACCOUNTING FOR NEW TECHNOLOGIES

- Fiber to the Home (FTTH)/Triple Play
 - FTTH
 - All cable charged to 2423 “Buried Fiber”.
 - Fiber drop is not a unit of property.
 - We recommend electronic equipment including the NID be charged to 2232 “Circuit Equipment”.
 - Segregation of the nonregulated portion (Video and at times Internet) should be addressed by the internal revenue requirements department or your cost consultant.
 - If management desires a balance sheet by line of business, we suggest segregating using the cost study percentages.

ACCOUNTING FOR NEW TECHNOLOGIES

- Fiber to the Home (FTTH)/Triple Play
 - Triple Play
 - For bundled services, record all revenues according to tariff filed. Local to account 5001, Internet to account 5083 or account 5280 (if more than the NECA tariff rate is charged) and Video to account 5280. Discounts cannot be applied to tariffed regulated services.
 - We suggest Video Set Top Boxes (STB) be capitalized to a customer premises account (2311) and accounted for cradle to grave if the company retains ownership of the box. If ownership transfers to customer, expense in current period to 6311 “Cost of Sales”.

ACCOUNTING FOR NEW TECHNOLOGIES

- Triple Play (continued)
 - As previously mentioned, we recommend electronic equipment, including the NID, be charged to 2232 “Circuit Equipment”.
 - We also recommend sub accounts in order to facilitate preparing an income statement by line of business.

ACCOUNTING FOR NEW TECHNOLOGIES

- **Soft Switch**

- Purchase of a soft switch is to be charged to account 2212 “Digital Switching”. We suggest segregating in separate sub account.
- If used within the regulated ILEC, the switch should be depreciated using the same depreciation rate which was used for the replaced digital switching equipment.
- Theoretically, it would appear a shorter life should be used to depreciate the switch due to rapid technological changes.

ACCOUNTING FOR NEW TECHNOLOGIES

- **Soft Switch (continued)**
 - However, the State Utility Commission may have to approve the rate, and we are not aware of any filings for a shorter life.
 - Filing would require support documenting the potential shorter life (typically support is in the form of statistical information provided by engineers).

ACCOUNTING FOR NEW TECHNOLOGIES

- Landline Network and Wireless Network
 - Consumers are using both networks to access a broad range of content: Voice, Data, Text, Audio, Video, Security Services, etc.
 - When new technologies arise, you should first ask yourself if the services are regulated or nonregulated.
 - Typically, if a service is billed under the NECA or state tariff, it is regulated and should be accounted for using Part 32 methodology.

ACCOUNTING FOR NEW TECHNOLOGIES

- Landline Network and Wireless Network (continued)
 - If nonregulated, more freedom in accounting for the service, however, it should clearly be segregated as nonregulated.
 - Companies should continuously be aware of traffic carried on their network and make every effort possible to bill the appropriate provider access. This ensures the cost recovery system works properly (on the interstate side) and also provides revenues on the bill and keep side (intrastate).

WHAT ACCOUNTING SYSTEM IS REQUIRED?

- Regulated Telephone Companies' Accounting and Reporting Criteria
 - Federal Requirements Include
 - USOA Part 32 as adopted by FCC
 - 7 CFR Part 1770 as required by RUS – USOA that is required by a federal agency

WHAT ACCOUNTING SYSTEM IS REQUIRED?

- State Regulatory Commission Requirements

For Example:

- Texas requires USOA Part 32 or other FCC approved system of accounts
- Texas allows a uniform system of accounts as may be required by a state or federal agency (for example USDA-RUS-7CFR 1770) after notification to FCC

WHAT ACCOUNTING SYSTEM IS REQUIRED?

- Mortgage Requirements Include
 - RUS mortgage requires compliance with 7 CFR 1770
 - RTFC mortgage requires compliance with state regulatory body or in the absence of a state regulatory body, the FCC or in accordance with GAAP
 - Co-Bank mortgage requires book of accounts in accordance with GAAP

CHANGES BY FCC DOCKETS

Federal-State Joint Conference Accounting Issues

Report and Order: FCC 04-149

Adopted: June 22, 2004; **Released:** June 24, 2004

Effective Date: Six months after publication in Federal Register; FCC permitted implementation as of January 1, 2005

CHANGES BY FCC DOCKETS

- FCC Addressed Recommendations Made by the Federal-State Joint Conference
- FCC Adopted Some of These Recommendations
- Resolved Outstanding Petitions for Reconsideration of the Phase II Report and Order

MODIFYING PART 32 ACCOUNTS

- Reinstatement of Accounts
 - Account 5230, Directory Revenue
 - Accounts 6621, 6622 & 6623
 - Requires wholesale/retail “information only” for account 6623

MODIFYING PART 32 ACCOUNTS

- Reinstatement of Accounts
 - Accounts 6561-6565, Separate Depreciation and Amortization
 - Depreciation expense should be maintained in discrete accounts and not commingled with amortization expense

Note: RUS has not yet addressed these issues, except as to agreeing to the earlier **suspension** of the change, but, per RUS staff would probably agree with FCC

ADDITION OF NEW ACCOUNTS

- Optical Switching
 - FCC **Decided Not** to Create a New Account
- Switching Software
 - FCC **Decided Not** to Add New Accounts
- Loop and Inter-Office Transport
 - FCC Concluded that Requiring the Recording of Plant in Loop and Interoffice Transport in Separate Accounts Would be Contrary to the Design of its Part 32 Accounting System

ADDITION OF NEW ACCOUNTS

- Interconnection Revenue
 - FCC **Did Not** Establish a Separate Account
 - ILECs **Are** Required to Subaccount
 - unbundled network element revenues
 - resale revenues
 - Reciprocal compensation revenues
 - Other interconnection revenues

ADDITION OF NEW ACCOUNTS

- Universal Service Accounts
 - FCC **Declined to Amend** Part 32 by Adding New Universal Service Expense and Revenue Accounts

AFFILIATE TRANSACTION RULES

- RUS Did **Not** Adopt the FCC Affiliate Transactions Changes
- FCC Addressed Affiliate Transaction Rules Under Section 32.27 by
 - Eliminating the Fair Market Value Comparison for Asset Transfers When the Total Annual Value of that Asset is Less Than \$500,000 (FCC had Previously Eliminated FMV Comparison for Services When the Total Annual Value was Less Than \$500,000)

AFFILIATE TRANSACTION RULES

- Giving Flexibility in Valuing Certain Transactions by Allowing the Higher or Lower of Cost or Market Valuation to Operate as a Floor or Ceiling, Depending on the Direction of the Transaction
- Lowering the Percent of Sales of Assets or Services to Third Parties, from Greater than 50% to 25%, to Qualify for Prevailing Price Treatment in Valuing Affiliate Transactions

AFFILIATE TRANSACTION RULES

- Maintaining the Exception that Provides when an Incumbent Carrier Purchases Services from an Affiliate that Exists Solely to Provide Services to Members of the Carrier's Corporate Family, the Carrier may Record the Services at Fully Distributed Costs Instead of Cost or Market
- Maintaining the Affiliate Transaction Rules and not Exempting Nonregulated to Nonregulated Transactions from the Affiliate Transaction Rules

AFFILIATE TRANSACTION RULES

- Intra Holding Company ILEC-to-ILEC Transfers of Assets or Services
 - FCC Concluded that its' Affiliate Transactions Rules **Do Not** Apply to Transactions Between an ILEC and its' Regulated Affiliates

AFFILIATE TRANSACTION RULES

- Definition of ILEC – **Section 32.11**

Defines Who is Subject to FCC's Part 32 Accounting Rules and Recordkeeping Requirements

- FCC **Did Not Exclude** Successor or **Assign** Companies from the Definition of ILEC, but it **was Amended** to **Ensure** that the Rule **Does Not Sweep in** Successor and Assign Companies that are **Non-Dominate** in the Markets in Which They Operate

7CFR PART 1770 AMENDMENTS

- Accounting Requirements for RUS Telecommunications Borrowers – 7 CFR Part 1770 Amendments

Effective June 15, 2005

- The Standard RUS Security Instrument Requires its Telecommunications Borrowers to Maintain their Books, Records, and Accounts in Accordance with RUS USOA (Part 1770)

7CFR PART 1770 AMENDMENTS

- The RUS USOA Parallels the FCC USOA for Telecommunications. As FCC Amends its USOA, RUS Reviews its USOA for Appropriateness and Revises as Necessary

7CFR PART 1770 AMENDMENTS

- Docket 95-60
 - FCC Raised the Expense Limit from \$500 to \$2,000 on Accounts
 - 2112, 2113, 2114, 2115
 - 2116, 2122, 2123, 2124
 - **RUS ADOPTS THIS CHANGE**

7CFR PART 1770 AMENDMENTS

- Docket 98-81 (Published September 15, 1999)
 - **RUS is Combining Accounts 2114 - 2116 into a Single New Account**
 - 2114 – Tools and Other Work Equipment
 - **RUS is Eliminating Account 5010 and Requiring that all Nonregulated Revenues be Recorded in**
 - 5280 – Nonregulated Operating Revenue

7CFR PART 1770 AMENDMENTS

- Docket 98-81 (Published September 15, 1999)
 - **RUS also is Eliminating Two Requirements that Were Previously in 47 CFR 32.16 and 47 CFR 32.2000(b)**
 - Eliminates filing projected future effects of an accounting change
 - Eliminates submitting for approval, journal entries to record telecommunications plant acquisitions of more than
 - \$1 million for Class A COS
 - \$250,000 for Class B COS

7CFR PART 1770 AMENDMENTS

- Docket 99-253 (Published March 28, 2000)
 - FCC Eliminates
 - 30-day notification for use of temporary or experimental accounts
 - Reclassification requirement for
 - property held for more than 2 years in account 2002, Property Held for Future Telecommunications Use
 - projects held in account 2003, Telecommunications Plant Under Construction
 - **RUS ADOPTS THESE CHANGES**

7CFR PART 1770 AMENDMENTS

- Docket 99-253 (continued)
 - FCC Eliminates Need for Prior Approval of
 - Extraordinary items
 - Contingent liabilities
 - Prior period adjustments
 - **RUS RETAINS THIS REQUIREMENT FOR BORROWERS OF THE RUS TELECOMMUNICATIONS PROGRAM**

7CFR PART 1770 AMENDMENTS

- Docket 99-253 (continued)
 - FCC Eliminates the Expense Matrix Requirement
 - **RUS RETAINS THE EXPENSE MATRIX REQUIREMENT**

7CFR PART 1770 AMENDMENTS

- Docket 99-253 (continued)
 - FCC Eliminates Account 2004
 - **RUS DELETES ACCOUNTS FROM THOSE REQUIRED UNDER 7 CFR 1770.15**
 - 2004.1, 2004.2 and 2004.3
 - **RUS RENAMES AND REDEFINES ACCOUNTS**
 - 2003.1, 2003.2 and 2003.3

7CFR PART 1770 AMENDMENTS

- RUS Requires (as of May 10, 2004)
 - All Borrowers Using the Class A Accounts to Continue Using this System
 - All New Borrowers to Adopt the Class A System

7CFR PART 1770 AMENDMENTS

- RUS Added Three New Accounting Interpretations
 - SFAS No. 34 – Allowance for Funds Used During Construction
 - SFAS No. 130 – Reporting Comprehensive Income
 - SFAS No. 132 – Disclosures About Pensions and Other Postretirement Benefits

7CFR PART 1770 AMENDMENTS

- **RUS is Revising 7 CFR Part 1770 to Change the Word “Companies” to “Borrowers”**

7CFR PART 1770 AMENDMENTS

- FCC Released on November 5, 2001
 - The 2000 Biennial Regulatory Review – Phase II Report and Order
 - Amendments to the Uniform System of Accounts for Interconnection
 - Jurisdictional Separations Reform and Referral to the Federal-State Joint Board
 - Local Competition and Broadband Reporting

7CFR PART 1770 AMENDMENTS

- FCC Created New Subaccounts for
 - 2212 – Digital Electronic Switching
 - 2212.1 – Circuit
 - 2212.2 - Packet
 - 2232 – Circuit Equipment
 - 2232.1 – Electronic
 - 2232.2 – Optical
 - 6212 – Digital Electronic Switching Expense
 - 6212.1 – Circuit
 - 6212.2 - Packet

7CFR PART 1770 AMENDMENTS

- 6232 – Circuit Equipment Expense
 - 6232.1 – Electronic
 - 6232.2 - Optical
- 6620 – Services (Consolidated 6621, 6622 & 6623)
 - 6620.1 – Wholesale
 - 6620.2 – Retail

Note: FCC 04-149, released 6/24/04 later changed this. Reinstated 6621, 6622 & 6623 and required wholesale/retail “information only” for 6623

- **RUS ADOPTS THESE CHANGES**

7CFR PART 1770 AMENDMENTS

- FCC Revised 47 CFR Part 32
 - Section 32.1220(h)
 - Section 32.2311(f)
- FCC Eliminated the Annual Inventory Requirement for
 - Materials and supplies
 - Station apparatus in stock
- **RUS ADOPTS THESE CHANGES**

7CFR PART 1770 AMENDMENTS

- FCC Eliminated the “Treated Traditionally” Requirement from Incidental Activities
- Revenues from Minor Non-Tariffed Activities That are an Outgrowth of the Borrowers Regulated Activities may be Recorded as Regulated as Long as They are a Non-Line of Business Activity and Result in Less Than 1% of Total Revenues for 3 Consecutive Years
- **RUS ADOPTS THIS CHANGE**

7CFR PART 1770 AMENDMENTS

- FCC Modified Section 32.5280(c) so ILECs may group their nonregulated revenues in two groups
 - For All Revenues from Regulated Services Treated as Nonregulated for Federal Accounting Purposes Pursuant to the FCC Order
 - For all Other Nonregulated Revenues
- **RUS DID NOT ADOPT THESE CHANGES – Therefore Separate Subsidiary Record Categories for Each Nonregulated Revenue**

7CFR PART 1770 AMENDMENTS

- FCC Streamlined Many of its Accounting Rules and Reporting Requirements by Drastically Reducing the Number of Class A and Class B Accounts
- **RUS DID NOT ADOPT THIS CHANGE**

WEBSITES FOR REFERENCE



National Archives and
Records Administration

- <http://www.access.gpo.gov/nara/cfr/cfr-table-search.html>



- <http://www.fcc.gov/>

- <http://www.usda.gov/rus/telecom/index.htm>



- <http://www.usda.gov/rus/telecom/publications/html/1770.htm>

*Thank You
for Your Attention*

