

USOA PART 32 AND RUS ACCOUNTING UPDATE

2005 TTA Accounting Seminar

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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 2003.4

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

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



National Archives and
Records Administration



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

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



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

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Food and Fun!*

