ADVOCATE
NAVIGATE
EVALUATE

Alexicon insider

MARCH 1, 2017

SPECIAL BULLETIN

FCC Part 32 USOA
Revisions Adopted

As noted in the February 24, 2017 *Alexicon Insider*, the FCC adopted an order that makes several changes to Part 32 Uniform System of Accounts (USOA). Following is a review of the order and a discussion of the impacts on rural, rate-of-return regulated ILECs.

For the most part, the Report and Order focuses on price cap carriers—there will no longer be a requirement, for price cap carriers, to maintain two sets of books (regulated and GAAP). Now, price cap carriers will be allowed to follow GAAP for all regulatory accounting purposes so long as they comply with the targeted accounting rules also adopted in the Report and Order.

For RoR carriers, there are a few potentially substantial changes made to Part 32, all of which are designed to more closely align Part 32 with GAAP:

Original Cost. According to the Report and Order "we align our definition of original cost to align with GAAP so that carriers [may] carry an asset at its purchase price when it was acquired, even if its value has increased or has declined when it goes into regulated service."

Mergers and Acquisitions. The FCC revises §32.2000(b)(1) to state "*property plant and equipment acquired from a nonaffiliated entity through an acquisition or merger may be accounted for at market value at the date of the acquisition or merger.*"

Currently, the rule requires that assets acquired are accounted for at original cost (i.e., the cost when originally acquired by the selling company). This rule change would appear to eliminate, in large part, the need for account 2005 (Telecommunications Plant Adjustment) for telecommunications plant acquired as a result of mergers and acquisitions, and therefore represents a major change in how the FCC, and more than likely state commissions, handle these types of transactions.

Alexicon

Questions? Comments?
Contact Chris Barron
chris@alexicon.net

Allowance for Funds Used During Construction (AFUDC). The FCC revised the AFUDC rule to strictly rely on GAAP when calculating this amount.

Currently, the rule requires a test related to the financing plans and if the cost of the new asset is covered. If not, then weighted averages of other financings are to be used. In relying strictly on GAAP, we take it to mean that Statement of Financial Accounting Standard (SFAS) 34 now controls the computation of AFUDC. SFAS 34 states:

> "The interest cost eligible for capitalization shall be the interest cost recognized on borrowings and other obligations. The amount capitalized is to be an allocation of the interest cost incurred during the period required to complete the asset. The interest rate for capitalization purposes is to be based on the rates on the enterprise's outstanding borrowings. If the enterprise associates a specific new borrowing with the asset, it may apply the rate on that borrowing to the appropriate portion of the expenditures for the asset. A weighted average of the rates on other borrowings is to be applied to expenditures not covered by specific new borrowings. Judgment is required in identifying the borrowings on which the average rate is based."

Elimination of §32.2000(a)(4). Although not addressed in the body of the Report and Order, the attached rules nonetheless appear to entirely eliminate §32.2000(a)(4), which currently reads:

> "The cost of the individual items of equipment, classifiable to Accounts 2112, Motor vehicles; 2113, Aircraft; 2114, Tools and other work equipment; 2122, Furniture; 2123, Office equipment; 2124, General purpose computers, costing $2,000 or less or having a life of less than one year shall be charged to the applicable expense accounts, except for personal computers falling within Account 2124. Personal computers classifiable to Account 2124, with a total cost for all components of $500 or less, shall be charged to the applicable Plant Specific Operations Expense accounts. The cost of tools and test equipment located in the central office, classifiable to central office asset accounts 2210-2232 costing $2,000 or less or having a life of less than one year shall be charged to the applicable Plant Specific Operations Expense accounts. If the aggregate investment in the items is relatively large at the time of acquisition, such amounts shall be maintained in an applicable material and supplies account until items are used."

Materiality. Finally, the Commission entirely revamped its policy on materiality, agreeing with comments Alexicon filed: "We also agree with Alexicon that 'it would be beneficial to NECA and its pool members if the Commission adopted a definition of materiality that provided guidance related to NECA's review procedures.'" As a result, the Commission replaced the current materiality rule (§32.26):

> "Companies shall follow this system of accounts in recording all financial and statistical data irrespective of an individual item's materiality under GAAP, unless a waiver has been granted under the provisions of §32.18 of this subpart to do otherwise."

With one that actually recognizes materiality:

(a) Except as provided in paragraph (b) of this section, companies may abide by the materiality standards of GAAP when implementing this system of accounts.

(b) For companies that receive High-Cost Loop Support, or Connect America Fund Broadband Loop Support, materiality shall be determined consistent with the general materiality guidelines promulgated by the Auditing Standards Board.

Alexicon
Questions? Comments?
Contact Chris Barron
chris@alexicon.net

According to the FCC, the ASB materiality guidelines are (AU Section 312.28):

(1) The elements of the financial statements (for example, assets, liabilities, equity, income, and expenses) and the financial statement measures defined in generally accepted accounting principles (for example, financial position, financial performance, and cash flows), or other specific requirements;
(2) Where there are financial statement items on which, for the particular entity, users' attention tends to be focused (for example, for the purpose of evaluating financial performance);
(3) The nature of the entity and the industry in which it operates; and
(4) The size of the entity, nature of its ownership, and the way it is financed.

Conclusion

While these Part 32 rule changes are not yet, technically, effective, they do, in large part, appear to make RoR carrier accounting responsibilities a bit less onerous. For example, the materiality rules should provide for more rationality in several areas, such as NECA cost procedures and USAC audits. However, we recommend all companies affected by these rules to discuss the impacts of the changes with your outside auditors to ensure the new rules are being handled properly.

Please let us know if you have any questions.

Alexicon
Questions? Comments?
Contact Chris Barron
chris@alexicon.net