



United States Department of Agriculture
Rural Development

Rural Business-Cooperative Service • Rural Housing Service • Rural Utilities Service
Washington, DC 20250

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TO: All Telecommunications Borrowers
Certified Public Accountants Auditing RUS Borrowers

FROM: KENNETH M. ACKERMAN *Kenneth M. Ackerman*
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SUBJECT: RUS Treatment of Part 32 Accounting Changes

In an Order¹ released June 24, 2003, the Federal Communications Commission (FCC) extended from July 1, 2003, to January 1, 2004, the current suspension of the implementation of four accounting and reporting requirement rule modifications previously adopted by the Commission². The purpose of this extension is to avoid undue burdens on the affected carriers, the Commission, the state regulatory commissions, the public in general, and to allow the Federal-State Joint Conference on Accounting Issues more time to formulate its recommendations to the Commission³

In a letter to our telecommunications borrowers and public accounting firms, dated December 20, 2002, the Rural Utilities Service (RUS) requested that RUS telecommunications borrowers not adopt any of the FCC's Part 32 changes until RUS issued its revised accounting requirements. RUS has evaluated Part 32 changes and determined their relevance and applicability to our borrowers and will adopt the following Part 32 changes:

(1) Inventories – Sections 32.1220(h) and 32.2311(f) were revised to eliminate the annual inventory requirement for materials and supplies, and all station apparatus in stock.

¹ Federal-State Joint Conference On Accounting Issues, WC Docket No. 02-269; 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2, CC Docket No. 00-199; Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, CC Docket No. 80-286; and Local Competition and Broadband Reporting, CC Docket No. 99-301.

² The FCC deferred implementation of the following accounting and reporting requirement rule changes for six additional months (until January 1, 2004): (1) the consolidation of Accounts 6621 through 6623 into Account 6620, with subaccounts for wholesale and retail; (2) the consolidation of Account 5230, Directory revenue, into Account 5200, Miscellaneous revenue; (3) the consolidation of the depreciation and amortization expense accounts (Accounts 6561 through 6565) into Account 6562, Depreciation and amortization expense, and; (4) the revised "Loop Sheath Kilometers" data collection in Table II of ARMIS Report 43-07.

³ Federal-State Joint Conference on Accounting Issues, Order, 17 FCC Rcd 17025 (2002) (Conversion Order); Federal-State Joint Conference on Accounting Issues, Order, WC Docket No. 02-269, FCC 02-291 (October 17, 2002) (Order establishing membership of Joint Conference)

(2) Expense limits – Section 32.2000(a) (4) was revised to include tools and test equipment located in the central office in the \$2,000 expense limit. However, the expense limit for personal computers classifiable to Account 2124, General support computers, will remain at \$500.

(3) Incidental activities – Section 32.4999(L) was revised to eliminate the “Treated Traditionally” requirement from incidental activities, but retained the other three requirements.

(4) Implementing new accounting standards – Section 32.16 requires notification and approval to implement new accounting standards prescribed by the Financial Accounting Standards Board (FASB). The FCC retained the requirement for carriers to notify them of their intentions to adopt a FASB change and how the carrier intends to implement this change. However, The FCC eliminated the requirement to provide a revenue requirement study.

(5) Classification of companies – Section 32.11 was revised so that its requirements pertain to only incumbent local exchange carriers (LEC). The FCC replaced the word “companies” with “incumbent LEC”. RUS adopted this rule but modified its requirements so that they pertain to RUS borrowers, and replaced the word “companies” with “borrowers”.

The following changes to Part 32 will not be adopted:

(1) Affiliate transaction rules under Section 32.27 where the Commission addressed five distinct areas:

- (a) Eliminate requirement for FMV comparison for asset transfers under \$500,000
- (b) Establish floor and ceiling for recording transactions
- (c) Prevailing price treatment
- (d) Centralized services exception to estimated fair market value rule
- (e) Exempt nonregulated to nonregulated transactions from the affiliate transaction rules

(2) Subsidiary record requirement under section 32.5280 (c) allowing LECs to group their nonregulated revenues into two groups: one subsidiary record for all the revenues from regulated services treated as nonregulated for federal accounting purposes pursuant to Commission order, and the second for all other nonregulated revenues.

(3) Elimination of the requirement for borrowers to obtain prior approval before recording extraordinary items, contingent liabilities and prior period adjustments.

(4) Elimination of the expense matrix requirement found in section 32.5999.

In addition the FCC reduced the number of Class A and B accounts significantly, and created some new accounts. The 296 Class A accounts were reduced to 164 accounts, while the 113 Class B accounts were reduced to 89 accounts. The FCC created new accounts for circuit and packet digital electronic switching, electronic and optical circuit equipment, and wholesale and retail services.

RUS is continuing to revise 7 CFR Part 1770, Accounting Requirements for RUS Telecommunications Borrowers and evaluating the changes in the USOA to determine their relevance and applicability to our borrowers. Until RUS issues its revised accounting requirements we request that our borrowers not adopt the reduction in the number of accounts outlined in the previous paragraph. However, if RUS telecommunications borrowers wish to add the newly created accounts referenced in the above paragraph, this letter will serve as authority to do so.

This letter serves to adopt some of the Part 32 changes, adopt some changes with modification, reject some changes, and postpone implementation of other Part 32 changes pending further review by RUS. Any questions regarding the accounting and recordkeeping requirements for RUS telecommunications borrowers should be addressed to the Technical Accounting and Auditing Staff, Mail Stop 1523, 1400 Independence Avenue SW, Washington, D.C. 20250-1523.

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