

STANDARDIZING A CHART OF ACCOUNTS AND AN ANNUAL REPORT





WHAT IS A UNIFORM SYSTEM OF ACCOUNTS?

- It is an accounting system that standardizes the accounting classifications to achieve uniform accounting records
- Allows one to maintain consistent application among companies
- Used to report financial information to the regulatory agency and *generally* consistent with Generally Accepted Accounting Principles



PURPOSE OF A UNIFORM SYSTEM OF ACCOUNTS

- Historical Financial Accounting System
 - Useful to Management and Regulators
 - Can Instill Investor Confidence
- Exhibits Consistency and Stability in Reporting
 - Can Compare Year to Year
 - Can Compare Company to Company



PURPOSE OF UNIFORM SYSTEM OF ACCOUNTS

- Meant to reflect stable, recurring financial data, to extent regulatory considerations permit
 - Changes may be made for new accounting standards
 - Changes may be made to reflect changes in telecommunications environment
- For the most part, reflects the generally accepted accounting principles
- Reflects natural groupings of transactions



WHAT IS CONTAINED IN A UNIFORM SYSTEM OF ACCOUNTS?

- General Accounting Instructions
- Listing of Accounts
 - Account Numbers
 - Account Titles
 - Sample lists of types of transactions to be recorded in the account
 - Instructions on recording the transaction in the account



GENERAL INSTRUCTION EXAMPLE

- (a) The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts.
- (b) The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission.
- (c) The Commission shall require a company to maintain financial and subsidiary records in such manner that specific information, of a type not warranting disclosure as an account or subaccount, will be readily available. When this occurs, or where the full information is not otherwise recorded in the general books, the subsidiary records shall be maintained in sufficient detail to facilitate the reporting of the required specific information. The subsidiary records, in which the full details are shown, shall be sufficiently referenced to permit ready identification and examination by representatives of this Commission.



EXAMPLE OF AN ACCOUNT DESCRIPTION

32.2423 Buried Cable

- (a) This account shall include the original cost of buried cable as well as the cost of other material used in the construction of such plant. This account shall also include the cost of trenching for and burying cable run in conduit not classifiable to Account 2441, Conduit Systems. Subsidiary record categories, as defined below, are to be maintained for nonmetallic buried cable and metallic buried cable.
 - (1) *Nonmetallic cable.* This subsidiary record category shall include the original cost of optical fiber cable and other associated material used in constructing a physical path for the transmission of telecommunications signals.
 - (2) *Metallic cable.* This subsidiary record category shall include the original cost of single or paired conductor cable, wire and other associated material used in constructing a physical path for the transmissin of telecommunications signals.
- (b) The cost of pumping water out of manholes and of cleaning manholes and ducts in connection with construction work and the cost of permits and privileges for the construction of of cable and wire facilities shall be included in the account chargeable with such construction.



HOW IS UNIFORM SYSTEM OF ACCOUNTS USED?

- To determine the reasonableness of charges
- Basis from which to then allocate costs
- Collection and distribution of universal service funds
- Monitor continued financial viability
- Monitor new investments (impacting quality of service)
- Look at competitiveness of the market



U.S. ENERGY ACCOUNT NUMBERING

- 100 Assets
- 200 Liabilities and Capital
- 300 Detailed Plant Accounts
- 400 Operating Revenues, Other
Income, and Income Deductions
- 500 Operation and Maintenance
Expense Accounts
- 900 Administrative and General Expense
Accounts



U.S. TELECOMMUNICATIONS ACCOUNT NUMBERING

- 1000 Assets
- 2000 Detail Plant Accounts
- 3000 Depreciation and Amortization
- 4000 Liabilities and Equity
- 5000 Revenues
- 6000 Expense Accounts
- 7000 Other Operating Income and Expenses



ACCOUNT NUMBERING DETAIL

- Balance Sheet Accounts (1120 – 1500)
- Plant Accounts (2001 – 2690)
- Accumulated Depreciation and Amortization (3100 – 3410)
- Liabilities and Shareholders' Equity (4000 – 4550)
- Revenues (5000 – 5300)
- Plant Specific Operations (6110 – 6410)
- Plant Non-Specific Operations Expense (6510 – 6560)



ACCOUNT NUMBERING DETAIL

- Customer Operations Expense (6610 – 6620)
- Corporate Operations Expense (6720 – 6790)
- Other Operating Income and Expense (7100)
- Operating Taxes (7200)
- Non-operating Income and Expense (7300)
- Non-operating Taxes (7400)
- Interest and Related Items (7500 – 7600)
- Jurisdictional Differences and Non-Regulated Income Items (7910 – 7990)



MISCELLANEOUS BALANCE SHEET ACCOUNTS

■ Current Assets

- Cash and Equivalents
- Receivables
- Allowance for Doubtful Accounts
- Materials and Supplies
- Prepayments
- Other Current Assets



MISCELLANEOUS BALANCE SHEET ACCOUNTS

- Non-Current Assets
 - Non-regulated Investments
 - Other Non-current Assets
 - Deferred Charges
 - Other



PLANT ACCOUNTS

- Telecommunications Plant in Service (Summary Account)
- Property Held for Future Telecommunications Use
- Telecommunications Plant Under Construction
- Telecommunications Plant Adjustment
- Non-Operating Plant (Example: Plant Held for Sale)
- Goodwill



PLANT IN SERVICE (DETAIL)

- General Support Assets
 - Land
 - Motor Vehicles
 - Aircraft
 - Tools and Other Work Equipment
 - Buildings
 - Furniture
 - Office Equipment
 - General Purpose Computers



PLANT IN SERVICE (DETAIL)

- Central Office Assets
 - Central Office Switching
 - Non-digital Switching
 - Digital Electronic Switching
 - Operator Systems
 - Central Office Transmission
 - Radio Systems
 - Circuit Equipment



PLANT IN SERVICE (DETAIL)

- Information Origination / Termination Assets
 - Station Apparatus
 - Customer Premises Wiring
 - Large Private Branch Exchanges
 - Public Telephone Terminal Equipment
 - Other Terminal Equipment



PLANT IN SERVICE (DETAIL)

■ Cable and Wire Facilities Asset

- Poles
- Aerial Cable
- Underground Cable
- Buried Cable
- Submarine and Deep Sea Cable
- Intrabuilding Network Cable
- Aerial Wire
- Conduit Systems



PLANT IN SERVICE (DETAIL)

- Amortizable Assets
 - Capital Leases
 - Leasehold Improvements
 - Intangibles



PLANT ACCOUNT INSTRUCTIONS

- Do not include the cost of plant contributed to the company
- Plant is recorded at original cost
- Plant cost includes *allowance for funds used during construction* which provides for the cost of financing the plant construction.



ACCUMULATED DEPRECIATION AND AMORTIZATION

- Accumulated Depreciation
- Accumulated Depreciation – Held for Future Telecommunications Use
- Accumulated Depreciation – Non-Operating
- Accumulated Depreciation – Tangible
- Accumulated Amortization – Capitalized Leases



LIABILITIES AND STOCKHOLDERS'S EQUITY

■ Current Liabilities

- Current Accounts and Notes Payable
- Customers' Deposits
- Income Taxes – Accrued
- Other Taxes – Accrued
- Net Current Deferred Operating Income Taxes
- Net Current Deferred Non-operating Income Taxes
- Other Current Liabilities



LIABILITIES AND STOCKHOLDERS'S EQUITY

- Long Term and Funded Debt
- Other Liabilities and Deferred Credits
 - Other Liabilities and Deferred Credits
 - Unamortized Operating Investment Tax Credits
 - Unamortized Non-Operating Investment Tax Credits
 - Net Non-Current Deferred Operating Taxes
 - Net Deferred Tax Liability Adjustments
 - Net Non-Current Deferred Non-Operating Income Taxes
 - Deferred Tax Regulatory Adjustments
 - Other Jurisdictional Liabilities and Deferred Credits



LIABILITIES AND STOCKHOLDERS'S EQUITY

- Stockholders' Equity
 - Capital Stock
 - Additional Paid-in Capital
 - Treasury Stock
 - Other Capital
 - Retained Earnings



REVENUES

- Local Network Service Revenues
 - Basic Area Revenue
 - Private Line Revenues
 - Other Basic Area Revenue
- Network Access Services Revenues
 - End User Revenue
 - Switched Access Revenue
 - Special Access Revenue



REVENUES

- Long Distance Network Services Revenues
- Miscellaneous Revenues
- Non-Regulated Revenues
- Uncollectible Revenues



PLANT SPECIFIC OPERATIONS EXPENSE

- Network Support Expense
 - Motor Vehicle Expense
 - Aircraft Expense
 - Tools and Other Work Equipment Expense
- General Support Expense
 - Land and Building Expenses
 - Furniture and Artwork Expenses
 - Office Equipment Expenses
 - General Purpose Computer Expense



PLANT SPECIFIC OPERATIONS EXPENSE

- Central Office Switching Expense
 - Non-digital Switching Expense
 - Digital Electronic Switching Expense
- Operators System Expense
- Central Office Transmission Expense
 - Radio Systems Expense
 - Circuit Equipment Expense



PLANT SPECIFIC OPERATIONS EXPENSE

- Information Origination / Termination Expense
 - Station Apparatus Expense
 - Large Private Branch Exchange Expense
 - Public Telephone Terminal Equipment Expense
 - Other Terminal Equipment Expense



PLANT SPECIFIC OPERATIONS EXPENSE

- Cable and Wire Facilities Expense
 - Poles Expense
 - Aerial Cable Expense
 - Underground Cable Expense
 - Buried Cable Expense
 - Submarine and Deep Sea Cable Expense
 - Intrabuilding Network Cable Expense
 - Aerial Wire Expense
 - Conduit Systems Expense



PLANT NON-SPECIFIC OPERATIONS EXPENSE

- Other property, plant and equipment expenses
 - Property held for future telecommunications use expense
 - Provisioning expense



PLANT NON-SPECIFIC OPERATIONS EXPENSE

- Network Operations Expense
 - Power Expense
 - Network Administration Expense
 - Testing Expense
 - Plant Operations Administration Expense
 - Engineering Expense
- Access Expense
- Depreciation and Amortization Expense



CUSTOMER OPERATIONS EXPENSE

- Marketing
 - Product Management and Sales
 - Product Advertising
- Services



CORPORATE OPERATIONS EXPENSE

- General and Administrative
- Provision for Uncollectible Notes
Receivable



OTHER INCOME ACCOUNTS

- Other Operating Income and Expense
- Operating Taxes
- Non-Operating Income and Expense
- Non-Operating Taxes
- Interest and Related Items
 - Interest and Related Items
 - Extraordinary Items
- Jurisdictional Differences and Non-Regulated Income Items



AFFILIATE TRANSACTIONS

- Unless Done Pursuant to Tariff or Other Exception:
 - Assets sold by or transferred by a carrier to its affiliate shall be recorded at no less than the higher of fair market value and net book cost
- Exception:
 - Assets sold by or transferred to a carrier from its affiliate shall be recorded at no more than the lower of fair market value and net book cost
 - If sale of a particular asset or service to third parties encompass greater than 25% of the total sales quantity



OTHER ACCOUNTING CONSIDERATIONS

- Record Retention Requirements
 - How long should supporting documents be held and available to auditors / regulators?
- Level of Detail in Main Accounts and Subsidiary Records to be Required
 - What degree of supporting documentation should be mandated (e.e., continuing property records)?
- Cost/Benefit of Implementation
 - What is the cost of implementation to operators versus need for information by regulators?



ANNUAL REPORT

- An annual report filed with a regulatory agency can be more tailored for regulatory needs rather than simply duplicating the public financial reports.
- Can contain more than just financial information
- Can format to make useful for on-going comparisons
- Paper or electronic filing (or both)?



ANNUAL REPORT

■ What to include?

- Company name, address, phone, fax, etc.
- Contact names and phone numbers
 - Person to contact for complaints
 - Person to contact regarding regulatory matters
 - Person to contact for service emergencies
- Areas served by utility (where is service actually being provided in the country or state)
- Types of service being provided (wireline, wireless, business-only, etc.)
- Sworn oaths of officers



ANNUAL REPORT

■ What to include?

- List of members of Board of Directors
- List of officers/department managers
- Number of employees by department
 - Full time
 - Part time
 - Contract
- Long term debt principle, interest by issuance
- Dividends declared during the year



ANNUAL REPORT

■ What to include

■ Balance Sheet

- Beginning and end of year, so can see changes
- Total company versus for your jurisdiction only
- Separate schedules detailing major items like plant (by account), accumulated depreciation (by account) with specified additions and retirement totals throughout the year (by account)

■ Revenues

- Total company versus for your jurisdiction only
- By subcategory (international, local, interconnection, etc.)



ANNUAL REPORT

- What to include?
 - Operating Expenses
 - By account or major category breakdown
 - Total company versus your jurisdiction only
 - Other Operating Income and Expenses
 - By your desired level of detail
 - Taxes
 - By desired level of detail



ANNUAL REPORT

■ What to include?

■ Non-financial data

- Number of central offices (switches)
- Miles of line
- Number of minutes sold
- Number of customers by type
 - Total at end of year versus monthly customer counts
- Description of Important Changes during the reporting year
- Major Facilities Construction Forecast



ANNUAL REPORT

- What to include?
 - Quality of Service data
 - Example: Average per customer outage time
 - Established Performance Indices
 - Average Call Center Answer time
 - Response time for answering customer complaints
 - Other



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