MOSSADAMS

OUSF Annual Reporting Requirements

2023 OTA Accounting Conference

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THANK YOU

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Updated Rules

165:59-3-31. Recipients of Primary OUSF annual reporting

Each eligible local exchange telecommunications service provider, as defined in 17 O.S. § 139.102 receiving Primary Universal Service funding after December 31, 2022, shall submit financial reports reflecting information for the preceding calendar year by December 31, 2023, and by November 1 of each succeeding year. Such financial reports shall be consistent with the relevant separations process, to include depicting the financial impact of the jurisdictional separations, and shall include information sufficient to allow the Commission to review the company's intrastate regulated earnings for the reported year in a manner consistent with the application of the cost methods set forth in 17 O.S. § 139.106(H) and applicable Commission rules. To the extent an eligible local exchange telecommunications service provider is not required to utilize the separations processes established by federal rules, alternative financial reports demonstrating similar information can be submitted with an explanation as to how such alternative financial reports reflect the required information.

What Is It?

Due Dates

- Year-end 2022 results – Due December 31, 2023
- Every year thereafter – Due November 1, 20XX
  - Year-end 2023 results – Due November 1, 2024

Who?

- Any company currently receiving OUSF support.
  - Nearly every small ILEC in Oklahoma?

What Is It?

The Company’s REGULATED Operations

- Expenses and Rate Base – your annual cost study (if you have one)
- Revenues
- Separated Results of Operations Template

Other Items Necessary for Filing

- Audited financial statements - if not available, make that statement
- Schedule of Telecommunications Plant Under Construction
  - Work order report or other subsidiary records

What Is It?

Rate of Return

- This filing will give you an idea of your intrastate rate of return for the given year.
- Compare to the current year federal authorized rate of return
  - 9.75% Rate of Return for 2022 and going forward
- Opportunities or Concerns?
  - Opportunity – Section G filing to recover OUSF funding to achieve authorized Rate of Return?
  - Concern – If overearning substantially, ***may*** be required to show proof to Commission of necessity of OUSF funding.

Separated Results of Operations

Jurisdictionally Separated Operations

- Interstate Regulated Operations
- Intrastate Regulated Operations
- Equals Regulated Total Company Operations

Separated Results of Operations

Revenues

	Total Company	Total Interstate	Total State	Adjustments OUSF	Adjusted Total State
OPERATING REVENUES					
Local Revenues:	-				-
Residential	450,000	-	450,000		450,000
Business - Single & Multi-Line	275,000	-	275,000		275,000
Lifeline	1,000	-	1,000		1,000
Wireless	-	-	-		-
Local Private Line Revenues	-	-	-		-
EAS	-	-	-		-
Intrastate:					
State Common Line & Switched Access	50,000	-	50,000		50,000
State Special Access	100,000	-	100,000		100,000
Toll Revenues	25,000	-	25,000		25,000
High Cost Loop Support	1,350,000	-	1,350,000		1,350,000
Interstate Access Revenues:					
End User	80,000	80,000			-
CAF-BLS & Switched Access	2,500,000	2,500,000			-
Special Access	350,000	350,000			-
ADSL Revenues	500,000	500,000			-
ACAM Support	-	-			-
Interstate Prior Period Adjustments	5,000	5,000			-
Other Operating Revenues:					
Miscellaneous Revenues	6,000	2,500	3,500		3,500
Misc. Rev: Rent Revenues	-	-	-		-
Misc. Rev: B&C	1,150	750	400		400
State USF	200,000	-	200,000		200,000
State OUSF - Additional Request	-	-	-		-
LESS: Uncollectibles	(12,000)	(2,000)	(10,000)		(10,000)
Total	5,881,150	3,436,250	2,444,900	-	2,444,900

Separated Results of Operations

Expenses

	Total Company	Total Interstate	Total State	Adjustments OUSF	Adjusted Total State
OPERATING EXPENSES					
Plant Specific	1,075,000	500,000	575,000		575,000
Plt. Non-Spec.(less depreciation)	675,000	350,000	325,000		325,000
Customer Operations	200,000	90,000	110,000		110,000
Corporate Operations	935,000	425,000	510,000		510,000
Subtotal	2,885,000	1,365,000	1,520,000	-	1,520,000
Depreciation & Amortization	1,350,000	600,000	750,000		750,000
Operating Taxes	110,000	50,000	60,000		60,000
Interest on Customer Deposits	-	-	-		-
State Income Tax	61,446	56,850	4,596	-	4,596
Federal Income Tax	309,688	286,524	23,164	-	23,164
Amortized Excess Deferred Income Tax Expense	(21,000)	(10,000)	(11,000)		(11,000)
Total	4,695,134	2,348,374	2,346,760	-	2,346,760
Net Revenues	1,186,016	1,087,876	98,140	-	98,140

Separated Results of Operations

Rate Base

	Total Company	Total Interstate	Total State	Adjustments OUSF	Adjusted Total State
RATE BASE					
2001 - Property, Plant & Equipment	17,000,000	9,000,000	8,000,000		8,000,000
2002 - Property Held for Future Use	-	-	-		-
2003 - Tel. Plant Under Construction	550,000	250,000	300,000		300,000
1220 - Materials and Supplies	135,000	75,000	60,000		60,000
Working Cash	110,000	50,000	60,000		60,000
LESS: Depreciation & amortization	11,000,000	6,000,000	5,000,000		5,000,000
LESS: Deferred Tax	750,000	350,000	400,000		400,000
LESS: Other Long Term Liabilities	-	-	-		-
LESS: Customer Deposits	80,000	35,000	45,000		45,000
Total Rate Base	5,965,000	2,990,000	2,975,000	-	2,975,000

Separated Results of Operations

Rate of Return

- Net Revenues/Rate Base

	Total Company	Total Interstate	Total State	Adjustments OUSF	Adjusted Total State
RATE OF RETURN	**19.88%**	**36.38%**	**3.30%**	**0.00%**	**3.30%**

Separated Results of Operations

Where Does All of this Come From?!

- Expenses and Rate Base
  - Your annual NECA Cost Study
    - Part 36 is the breakout of interstate and intrastate expenses and rate base
    - You may not have an annual NECA Cost Study…………
- Revenues
  - Your year-end trial balance
  - Your knowledge of your revenue accounts
    - Each revenue account may be interstate, intrastate, or a blend

Company Status

Legacy Rate of Return	A-CAM, A-CAM II, Enhanced A-CAM	A-CAM + BDS Election

• Annual Cost Study
• HCLS Recipient
	• Annual Cost Study
	• A-CAM Revenue Stream
	  • Replaced CAF-BLS and HCLS
	  • Need to allocate between interstate and intrastate
		• No Annual Cost Study
		  • How do we jurisdictionally separate?
		• A-CAM Revenue Stream
		  • Need to allocate between interstate and intrastate

Legacy Rate of Return

- Includes those companies that are no longer part of the NECA Tariff, but still receive HCLS funding
- Utilize the Part 36 report from your annual cost study to jurisdictionally separate your expenses and rate base
  - It’s already been done for the cost study reporting

A-CAM, A-CAM II, Enhanced A-CAM

- You may have an annual cost study requirement for NECA
  - *Most* companies are still part of the NECA Traffic Sensitive Tariff
    - If so, you submit a cost study every July
  - *Some* companies have exited the NECA Traffic Sensitive Tariff
    - If so, you have an official cost study every other year, depending on the election

A-CAM *PLUS* BDS Election

- You don’t have an annual cost study requirement any longer
- What do we do? We’ll discuss soon and follow up.
    - “To the extent an eligible local exchange telecommunications service provider is not required to utilize the separations processes established by federal rules, alternative financial reports demonstrating similar information can be submitted with an explanation as to how such alternative financial reports reflect the required information.”

Unique Revenue Items – CAF-ICC

- CAF-ICC Funding
  - Every company receives this funding through USAC
  - You may utilize the NECA data collection system, or a filing is made directly with USAC and the FCC
  - CAF-ICC funding is a blend of interstate and intrastate revenues, and needs to be allocated appropriately
  - Funding is on a fiscal year July – June basis
    - Need to incorporate two filings
    - 2022 revenue year – 2021/2022 *and* 2022/2023 filings

Unique Revenue Items – CAF-ICC

	Test Period 7/1/22-6/30/23 Post True-up (Filing) View		Interstate	Intrastate
Rate-of-Return (ROR) Carrier Revenue Requirement				
1	2011 Interstate Switched Access Revenue Requirement	$300,000	$300,000	
2	FY 2011 Intrastate Terminating Switched Access Revenues	$100,000		$100,000
3	FY 2011 Net Reciprocal Compensation Revenues	$50,000		$50,000
4	2011 ROR Carrier Base Period Revenue (Line 1 + Line 2 + Line 3)	$450,000	$300,000	$150,000
5	ROR Carrier Baseline Adjustment Factor (0.95 ^ 11)	0.56880	0.56880	0.56880
6	ROR Carrier Revenue Requirement (Line 4 x Line 5)	$255,960	$170,640	$85,320
7	Pool Administration Expenses	$3,000	$3,000	
8	Total ROR Carrier Revenue Requirement (Line 6 + Line 7)	**$258,960**	**$173,640**	**$85,320**
Revenues from Reformed Intercarrier Compensation (ICC) Rates				
9	Interstate Switched Access Revenues	$10,000		
10	Interstate Allocated Switched Access Revenues#	$20,000	$20,000	
11	Transitional Intrastate Access Service Revenues	$7,500		$7,500
12	Net Transitional Reciprocal Compensation Revenues	$1,000		$1,000
13	Total ICC Revenue (Line 10 + Line 11 + Line 12)	**$28,500**	**$20,000**	**$8,500**
Eligible Recovery				
14	TRS Increment	$50	$50	
15	Regulatory Fees Increment	$50	$50	
16	NANPA Increment	$50	$50	
17	Interstate Local Switching Support for Price Cap Affiliates or Estimated Duplicate LSS Costs in CAF II	$50	$50	
18	Adjustment for Double Recovery or Corrections	($15,000)	($15,000)	
19	Test Period 21/22 Trueup - Net Impact on Total Eligible Recovery	**$7,500**		
20	Eligible Recovery (Line 8 - Line 13) + (Line 14 + Line 15 + Line 16 + Line 18 + Line 19) - (Line 17)	**$223,060**	**$138,740**	**$76,820**
Revenues from Access Recovery Charges (ARC)				
21	Residential ARC Revenues	$2,000		
22	Single Line Business ARC Revenues	$3,000		
23	Multi-Line Business ARC Revenues	$5,000		
24	Total ARC Revenues (Line 21 + Line 22 + Line 23)	**$10,000**	**$0**	**$0**
Connect America Fund (CAF) ICC Support**				
25	Connect America Fund (CAF) ICC Support (Line 20 - Line 24)	$213,060	$138,740	$76,820
Revised CAF ICC Support with Imputed ARC Revenues for Broadband-Only Loops				
26	Imputed ARC revenue for broadband-only loops	$5,000	$5,000	
27	**Adjusted Test Period 2023-2024 CAFICC Support (Line 25 - Line 26)**	**$208,060**	**$133,740**	**$76,820**
			63.52%	36.48%

Unique Revenue Items – CAF-ICC

	Test Period 7/1/22-6/30/23 Post True-up (Filing) View		Interstate	Intrastate
Rate-of-Return (ROR) Carrier Revenue Requirement				
1	2011 Interstate Switched Access Revenue Requirement	$300,000	$300,000	
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3	FY 2011 Net Reciprocal Compensation Revenues	$50,000		$50,000
4	2011 ROR Carrier Base Period Revenue (Line 1 + Line 2 + Line 3)	$450,000	$300,000	$150,000
5	ROR Carrier Baseline Adjustment Factor (0.95 ^ 11)	0.56880	0.56880	0.56880
6	ROR Carrier Revenue Requirement (Line 4 x Line 5)	$255,960	$170,640	$85,320
7	Pool Administration Expenses	$3,000	$3,000	
8	Total ROR Carrier Revenue Requirement (Line 6 + Line 7)	**$258,960**	**$173,640**	**$85,320**
Revenues from Reformed Intercarrier Compensation (ICC) Rates				
9	Interstate Switched Access Revenues	$10,000		
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11	Transitional Intrastate Access Service Revenues	$7,500		$7,500
12	Net Transitional Reciprocal Compensation Revenues	$1,000		$1,000
13	Total ICC Revenue (Line 10 + Line 11 + Line 12)	**$28,500**	**$20,000**	**$8,500**
Eligible Recovery				
14	TRS Increment	$50	$50	
15	Regulatory Fees Increment	$50	$50	
16	NANPA Increment	$50	$50	
17	Interstate Local Switching Support for Price Cap Affiliates or Estimated Duplicate LSS Costs in CAF II	$50	$50	
18	Adjustment for Double Recovery or Corrections	($15,000)	($15,000)	
19	Test Period 21/22 Trueup - Net Impact on Total Eligible Recovery	**$7,500**	$4,764	$2,736
20	Eligible Recovery (Line 8 - Line 13) + (Line 14 + Line 15 + Line 16 + Line 18 + Line 19) - (Line 17)	**$223,060**	**$143,504**	**$79,556**
Revenues from Access Recovery Charges (ARC)				
21	Residential ARC Revenues	$2,000	$1,270	$730
22	Single Line Business ARC Revenues	$3,000	$1,905	$1,095
23	Multi-Line Business ARC Revenues	$5,000	$3,176	$1,824
24	Total ARC Revenues (Line 21 + Line 22 + Line 23)	**$10,000**	**$6,352**	**$3,648**
Connect America Fund (CAF) ICC Support**				
25	Connect America Fund (CAF) ICC Support (Line 20 - Line 24)	$213,060	$137,152	$75,908
Revised CAF ICC Support with Imputed ARC Revenues for Broadband-Only Loops				
26	Imputed ARC revenue for broadband-only loops	$5,000	$5,000	
27	**Adjusted Test Period 2023-2024 CAFICC Support (Line 25 - Line 26)**	**$208,060**	**$132,152**	**$75,908**

Unique Revenue Items – HCLS

- HCLS Funding
  - Received from USAC
  - Needs to be treated as an *Intra*state revenue
    - It still comes from a “federal” source, but it is considered intrastate revenue

Unique Revenue Items – A-CAM

- A-CAM Funding
  - Replaced CAF-BLS (*inter*state) and HCLS (*intra*state) Funding
  - As a result, needs to be allocated
  - Calculate the HCLS funding you would have received if not for your A-CAM election
    - Work with your consultant to calculate this amount
    - Utilize the information available on NECA or the FCC's website – you still submitted a HCLS data collection.
    - If you no longer submit a cost study to NECA (you have exited the NECA Traffic Sensitive Tariff), your consultant has the ability to populate a USF Data Collection and calculate your HCLS revenues you would have received.
      - Make sure you are incorporating any Corporate Cap and OpEx limitation

Unique Revenue Items – OUSF Funding

- OUSF Funding
  - Determine what you are receiving from the OUSF Fund
    - Did you receive the full amount? Recommendation is to include the authorized amount in 2022, not what you actually received. Back payments become hard to track.
    - Information is available on the Oklahoma Corporation Commission website for historic payments
  - Jurisdictionally Separate
    - Most OUSF funding is intrastate. Some may be related to interstate funding
      - Interstate – Section K filings for lost CAF-BLS revenues
  - Only include current period revenues
    - Section G fundings received in the reporting year related to prior years – EXCLUDE
    - May need to show a true-up of Section K filings for lost HCLS revenues coinciding with Section G filings

Unique Revenue Items – Misc. Revenues

- Miscellaneous Revenues
  - Attempt to jurisdictionally separate as best as possible
    - Billing & Collection should have an interstate and intrastate element
    - Custom Calling Features more than likely fully interstate
    - Directory Revenues – jurisdictionally separate based on Directory Expenses in Part 36
    - Plant Maintenance – jurisdictionally separate based on Part 36 factor of like plant
      - Cable maintenance – utilize CWF expense separation factor
    - Rent Revenues – should be $0 based on recent NECA guidance; if not, need to assess further
    - Other incidental revenues – analyze as best as possible

Unique Revenue Items – Uncollectibles

- Uncollectible Revenue
  - Jurisdictionally Separate
    - Most uncollectible revenues are associated with end user customers, and should be treated as intrastate uncollectible revenue.
    - In rare cases, there may be interstate revenues. Need to determine and treat appropriately.

Other Unique Revenue Items

- Subscriber Line Charge – federal (portion of CAF-BLS)
- Federal Universal Service Charge (FUSC) – federal (portion of CAF-BLS)
- OUSF Surcharge
  - If recorded as revenue, you should have a similar 6540 access expense
  - Most companies record as a balance sheet item only

Unique Expense Items

- If you have a cost study to rely upon, Part 36 has already jurisdictionally separated the expenses.
- Have you removed all ineligible expenses?
  - A-CAM companies don't necessarily have to follow the USF ineligible expense guidelines, but you should follow those guidelines for this filing.
  - Either incorporate those further expense reductions into the interstate and intrastate columns, or utilize the "OUSF Adjustments" column.
- Amortization of Excess Deferred Tax
  - Utilize the calculation used for interstate ratemaking. If still being amortized, make sure it's included in the filing

Unique Rate Base Items

- Telecommunications Plant Under Construction
  - The Public Utility Division has disallowed recovery on TPUC through Section G filings, consistent with HCLS support.
    - Need to determine as a group how to treat this. Do we remove the intrastate balance, or include?
    - If removed, include a footnote with explanation. Regulated cost that is normally recoverable, but excluded for consistency with previous Determinations.
- Excess Deferred Income Tax
  - Is this included in the Accumulated Deferred Income Tax balance? If not, need to include until amortization is completed. A federal reporting requirement, mirrored for state reporting.

Conclusion

- Need to think about and assess revenues properly – many variables, some blended revenues.
- Look at your results – is there an opportunity in front of you?
- Should not be a strenuous process – much of the data has already been completed based on your cost study and other accounting records.