*Comm*pliance Group Quick Guide:
Federal Universal Service Fund Revenue Allocation

The telecommunications services revenue subject to the Federal Universal Service Fund ("FUSF") contribution requirements are a telecommunications service providers' gross, billed, and collected *interstate* and *international* end-user telecommunications revenue. Revenue subject to USF assessment must be annually reported to the Federal Communications Commission's ("FCC") FUSF administrator, the Universal Service Administrative Company ("USAC") by filing the FCC Form 499s. Revenue must be allocated between (1) intrastate; (2) interstate; and (3) international on all FCC Form 499s. These revenue jurisdictions are defined and reported in the FCC Form 499 as follows:

1) **Intrastate:** Communications between points within the *same* state, territory, or possession of the United States, or the District of Columbia. Intrastate revenue is typically not subject to direct FUSF contribution, but may be subject to additional federal fee remittance obligations.

2) **Interstate:** Communications between a point in one state, territory, or possession of the United States, including the District of Columbia, and a point outside that state, territory, or possession of the United States, but remaining *within* the United States. Interstate revenue is generally subject to FUSF contribution.

3) **International:** For FCC reporting purposes, international revenue is revenue in which at least one end-point of the communication is located in a point outside the United States. The FCC has identified several different classifications of international communications, as follows:

   - U.S./ International: Communications between a point in one state, territory, or possession of the United States, including the District of Columbia, and a point outside that state, territory, or possession of the United States, where the end point is *outside* the United States. U.S./ International revenue is generally subject to FUSF contribution, although a predominantly international carrier may consider this revenue exempt under the LIRE.

   - International-only that traverses the United States: Communications between points *outside* the United States, and the call is routed within the United States. International-only revenue is not subject to FUSF contribution, but may be subject to additional federal fee remittance obligations.

   - International-only: Communications between points *outside* the United States, and the call path does not traverse the United States. International-only revenue is not subject to FUSF contribution.

Revenue Reporting

Form 499-A filers should report **actual revenue** for purposes of jurisdictional allocation, if possible. Actual revenue is revenue reported directly from corporate books of account or other internal data reporting systems. If filers can allocate revenue to the specific jurisdictions in an accurate manner, as based on actual call detail records, the FCC permits such providers to do so.

Filers that cannot allocate revenue based on the actual jurisdiction of calls may avail themselves of a "reasonable" allocation method (examples of which are discussed on the next page). Clients that have questions about alternative revenue allocation methods should contact The *Comm*pliance Group regarding the applicability of such reporting options.

Alternative Revenue Allocation Methodology (Wireless and VoIP)

The FCC rules permit certain types of telecommunications service providers, specifically wireless telecommunications providers, interconnected VoIP providers, and non-interconnected VoIP providers, to allocate revenue based on alternative reporting methodologies.

- **<u>Safe Harbor</u>:** Telecommunications service providers can use a "safe harbor" presumption that a certain percentage of total service revenue is attributable to interstate telecommunications services – and thus subject to FUSF contribution obligations. Revenue percentages satisfying the safe harbor presumption for VoIP, Wireless, Paging, and Analog SMR Dispatch services are as follows:
  1. **VoIP – 64.9%**;
  2. **Wireless – 37.1%**;
  3. **Paging – 12.0%**; and
  4. **Analog SMR Dispatch – 1.0%**.

- **<u>Traffic Studies</u>:** Wireless and VoIP providers can undertake a traffic study to jurisdictional allocation of revenue derived from telecommunications service. Traffic studies may rely on statistical sampling to estimate the proportion of minutes allocated to interstate and international jurisdictions. They should also include, at a minimum, an explanation of: (1) the sampling/estimation methods employed; and (2) why the study results are accurate/ unbiased. Such studies are subject to FCC and USAC review, and must be submitted concurrent with all FCC Form 499s which rely on the study.

Allocation of Bad Debt

Telecommunications service providers that have uncollectable revenue/ bad debt associated with their service billings can reduce their contribution bases, sometimes substantially. Bad debt is the portion of a carrier's gross billed revenues that it reasonably expects will never be collected (*i.e.*, revenues that a carrier has made good faith efforts to collect, but has been unable to) during an applicable reporting period.

In order to obtain the bad debt write-off it, is very important that the uncollectible revenue be accurately reported on the FCC Form 499-A. This is accomplished by accounting for the past year's bad debt as "bad debt associated with gross billed revenues" on Line 421. If a carrier did not account for the bad debt in its FCC Form 499-Qs, it may be eligible for a credit for the uncollectable amounts entered in the FCC Form 499-A. This is because there would have been revenue "over-projections" in the 499-Qs, thus enabling them to claim some "credit" towards their future USF obligations.

Data Retention and Recordkeeping

All telecommunications service providers should maintain all records and documentation for **at least five (5) years** to justify information reported on FCC Form 499s and related worksheets. This includes records and documentation related to the methodology used both to determine projections, and to allocate interstate revenues.

Additionally, filers must make available all documents and records that pertain to them, including those of contractors and consultants working on their behalf, to the FCC's Office of Inspector General, to USAC, and to their auditors upon request. Review by the FCC or USAC may cover any existing corporate records, not just those specifically maintained for 499 reporting purposes. Entities acquiring carrier operations through consolidation, merger, etc., must maintain the records of the acquired entity.