

# BPA Policy 212-3

## Prepaid Expense

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## 1. Purpose & Background

This policy describes a prepaid expense for staff that develop contracts in order to ensure that accounting staff properly record prepayments.

Historically, Bonneville Power Administration's primary types of prepaid expenses are associated with the following payments:

- Net billed non-Federal projects (Energy Northwest (EN) & Trojan Nuclear Project)
- Third-party transmission providers for non-Federal transfer service
- Prepaid fish and wildlife direct funding
- Large prepaid contracts such as Nuclear Electric Insurance Limited (NEIL), IT service contracts and transmission service contracts or annual fees.

## 2. Policy Owner

BPA's Executive Vice President and Chief Financial Officer (CFO) has overall responsibility for this policy and assigns responsibility for its implementation to BPA's Accounting Officer.

## 3. Applicability

This policy applies to BPA employees that enter into contracts for advance payment with any vendor, supplemental laborer, grantee, other utility, or business partner.

## 4. Terms & Definitions

**Amortization:** The process of allocating the cost of an asset over a period of time.

**Asset:** Anything tangible or intangible that is capable of being owned or controlled to produce value and from which future economic benefits are expected.

**Prepaid Expense:** A prepaid expense is a payment made in advance of the future performance of services, receipt of goods or other assets, or incurrence of expenses. If material, these amounts are recorded as assets until the related expenses have been incurred, contract terms are met, or goods or services are received.

**Vendor:** A person or business that supplies goods or services to a company.

## 5. Policy

Managers and staff to whom this policy applies shall consult with BPA's Finance and Office of General Counsel organizations prior to initiating a new prepaid expense arrangement with any BPA vendor, including contractors, grantees, other utilities or any business partner.

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<b>Author</b> Lisa Aaron (FRG)	<b>Approved by</b> Michelle Manary, CFO	<b>Date</b> 11/23/2020	<b>Version</b> 2.0	Page 2

Prepayments shall be recorded as assets until receipt of the goods or services involved or contract terms are met. When goods or services have been received or contract terms have been met, the expense or acquired asset is recognized and prepayments are reduced.

## 6. Policy Exceptions

Prepaid expenses are expensed over the period to which they apply unless the prepayment is for benefits to be received in the current accounting period or is immaterial. Deposit funds and escrow accounts shall be recorded as assets by BPA at the time the deposits are made.

## 7. Responsibilities

- A. The authority for making accounting policy is vested in the Administrator and is delegated in the operating authority to the Executive Vice President and CFO.
- B. BPA’s CFO is delegated the authority by the Administrator to provide, on a BPA-wide basis, those financial management systems, policies, and procedures deemed necessary to keep complete and accurate accounts of operations, including all funds expended and received in connection with acquisition, transmission, and sale of electric energy and other BPA services.
- C. The Accounting Officer is responsible for establishing policy, operational procedures and practices that implement reporting and accounting guidance and relevant training to ensure that the work results conform to the established policies.
- D. Accounting and Reporting Managers provide functional guidance and oversight to BPA’s financial management systems and establish BPA and Federal Columbia River Power System requirements and reporting mechanisms to ensure adequacy of internal controls and compliance with applicable laws, regulations, and internal directives.
- E. BPA staff and subject-matter experts are responsible for following this policy.

## 8. Standards & Procedures

Prepayments are made to EN as working capital for net billed non-Federal projects and to the Eugene Water & Electric Board (EWEB) to cover Trojan nuclear plant operations and maintenance costs and subsequent spent fuel settlement reimbursements to BPA. For EN, BPA sends cash on a *just-in-time* or *as-needed* basis when invoiced. The large debt components of the budgets only require biannual cash outlays.

Power Services may enter into agreements with third-party transmission providers wherein BPA participates directly in the building of new or upgraded transmission facilities. These agreements support BPA’s commitment to acquire transmission services on behalf of preference customers who reside in service territories not covered by BPA-owned transmission lines. These arrangements may initially involve payments to reserve

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transmission services and later for the actual construction of lines and facilities. Until projects are placed into service, payments are accounted for as prepaid expense. The expense is recognized over the period of time covered by the underlying agreements.

The U.S. Army Corps of Engineers may submit prepayments for work performed under BPA fish & wildlife direct funding of the non-Federal portion of the cost-share of water resources studies or project agreements.

Annual, semi-annual, or quarterly contracts that are prepaid and material in nature (\$100,000 annually, \$50,000 semi-annually, or \$25,000 quarterly) should be recorded to prepaid expense at the time of payment and amortized in accordance with the performance period outlined in the agreement terms.

## 9. Performance & Monitoring

See the OMB Circular No. A-123 narrative for compliance with this policy: 6.A.2.a – Accruals, Contracts.

Once a prepaid contract has been initiated by an organization and billed, the responsible organization is required to enter the correct prepaid balance sheet account 165050 on the distribution line of the voucher (or Asset Suite) to ensure that the cost is 1) properly classified on the balance sheet vs. the income statement and 2) captured as a new prepaid contract in General Accounting’s monthly prepaid amortization process. Individual organizations are required to attach a [Prepaid Submission Template](#) to the invoice and other required purchase support documentation submitted to AP for imaging. AP will then scan the backup documentation and attach it to the logged invoice in the PeopleSoft Financial Management System. The submitter is also required to copy/CC the [General Accounting inbox](#) on this submission to AP, or send directly to the [General Accounting inbox](#) to ensure that General Accounting is in receipt of the new prepaid contract to perform validation procedures, including assuring appropriate classification in the Prepaid Balance Sheet space on the financials.

Every month, General Accounting performs a prepaid expense completeness check by analyzing prepaid and expense general ledger accounts for missed prepaid expense contracts for known contracts maintained on an internal watch list, or received via the new prepaid contract submission process (as described above).

Prepayments received at BPA have a direct impact on reserves procedures, including reserves forecasts and analytics as performed by the Debt and Liquidity Management (FTL) organization, primarily around the cash flows at a business unit (BU) level (also known as BU split) and final income statement vs. balance sheet designation, which defines the prepayment as a cash vs. non-cash outlay (non-cash outlay can be the case for non-BPA cash movement included in EN Regulatory and Generally Accepted Accounting Principles procedures). Absence of this communication from Accounting can result in a mismatch in

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the final reserves forecast to actuals. In support of the BU Split and Reserves forecast, every month General Accounting (FRG) provides a list of new prepayments along with the corresponding business unit level support, including work order. This information is used by FTL to upload and correct any BU misclassification of the original invoice in the Cash Management Cube. Additionally, on a quarterly, annual and as-needed basis, FRG provides a balance sheet and income statement analysis around non-federal accounts, providing cash and non-cash transactions so that the reserves forecast is reflective of true cash vs. non-cash balance sheet movement.

## 10. Authorities & References

- A. BPA’s *Accrual Reference Guide* available on BPA’s General Accounting SharePoint site.
- B. FASB ASC Topic 340-10-05-4, Nature of Prepaid Expenses.

## 11. Review

This policy is scheduled for review in 2025.

## 12. Revision History

Version Number	Issue Date	Brief Description of Change or Review
1	09/30/2015	Migration of content to new policy format.
2	11/23/2020	Updated Performance and Monitoring content for Reserves Forecasting implications.

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