

# BPA Policy 212-3

## Prepaid Expense

### Finance

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### 212-3.1 Purpose & Background

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

Historically, BPA’s primary types of prepaid expenses are associated with the following payments:

- Net billed Non-federal projects (Energy NW & Trojan)
- Third Party Transmission Providers for Non-Federal Transfer Service
- Large prepaid contracts such as Nuclear Electric Insurance Limited (NEIL),
- IT service contracts and Transmission service contracts or annual fees.

### 212-3.2 Policy Owner

BPA’s Chief Financial Officer has overall responsibility for this policy, and assigns responsibility for its implementation to BPA’s Accounting Officer.

### 212-3.3 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.

### 212-3.4 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.

**Expenditure:** An outflow of assets during an accounting period for normal business activities.

**Liability:** A present obligation of an entity arising from past transactions or events, the settlement of which is expected to result in an outflow of economic benefits in the future.

**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.

### 212-3.5 Policy

Managers and staff to whom this policy applies shall consult with BPA Finance and Legal 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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| Author<br><b>B. Weller</b>     | Approved by<br><b>Chief Financial Officer,<br/>N. Mitman</b> | Date<br><b>September, 9, 2015</b>       | Version<br><b># 1</b>     | Page<br><b>2</b> |

Prepayments shall be recorded as assets until receipt of the goods or services involved or until 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.

### 212-3.6 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.

### 212-3.7 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 Chief Financial Officer (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 FCRPS 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.

### 212-3.8 Standards & Procedures

Prepayments are made to Energy Northwest (EN) and to the Eugene Water & Electric Board (EWEB) as working capital for Net billed Non-federal projects. BPA sends cash to EN on a “just in time” or “as needed” basis when invoiced by EN. The large debt service components of the budgets only require bi-annual 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 transmission services and later for the actual construction of lines and facilities. Until

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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.

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 Accounting Handbook.

**212-3.9 Performance & Monitoring**

Please see A-123 narrative for compliance with this policy:

A) 1.C.3.a) General Accounting Contract Review

Every month General Accounting does a prepaid expense completeness check by analyzing expense GL accounts for missed prepaid expense contracts.

**212-3.10 Authorities & References**

A) BPA’s “Accrual Reference Guide” available on BPA’s General Accounting SharePoint site.

B) ASC Topic 340-10-05-4, Nature of Prepaid Expenses.

**212-3.11 Review**

This policy is scheduled for review in 2020.

**212-3.12 Revision History**

| Version | Issue Date | Description of Change                      |
|---------|------------|--|
| 1       | 09-30-15   | Migration of content to new policy format. |

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