TSTCI AMC JULY 11, 2019 SELECTED NEW ACCOUNTING PRONOUNCEMENTS

IMPLEMENTATION AND COST STUDY ISSUES

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LEARNING OBJECTIVES

- Knowledge of new accounting standards
- Learn how to apply new standards
- Learn the effects on cost studies

- NO PREREQUISITES

ASU 2015-17 – DEFERRED TAXES

- All deferred tax assets and liabilities must be netted and classified as non-current
- Effective for years beginning after 12/15/2017
- Can be applied prospectively or retrospectively
- Must disclose the effect of the change and include a paragraph in audit report

ASU 2016-01 EQUITY INVESTMENTS

- Requires that equity investments (except those accounted for on equity method and those that are consolidated) to be measured at fair value (FV) **with changes in FV recognized in net income**
- Not necessary to categorize equities as trading or available for sale
- Unrealized gains and losses on equity securities no longer reported as OCI
- Equity investments without readily determinable FV are recorded at cost less impairment

ASU 2016-01

- For non-public entities, eliminates requirement to disclose FV of financial instruments measured at amortized cost
- AR, AP, notes payable, etc. are assumed to be measured at amortized cost
- Requires an entity to present separately in OCI, the portion of the change in FV of a liability resulting from a change in credit risk <u>when an entity has elected to measure the liability at FV</u>

ASU 2016-01

- Effective for years beginning after 12/15/18
- Early adoption is not permitted
- Apply by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption
- For coops, this could cause a substantial change in patronage capital assignable in year adopted
- The amendments related to equity investments without readily determinable FV should be applied prospectively to investments that exist at the date of adoption

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ASU 2016-13 ASSETS AT AMORTIZED COST

- A financial asset or group of assets measured at amortized cost will be presented at the net amount expected to be collected
- Loss no longer has to be probable
- An allowance for credit losses (valuation account) will be deducted from the amortized cost basis so that the carrying value represents the amount expected to be collected

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ASU 2016-13

- The income statement will reflect as a credit loss expense or reversal of expense, the measurement of credit losses for newly recognized financial assets, as well as the change in expected credit losses on existing financial assets that have taken place during the period
- The measurement of expected credit losses will be based on relevant info about past events, including historical experience, current conditions, and <u>reasonable forecasts about collectibility</u>
- Will mainly change documentation on how allowance is calculated

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ASU 2014-15 GOING CONCERN

- Incorporates into accounting standards the going concern guidance that is in the auditing standards
- Management must evaluate whether conditions or events raise substantial doubt about the entity's ability to continue as a going concern
- If such conditions are present, **must provide specific disclosures**

ASU 2014-15

- Substantial doubt exists when conditions and events indicate that it is probable that the entity will be unable to meet its obligations as they become due within <u>1 year after the date that the financial statements are issued</u>
- Consider effect of management's plans and if it is probable that the plans will be effectively implemented and that the plans will mitigate the conditions

ASU 2014-15

- **Even if management's plans effectively mitigate the condition, still must make going concern disclosures**
- Disclose conditions that raised the doubt, management's evaluation of the significance of those conditions, and managements plans that mitigate the doubt
- **Effective for years beginning after 12/15/2016**

ASC 606 REVENUE FROM CONTRACTS WITH CUSTOMERS

- Effective for years beginning after 12/15/18
- Quantify costs to obtain and/or fulfill contracts (commissions and install costs)
- Quantify activation fees and other NRCs
- Record contract assets and liabilities at 1/1/2019 if material
- Determine amortization period for contract assets and liabilities (contract term, avg customer retention period)

ASC 606

- Determine bundle discounts
- Discounts must be allocated to all services in the bundle, including local
- Recommend sub-accounting discounts as the amount assigned to local must be excluded for EMR reporting
- If only have 1 bundle discount, could sub-account the discount and allocate it by JE at year end based on revenues recorded
- Consider materiality of misclassification
- If a company records contract assets for commissions and install costs and amortizes to expense, how will this effect the cost study?

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ASU 2016-02 LEASES

- Effective for years beginning after 12/15/19
- Need to document decision for transition relief (may elect not to reassess) and use of practical expedients
- If use ST lease accounting and later determine it is LT, will be correction of an error and not change in estimate.
- If cancelable by either party at any time then not legally enforceable and not a lease

ASU 2016-02 LEASES

- Adoption of ASU for operating leases with payments that don't change has virtually no effect on income statement
- Just record asset and liability
- How will these types of leases effect the cost study?
- How will leases with varying payments that do effect income statement be treated for cost study?

ASU 2016-15 STATEMENT OF CASH FLOWS – CLASSIFICATION OF CERTAIN RECEIPTS & EXPENDITURES

- Addresses inconsistencies in classification of certain items on the statement of cash flows
- Two of the items that are most applicable
  - Insurance proceeds
  - Distributions from equity method investments

2016-15 INSURANCE PROCEEDS

- Classify based on nature of loss
- Proceeds related to loss of equipment should be presented as a cash inflow from investing activities
- Proceeds related to business interruption are operating
- Proceeds from a corporate owned life insurance policy should be presented as cash inflows from investing activities

2016-15 EQUITY METHOD INVESTMENTS

- Entities should make an **accounting policy election** to use one of 2 approaches
  - Nature of Distribution – Distributions classified based on the nature of the activity that created the distribution, typically operating but could be investing
  - Cumulative earnings approach – If cumulative distributions less PY distributions treated as return of investment exceed cumulative equity in earnings, treat CY distribution as investing activity up to excess; otherwise treat as operating
  - CB&Co recommends 1st approach
  - Effective for FY beginning after 12/15/2018

ASU 2017-07 – COMPENSATION – RETIREMENT BENEFITS

- Requires that the service cost component of NPC for pension and OPEB be presented in the same line items as other compensation costs (benefits clearing)
- The other components of NPC reported in another line item outside of income from operations (nonoperating)
- The other components must be reported on a separate line item appropriately described or disclosed in the footnotes
- Only the service cost component is eligible for capitalization
- Effective for periods beginning after 12/15/2018

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ASU 2017-07 – COMPENSATION – RETIREMENT BENEFITS

- The ASU should be applied retrospectively for the service cost and other components included in the income statement and prospectively for capitalized costs
- For telcos, FCC RAO Letter 20 issued in 1992 requires that the entire NPC be recorded to benefits clearing
- However, sub-topic 980-715-45 which is part of regulated operations states that the presentation of NPC shall be in accordance with para 715-20-45-3A which is the transition guidance on ASU 2017-07

ASU 2017-07 – COMPENSATION – RETIREMENT BENEFITS

- Part 1170, Subpart C,I describes the accounting treatment specified by RUS
- RUS requires that the service cost portion of NPC be charged to benefits of the appropriate expense accounts (accomplished thru charging benefits clearing) and the other components should be charged to the benefits sub-account of 6728
- This treatment is more in line with 2017-07

ASU 2017-07 – COMPENSATION – RETIREMENT BENEFITS

- For retrospective presentation companies can elect a practical expedient to use the NPC disclosed in PY financials to adjust the comparative 2018 income statement
- Must disclose that the practical expedient was elected
- How will this new accounting effect the cost study

PREPAID NTCA R&S PLAN SURCHARGE

- In 2016, NTCA gave participants in the R&S plan the option to prefund the surcharge prior to 9/15/17
- Each member's contribution is maintained in a notional account to offset their specific future annual surcharges
- The accounts are invested with other R&S plan assets and experience gains and losses
- The prefunding was expected to offset the member's annual surcharge for 12 years beginning with 2018

PREPAID NTCA R&S PLAN SURCHARGE

- There is inconsistency with the accounting treatment for these prepayments but the disparity has not typically produced material differences
- One method is to amortize the prepaid amount over 12 years to benefits clearing then adjust to the year end balance of the statement provided by NTCA through account 7360

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PREPAID NTCA R&S PLAN SURCHARGE

- This method results in operating expenses recognized over the 12 year period equaling the amount actually paid with earnings or losses recorded as non-operating
- NECA guidance states that the prepayment should be recorded in Account 1410 and amortized to expense over a period of time as determined by the provider or expensed as the pre-fund is used to pay future surcharges
- Account 1410 is included in rate base

PREPAID NTCA R&S PLAN SURCHARGE

- NECA did not prescribe an amortization account but stated that account 1410 will decrease and be amortized to expenses (presumed benefits clearing)
- NECA also stated that surcharges paid with earnings from the pre-fund account must be excluded as an operating expense from regulated revenue requirement

PREPAID NTCA R&S PLAN SURCHARGE

- The 12 year amortization accounting treatment is consistent with the NECA guidance, whereby, it has the effect of including only the amount actually paid in regulated expenses over the amortization period with earnings or losses being excluded

ASU 2018-02 (TOPIC 220)

- Reclassify the effect of the tax rate change on AOCI to retained earnings
- Disclose the reason for the change, description of prior period info that has been retrospectively adjusted, and the effect of the change on financial line items
- Effective for FY ending after 12/15/18 with early adoption permitted

ASU 2018-08

- Exchange transactions are accounted for under Topic 606
- In instances in which a resource provider is not itself receiving commensurate value for the resources provided, an entity must determine whether a transfer of assets represents a payment from a 3rd party payer on behalf of an existing exchange transaction between the recipient and an identified customer
- Example: Medicare payments to Hospice

ASU 2018-08

- Effective for years beginning after 12/15/18
- More in-depth study of this standard needs to be done
- Examples of conditional grants
- Example liquidity disclosures and calculation
- Must detail on Statement of Activities each item released from restriction

ASU 2018-15

- Provides guidance on accounting for implementation costs by entities that are customers in a hosting arrangement accounted for as a service contract
- Implementation costs incurred in the application development stage s/b capitalized depending on the nature of the costs (Ex: costs incurred in application development stage to configure and customize vendor's software)
- All other implementation costs are expensed
- Amortize over term of contract to same expense account to which the hosting fees are charged
- Effective for years beginning after 12/15/2020

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Thank You!

JSI