



# **2022 MATSS Showcase & Seminar**

Jessica Richter / October 11, 2022

Telecommunications

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FORVIS was created by the merger of equals between BKD and DHG. We now have the scale and scope of a dynamic, top 10 professional services firm—but we'll continue our legacy of high-touch personal service delivered with remarkable care, expertise, and drive.



**8<sup>th</sup>**

Largest US Firm



**530+**

Partners & Principals



**5,500+**

Team Members



**10+**

Industries



**70**

Markets



**28**

States + UK  
& Caymans



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# FORVIS

# AGENDA

- Accounting Rules Applicable to Grant Accounting

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- Options Available for Grant Accounting

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- Required Disclosures for Grant Funding

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# Grant Accounting for Telecommunications Companies

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**FORV/S**

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# What Type of Grant was Received?

- Several different grants available and there are always new ones being added
  - Federal
  - State
  - Local
- Focus today on 4 major grants/funding sources



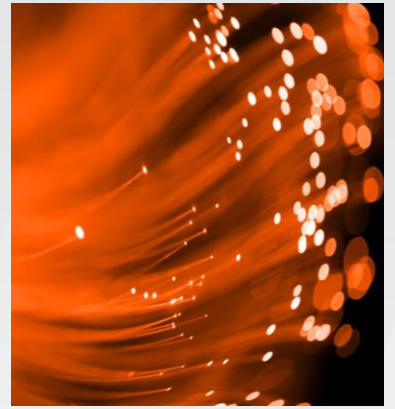
# What Type of Grant was Received?

- Connect America Fund (CAF) Phase II
  - Provided by the FCC
  - Focus on broadband to underserved and unserved locations
  - Similar to Universal Service Funds (USF)
  - Treated as support revenue rather than a grant
  - FinRec specifically mentions CAF II in Chapter 13 Telecommunications Entities section of the A&A Guide for Revenue Recognition
    - + Treat it like USF
    - + Recognize as received

# What Type of Grant was Received?

- CAF II, cont.
  - Keep in mind there are claw back provisions on CAF II if the recipient doesn't meet build out obligations including repayment of funds and a penalty
    - + Should be monitoring that annually and be proactive if there are foreseen issues with meeting buildout obligations
    - + Possible need to record a liability for the repayment and penalty
  - CAF II FAQ's
    - + <https://www.fcc.gov/consumers/guides/connect-america-fund-phase-ii-faqs>

# What Type of Grant was Received?



- Rural Digital Opportunity Fund (RDOF)
  - Provided by the FCC
  - Focus on build out of broadband infrastructure to bring high speed internet to underserved and unserved areas
  - Similar to USF Funds as it is a support mechanism
  - Record the revenue as received
  - Need to keep in mind similar claw back and penalty provisions as CAF II
  - RDOF FAQ's
    - + <https://www.fcc.gov/auction/904/factsheet>



# What Type of Grant was Received?

- Broadband ReConnect Program
  - Grants provided by the US Department of Agriculture
  - Reimbursement of expenses incurred to build out broadband to underserved and unserved areas
  - Revenue recognition – depends
    - + We will come back to this
  - ReConnect FAQ's
    - + <https://www.usda.gov/reconnect>



# What Type of Grant was Received?

- Federal, State or Local Grants

- Lots of grants being awarded under various programs
- Some are pass through grants as part of the Coronavirus Aid, Relief, and Economic Stability (CARES) Act of 2020 and the American Rescue Plan Act (ARPA) of 2021
  - + Often awarded to the States and other local jurisdictions to then administer and spend through vendors or subrecipients
  - + Both have broadband funding as allowable use of some of the funds
- Some are infrastructure to help with building networks to serve customers in underserved and unserved areas

# What Type of Grant was Received?

- Federal, State or Local Grants
  - Some are adoption grants to reimburse costs of installation
  - Look to State Offices of the Chief Information Officer as well as any State Broadband Agencies or Commissions to learn more
  - Each jurisdiction is handling the allocation of funds in their own way



U.S. DEPARTMENT OF THE TREASURY



Rural Development  
U.S. DEPARTMENT OF AGRICULTURE

# What Type of Grant was Received?

- Federal, State or Local Grants
  - For Federal grants keep in mind possible needs for Single Audit under Uniform Guidance
    - + Typically, not required for for-profit entities but some programs require a special program specific Single Audit for the for-profit grant recipients
    - + Generally required when federal expenditures  $\geq$  \$750,000
  - States may also have special program audit requirements specifically related to compliance
  - Read your agreements carefully



# Options for Accounting for Grants

- Typical default answer used to be that telecommunications providers (ILEC) had to follow FCC Part 32 accounting rules
- Part 32 only applies if the entity is considered a regulated entity under the definition in FASB ASC 980 *Regulated Operations*



# Options for Accounting for Grants

- FASB ASC 980 *Regulated Operations*

- Entity's rates for regulated services or products are established by or subject to approval by an independent, 3<sup>rd</sup> party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers
- Rates are designed to recover the specific entity's cost of providing the regulated services or products

# Options for Accounting for Grants

- Do you have regulated operations such that you can follow the ASC 980 guidance for your company?
- Let's explore some scenarios



# Options for Accounting for Grants

- CLEC
  - These are not rate-regulated operations and as such, the guidance as of ASC 980 and ultimately FCC Part 32 cannot be followed where it deviates from GAAP
  - Couple of options
- Nonregulated entities (WISP, broadband not in the ILEC, etc.)
  - These are not rate-regulated operations and as such, the guidance as of ASC 980 and ultimately FCC Part 32 cannot be followed where it deviates from GAAP
  - Couple of options



# Options for Accounting for Grants

## ▪ ILEC

- Average schedule
  - + Rates are not based on the costs of the specific entity, but rather the average of the NECA pool
  - + ASC 980 and FCC Part 32 cannot be followed where it deviates from GAAP
  - + Couple of options
- Cost – A-CAM and BDS
  - + Rates are not based on the costs of the specific entity, but rather a set settlement is received
  - + ASC 980 and FCC Part 32 cannot be followed where it deviates from GAAP
  - + Couple of options

# Options for Accounting for Grants

- ILEC

- Cost – A-CAM not BDS

- + Special access is still based on the costs and investment of the Company
      - > Includes non-DSL Special Access and voice-data DSL
      - > Does NOT include CBOL
    - + Review of settlements from this portion will need to be compared to revenues as a whole to see if there are regulated revenues under ASC 980
      - > Follow ASC 980 and FCC Part 32 for portions that are regulated
      - > Look at other options for portions that are not regulated

# Options for Accounting for Grants

- ILEC

- Cost – Legacy (Non-A-CAM)

- + Rates are based on the costs and investment of the company
    - + Review of settlements from this portion will need to be compared to revenues as a whole to see if there are regulated revenues under ASC 980
      - > Follow ASC 980 and FCC Part 32 for portions that are regulated
      - > Look at other options for portions that are not regulated

# Options for Accounting for Grants

- When ASC 980 Applies
  - Grants for infrastructure
    - + FCC Part 32 calls for grants to be recognized as aid to construction and reduce the basis of the assets acquired with the funds received
    - + Contra-accounts can be used if you wish to maintain the original basis prior to the aid to construction
      - > Be sure to record the negative depreciation to offset to the proper net value



# Sample of ASC 980 Accounting

## ■ Facts:

- Total Project Cost = \$15,000,000
- Grant 40% = \$6,000,000
- Out of Pocket Costs = \$9,000,000

Cash	\$	(15,000,000)
Plant Under Construction	\$	15,000,000

To record payments for construction

Cash	\$	6,000,000
Plant Under Construction	\$	(6,000,000)

To record receipt of grant proceeds against project

Plant Under Construction Balance	\$	9,000,000
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# Sample of ASC 980 Accounting

- Option 1 is the net approach where only the net cash outlay is reflected in plant in service
- Option 2 is the gross approach with contra accounts for the portion funded by grant

OPTION 1		
COE	\$	2,250,000
Fiber	\$	6,750,000
Plant Under Construction	\$	(9,000,000)
To close project to in service		

OPTION 2		
COE (gross)	\$	3,750,000
COE - Grant Funded	\$	(1,500,000)
Fiber (gross)	\$	11,250,000
Fiber - Grant Funded	\$	(4,500,000)
Plant Under Construction	\$	(9,000,000)
To close project to in service		

# Sample of ASC 980 Accounting

- When can you record the grant receivable?
  - You need to consider if you have completed all the conditions required to be eligible for the grant funding and have you submitted a request for reimbursement
  - E.g. The project is 80% complete but you are not eligible to request reimbursement until the project is 100% complete and lit, you cannot record a receivable based on your progress. The reason is that if you don't finish, you don't get any funds.

# Options for Accounting for Grants

- When ASC 980 Applies
  - Grants for adoption
    - + FCC Part 32 calls for grants that are for the reimbursement of expenses to be offset of those expenses rather than as revenues



# Options for Accounting for Grants

- When ASC 980 does not apply
  - Grant accounting for for-profit entities is not specifically addressed in the codification
  - Look to alternative rules for guidance
    - + IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is the best alternative guidance to address the issue
    - + IAS 20 is also supported by the **GAAP Practice Manual** Section 68 *Government Grants and Assistance and Service Concession Arrangements*

# Options for Accounting for Grants

- IAS 20 Options

- Set up the grant as deferred income
  - + Recognize to income as revenue over the estimated useful life of the asset
  - + Also need to consider if there is a lien on assets funded by the grantor that extends beyond the service period. If so, recommended to use the estimated useful life of the associated asset

# Options for Accounting for Grants

- IAS 20 Options

- Set up the grant as deferred income
  - + Results in strong matching of revenues and expenses (depreciation)
  - + Allows for greater transparency of funding sources and costs incurred
    - > E.g. \$30m project funded 50% by grant still shows up as \$30m in assets and then revenue is recognized over life of the associated gross assets

# Sample of IAS 20 – Deferred Revenue

## ■ Facts:

- Total Project Cost = \$15,000,000
- Grant 40% = \$6,000,000
- Out of Pocket Costs = \$9,000,000

Cash	\$ (15,000,000)
Plant Under Construction	\$ 15,000,000

To record payments for construction

Cash	\$ 6,000,000
Deferred Revenue	\$ (6,000,000)

To record receipt of grant proceeds to deferred revenue

Plant Under Construction Balance	\$ 15,000,000
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# Sample of IAS 20 – Deferred Revenue

- Close project as gross value
- Recognize revenue over average weighted life of plant placed in service funded by grant dollars
  - Effectively offsets the depreciation in a similar way that netting against the plant and recording less depreciation would have

Close Project	
COE	\$ 3,750,000
Fiber	\$ 11,250,000
Plant Under Construction	\$ (15,000,000)
To close project to in service	

Recognize Revenue	
Grant Revenue	\$ (480,000)
Deferred Revenue	\$ 480,000
To recognize annual grant revenue	

Component	Life	Project %	Weighted Life
COE	5	25%	1.25
Fiber	15	75%	11.25
	<u>20</u>		<u>12.5</u>



# Options for Accounting for Grants

## ■ IAS 20 Options

- Deduct the grant in arriving at the carrying amount of the asset (similar to FCC Part 32 accounting treatment)
  - + Aid to construction approach which reduces the basis and thereby depreciation
  - + Contra-accounts can be used if you wish to maintain the original basis prior to the aid to construction
    - > Be sure to record the negative depreciation to offset to the proper net value
  - + Less clear how much was really put in service and continues to be operated.
    - > E.g. \$30m project funded 50% by grant shows up as \$15m in gross assets

# Sample of IAS 20 – Reduce Asset Basis

## ■ Facts:

- Total Project Cost = \$15,000,000
- Grant 40% = \$6,000,000
- Out of Pocket Costs = \$9,000,000

Cash	\$	(15,000,000)
Plant Under Construction	\$	15,000,000

To record payments for construction

Cash	\$	6,000,000
Plant Under Construction	\$	(6,000,000)

To record receipt of grant proceeds against project

Plant Under Construction Balance	\$	9,000,000
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# Sample of IAS 20 – Reduce Asset Basis

- Option 1 is the net approach where only the net cash outlay is reflected in plant in service
- Option 2 is the gross approach with contra accounts for the portion funded by grant

OPTION 1		
COE	\$	2,250,000
Fiber	\$	6,750,000
Plant Under Construction	\$	(9,000,000)
To close project to in service		

OPTION 2		
COE (gross)	\$	3,750,000
COE - Grant Funded	\$	(1,500,000)
Fiber (gross)	\$	11,250,000
Fiber - Grant Funded	\$	(4,500,000)
Plant Under Construction	\$	(9,000,000)
To close project to in service		

# Financial Statement Disclosures

- Statement Presentation (IAS20-Deferred Revenue)
  - Balance Sheet
    - + Deferred revenue – short and long-term components based on expected recognition
  - Income Statement
    - + Revenues are to be shown either separately or under a general heading such as “Other income”
      - > Both in operating revenues
  - Cash flow –
    - + Proceeds should be in financing activities
    - + Capital expenditures reported at gross amounts
    - + Subsequent change in the deferred revenue would be in operating (when applicable)

# Financial Statement Disclosures

- Statement Presentation (FCC Part 32 & IAS20-Reduced Asset Basis)
  - Balance Sheet
    - + Fixed Assets are reported net of the grant proceeds
  - Income Statement
    - + Depreciation is recognized using the net basis of the grant-funded assets
  - Cash flow –
    - + Proceeds should be in financing activities
    - + Capital expenditures reported at gross amounts

# Financial Statement Disclosures-All

- Who is providing the funding
- What the funding is for - infrastructure, adoption, etc.
- When signed and when funding will be received and/or how much has been received as of the financial statement date
- What method of accounting was chosen
- Note - Revenues are not subject to ASC 606 and as a result should not be reported as over time or point in time revenues in that disclosure



# Financial Statement Disclosures

- Disclosure is required of any expenses reduced by offsetting with grant proceeds (as applicable)
- Amounts included in the financial statements as of the report date
  - Assets
  - Unearned revenues
  - Etc.

# Disclosures-**IAS20** (Deferred Revenue)

In 202X, the Company signed an agreement with AGENCY under its ABC Program. In accordance with the Agreement, the Company was awarded a grant in the amount of \$XXX,XXX to finance the construction of a broadband infrastructure project to serve certain designated areas in STATE. The agreement contains various provisions including an obligation to provide broadband services at certain speeds. As of December 31, 202X, the Company has received \$XXX,XXX of grant funding and expects to receive additional funding when the remaining required build outs are complete.

- The Company has elected to account for the funding as a government grant by analogizing to International Accounting Standard 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Under this model government assistance is not recognized until there is reasonable assurance (similar to the “probable” threshold in U.S. generally accepted accounting principles) that (1) any conditions attached to the assistance will be met, and (2) the assistance will be received. Once there is reasonable assurance that the conditions will be met, the earnings impact of government grants is recorded “on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate.” The entity recorded the cash inflow from the grant as a deferred revenue. After initial recognition, the entity reduces the liability, with the offset through earnings as other income.
- As of December 31, 202X, \$XXX,XXX was included as other liabilities to be amortized over the life of the plant investment acquired with the grant. Since the project was not complete at the end of the year, there were no amounts recognized as revenue in 202X.

# Disclosures- IAS20(Reduce asset basis)

In 202X, the Company signed an agreement with AGENCY under its ABC Program. In accordance with the Agreement, the Company was awarded a grant in the amount of \$XXX,XXX to finance the construction of a broadband infrastructure project to serve certain designated areas in STATE. The agreement contains various provisions including an obligation to provide broadband services at certain speeds. As of December 31, 202X, the Company has received \$XXX,XXX of grant funding and expects to receive additional funding when the remaining required build outs are complete.

- The Company has elected to account for the funding as a government grant by analogizing to International Accounting Standard 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Under this model government assistance is recognized as a reduction of the basis of the related asset. The entity recorded the cash inflow from the grant as aid to construction in plant under construction. When the asset is complete and ready for use, the net basis will be transferred to plant in service and depreciated over the estimated useful life of the asset.
- As of December 31, 202X, \$XXX,XXX in grant proceeds was included in plant under construction. Since the project was not complete at the end of the year, there were no amounts placed in service and depreciated in 202X.

# Disclosures- ASC 980/FCC Part 32

In 202X, the Company signed an agreement with AGENCY under its ABC Program. In accordance with the Agreement, the Company was awarded a grant in the amount of \$XXX,XXX to finance the construction of a broadband infrastructure project to serve certain designated areas in STATE. The agreement contains various provisions including an obligation to provide broadband services at certain speeds. As of December 31, 202X, the Company has received \$XXX,XXX of grant funding and expects to receive additional funding when the remaining required build outs are complete.

- As a regulated entity under ASC 980 *Regulated Operations*, the Company has elected to account for the funding as aid to construction as indicated by FCC Part 32 *Uniform System of Accounts for Telecommunications Companies*. Under this model government assistance is recognized as a reduction of the basis of the related asset. The entity recorded the cash inflow from the grant as aid to construction in plant under construction. When the asset is complete and ready for use, the net basis will be transferred to plant in service and depreciated over the estimated useful life of the asset.
- As of December 31, 202X, \$XXX,XXX in grant proceeds was included in plant under construction. Since the project was not complete at the end of the year, there were no amounts placed in service and depreciated in 202X.

# Grant Accounting Summary

- Grant accounting for telecommunications providers is complex and there is no one perfect answer
- Need to consider all facts and circumstances of the specific entity receiving the funding to determine best path
- Important to document considerations and methods chosen to support presentation and disclosures





# Thank you!

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