

## Case 13-06

### Natural Irony: Accounting Considerations When There Is a Natural Disaster

WetWind Alternatives Corp. (“WWA”) is a publicly traded company in Reedsport, OR, that produces electricity using alternative production methods; specifically, using wind and wave-powered turbines. WWA operates one of the first commercial wave-power farms installed in the United States off the coast of Oregon near the mouth of Umpqua River. The wave-powered farm provides power to the city of Reedsport using turbines similar to those developed by leading alternative-energy companies. WWA also operates two wind turbine farms in Sherman and Gilliam Counties that provide power to residential homes and corporate offices in Seattle and neighboring populous cities to the north. WWA sells the electricity it generates to local utilities.

Two wholly owned WWA subsidiaries operate out of Oahu, HI: Kahuku Wind Inc. operates an onshore wind farm near Kahuku and North Shore Wave Electric Inc. (“NS Wave”) operates a wave-power farm near the northern tip of Oahu. NS Wave also uses generators similar to OPT’s piston-driving buoy. Kahuku Wind and NS Wave sell the electricity they generate to local utility companies.

Relevant quantitative information and key financial metrics are included below:

| Selected Data                                 | WWA                     |                   |                      |                     | Consolidated   |
|---|-------------------------|-------------------|----------------------|---------------------|----------------|
|   | Wind                    | Wave              | Kahuku Wind          | NS Wave             |                |
| <i>General Information</i>                    |                         |                   |                      |                     |                |
| Number of turbines                            | 37                      | 2                 | 12                   | 9                   | 60             |
| Power generating capacity (MW)                | 93.49                   | 0.30              | 30.00                | 1.50                | 125            |
| Homes served                                  | 14,607                  | 50                | 7,700                | 400                 | 22,757         |
| Average rate                                  | \$ 0.0813               | 0.0813            | 0.2413               | 0.2413              |                |
| Average per capita consumption (kwh)          | 12,077                  | 12,077            | 7,363                | 7,363               |                |
| Initial cost of turbines                      | \$ 432,000,000          | 13,400,000        | 140,000,000          | 60,000,000          | \$ 645,400,000 |
| Year end                                      | 12/31                   | 12/31             | 10/31                | 10/31               |                |
| <i>Financial information</i>                  |                         |                   |                      |                     |                |
| Total assets (most recent balance sheet date) | \$ 345,600,000<br>64.6% | 9,380,000<br>1.8% | 126,000,000<br>23.6% | 54,000,000<br>10.1% | \$ 534,980,000 |
| Revenue (most recent fiscal year)             | \$ 14,342,111<br>49.8%  | 49,093<br>0.2%    | 13,680,528<br>47.5%  | 710,677<br>2.5%     | \$ 28,782,409  |

Kahuku Wind and NS Wave have limited accounting and finance resources. As relatively new employers on the island of Oahu, they often use temporary help, drawing on WWA corporate resources and other CPAs from California and Oregon to close their books at year-end, October 31, and to deliver financial information to WWA. Using a fiscal year-

end of October 31 ensures that WWA receives reliable and complete financial information from these two subsidiaries in time for its own reporting requirements. However, WWA's auditors frequently question whether more timely information can be obtained from WWA's subsidiaries given WWA's reporting deadline 90 days after December 31.

### *Event*

The volcano that formed the island of Kaua'i, north of Oahu, has been dormant for approximately 15,000 years. However, recent fractures in the Pacific Plate have allowed magma from the plume underneath the island of Hawai'i to push through the Pacific Plate underneath the island of Kaua'i causing many volcanologists and geologists to speculate that Kaua'i's volcano could become active once again.

On December 13, 20X1, these concerns are realized when a volcanic eruption causes significant landslides and lava flows along the southern coast of Kaua'i. Measuring 7.2 on the Richter scale, the eruption and landslide also send damaging tidal waves toward the island of Oahu. Smaller swells reach the western coast of Oregon.

The significant displacement of water and the ensuing "wave train" immediately destroy NS Wave's nine wave-power electric generators. The buoys snap free of the tall spars that anchor them to the seabed, and several of the buoys wash ashore. The tidal waves also cause irreparable damage to Kahuku Wind's 12 wind turbines. No damage is caused by the swells that reach the western coast of Oregon.

The financial reporting implications of an event such as the hypothetical earthquake and tidal waves above pale in comparison to the gravity of natural disasters and their terrible consequences. However, after higher-priority needs are met, WWA will need to address certain reporting issues. You are tasked with finding answers to key accounting and reporting questions that arise as a result of this natural disaster.

### **Required:**

1. Ignoring the event, is it appropriate for WWA to include Kahuku Wind's and NS Wave's financial information as of and for the year ending October 31 in its consolidated financial information as of and for the year ending December 31? What considerations or policy choices should WWA make when evaluating this question?
2. What reporting, if any, should WWA make in its consolidated financial statements for the year ended December 31 for the December 13 event?