2020 Cerini Nonprofit Update

Accounting Update

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Accounting for PPP Loan Forgiveness

- Nonprofits have two choices:
  - Treat as loan with forgiveness
    - Debt recorded at time of loan
    - Interest accrued
    - Gain on extinguishment of debt once the debt is legally released
  - Treat as a conditional contribution
    - Refundable advance payable recorded at time of loan
    - Interest accrued
    - Refundable advance recorded as contribution revenue at time forgivable expenses are incurred

Accounting for PPP Loan Forgiveness

- Example:
  - Nonprofit receives $500,000 of PPP loan on May 1, 2020 and incurs allowable costs of $50,000 per week with no anticipated penalties anticipated. Interest is 1% for two years. Nonprofit anticipates the full amount of the PPP loan will be forgiven.

Accounting for PPP Loan Forgiveness

- Accounting under loan treatment:
  - May 1, 2020:

Dr. Cash	$500,000	
Cr. Loan Payable		$500,000
To record loan		

  - June 30, 2020:

Dr. Interest Expense	$ 833	
Cr. Interest Payable		$ 833
To record interest through June 30, 2020		

  - Date approval is received from SBA that debt is forgiven

Dr. Loan Payable	$500,000	
Dr. Interest Payable	$ 833	
Cr. Gain on Extinguishment of Debt		$500,833
To record extinguishment of debt		

Accounting for PPP Loan Forgiveness

- Accounting under conditional contribution treatment:
  - May 1, 2020:

Dr. Cash	$500,000	
Cr. Refundable Advance Payable		$500,000

To record loan

  - June 30, 2020:

Dr. Qualifying Expenses (Payroll, Rent, Utilities)	$100,000	
Cr. Cash		$100,000
Dr. Refundable Advance Payable	$100,000	
Cr. Contribution (Grant) Revenue		$100,000

To record expenditure of funds and forgiveness of debt

  - Ten-month life of loan:

Dr. Interest Expense	$2,291.67	
Cr. Contributed Interest (In-kind)		$2,291.67

To record donated interest over ten-month forgiveness period

Additional Financial Statement Disclosures

- Need to disclose risks and uncertainties
  - General disclosure
    - As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen, which may negatively impact operating results. The financial impact of this matter cannot be estimated at this time.
  - More specific disclosures can arise if there is a direct and more material financial impact
    - Significant decline in operations/fundraising activities
    - Declines in investment portfolios
    - Bank financing
    - Going concern

Additional Financial Statement Disclosures

- The Families First Coronavirus Response Act (FFCRA) added certain provisions:
  - Expanded family and medical leave
  - Established an emergency two-week paid sick leave requirement
  - Provided payroll tax credits for qualifying employers (under 500 employees)
- The required sick leave will need to be accrued
  - Can be carried forward to future periods or paid out upon termination
  - May require disclosure

Other CARES Act Considerations

- PPP loans are not subject to Uniform Guidance; however, EIDL loans are
- Organizations have the ability to defer the employer portion of Social Security and Medicare tax incurred through December 31, 2020.
  - Payable 50% by December 31, 2021 and the balance by December 31, 2022
  - Need to discuss with payroll providers and properly record within accounting records as obligations
- Organizations that are self-insured for unemployment
  - Need to estimate potential obligation attributable to terminated staff and accrue at year-end
  - The federal government has agreed to reimburse up to 50% of obligation. Need to calculate potential receivable and offset against calculated obligation

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Other CARES Act Considerations

- Impact on debt and debt covenants
  - Most lines of credit include a “Material Adverse Change” provision
  - Need to communicate with bank early if you are going to need a covenant waiver
- HHS Medicaid funding
  - 2% of 2019 income
  - No funding from general pool
  - Cover losses and additional costs attributable to COVID

Deferral of Pronouncements

- Certain accounting regulations have been deferred:
  - ASU 2014-09 Revenue from Contracts with Customers (Topic 606) – deferred until calendar 2020, or fiscal 2021
    - Only applicable for exchange transactions, not contributions (both parties receive value)
    - Does not apply to contributions
    - Areas where nonprofits could be impacted: Memberships, Subscriptions, Products and Services, Royalty Agreements, Sponsorships, Conferences and Seminars, Tuition & other Fee for Service Arrangements, Advertising, Licensing, & Federal & State Grant Contracts
    - 5 Steps:
      - Identify the contract(s) with the customer
      - Identify the performance obligation(s)
      - Determine the transaction price
      - Allocate the transaction price, and
      - Recognize revenue when (or as) a performance obligation is satisfied

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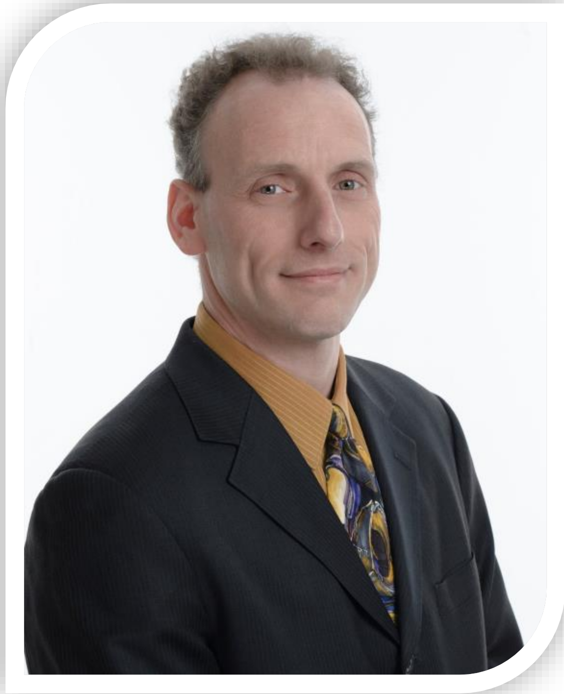
Deferral of Pronouncements

- ASU 2016-02 Leases – deferred until calendar 2021 and 2022 fiscal years
  - Comparative statements must be restated (should consider issuing single year financial statement in year adopted)
  - Looking to put lease commitments on the books as both an asset (fixed asset) and a liability (debt) – similar to a capital lease
  - Lease liability = present value of unpaid lease payments (excludes variable or contingent payments)
  - Need to consistently apply to all leases

Best of the Rest

- ASU 2019-06 – Nonprofit Accounting for Intangibles
  - Can elect to amortize over ten years (or shorter if appropriate)
  - Annual impairment review
- ASU 2019-03 – Updating the Definition of Collections
  - Modifies the definition of collections
  - Adds new disclosures policy for the use of proceeds of sold collection components
- ASU 2018-08 – Clarifying the Scope and the Accounting Guidance for Contributions Received and Made
  - Provides clarification as to whether certain transactions (transfer of assets, reduction/cancellation of liabilities) is a contribution or exchange transaction
  - Did the resource provider receive commensurate value in return for the resources transferred
  - More robust framework whether a contribution or conditional or unconditional or a donor- imposed condition from a donor-imposed restriction
  - Expanded revenue recognition disclosures and conditions and restrictions should be disclosed for major contracts and transactions



Thanks!

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