

Thank you for joining us! Our presentation will start at 10 am!

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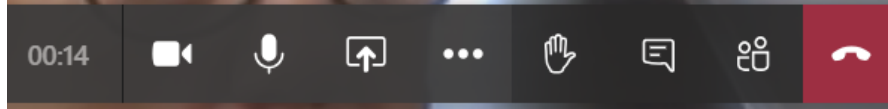
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Create Opportunities

Housekeeping Information

- Please stay muted during the presentation
- Utilize the chat for questions



- We will be posting the slides and responses to questions that come in through the chat to Events at www.claconnect.com
- Thanks for joining us!!

Accounting for the Proceeds of Paycheck Protection Program

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Accounting standards

- What accounting standards apply when accounting for PPP Loans?

Standards	Applicability	Applies to For Profit?	Applies to Nonprofit?
ASC 470, <i>Debt</i>	This is an option for any PPP loan	Yes	Yes
ASC 958-605, <i>Revenue Recognition (Not-for-Profit Entities)</i>	Option if meets eligibility criteria and concludes PPP loan represents, in substance, a grant that is expected to be forgiven	Yes*	Yes
ASC 450-30, <i>Gain Contingencies</i>	Same as ASC 958-605	Yes*	No

How to account for the PPP Loan?

- How does the accounting differ under the various options?

Standards	Initial Recognition	Interest	Derecognition
ASC 470	Financial Liability ¹	Accrue Interest	Debtor has been “legally released” or pays off loan. Forgiveness is recorded as a gain on extinguishment.
ASC 958-605	Refundable Advance	n/a	Contribution recognized once the conditions of release have been substantially met or explicitly waived.
ASC 450-30	Liability	n/a	Grant proceeds recognized when all of the contingencies related to receipt of the assistance have been met and the gain is realized or realizable.



Accounting under ASC 958-605

- If grant accounting under 605 is used, what are the barriers that should be considered?
- Judgement will be a factor
- *Always a barrier:*
 - Expects full or partial forgiveness
 - Paid eligible costs



Accounting under ASC 958-605 - continued

Criteria	Factors Indicating it Might Be a Barrier	Factors Indicating it Might NOT Be a Barrier
Maintained FTEs and Wages relative to reference periods and/or met safe harbors	<ul style="list-style-type: none"> Reductions are based on FTE counts and wages paid throughout an 8- or 24-week period (and in some cases through December 31, 2020) ASC 958-605 does not permit recognizing based on probabilities. Even if probable, recognition is not permitted if there is a possibility the condition will not be met. 	<p>While we generally expect this will be considered a barrier, there may be some rationale for recording partial forgiveness based on actual FTEs and wages paid as of a reporting date.</p> <p>Here is an example:</p> <ul style="list-style-type: none"> Client's 8-week period ends before June 30. If they were to file an application based on that 8-weeks, they would have \$800,000 forgiven of a \$1M loan. Based on that, the barrier for \$800,000 may have been removed by June 30. If they later apply for full forgiveness using the 24-week period, the remaining \$200,000 could be recognized in a subsequent period.
Application and Review Process 5	<ul style="list-style-type: none"> SBA is continuing to make significant changes to PPP rules. We can be reasonably assured that more rules and limitations will be issued Loan forgiveness rules specifically do not seem fully defined at this point in time. Review process by SBA will include a review of overall eligibility. Many lenders relied on borrower certifications of eligibility, so this will be the first review of overall eligibility. 	<ul style="list-style-type: none"> Organization believes it clearly meets eligibility, including economic need, requirements. Organization's eligible costs well exceed the amount of forgiveness being requested. Organization's FTEs and wage rates well exceed levels needed for forgiveness. Organization believes it clearly meets any safe harbors being used.



Documentation to be maintained

- What documentation should be maintained to report under ASC 958-605, conditional contribution?
 - Organization believes it clearly meets eligibility, including economic need, requirements.
 - Organization's eligible costs well exceed the amount of forgiveness being requested.
 - Organization's FTEs and wage rates well exceed levels needed for forgiveness.
 - Organization believes it clearly meets any safe harbors being used.

How does this impact debt covenants?

- Review debt agreements for nature of your debt covenants.
 - The legal form of the PPP funding is debt. Therefore, legally there is a loan agreement outstanding until “legally released” or paid off.
 - Derecognition of the liability under GAAP does not necessarily mean the entity has been legally released.
 - For example, if the entity has covenants in other debt instruments that restrict debt, a PPP loan would likely violate the covenant. This is true despite an entity calling it a refundable advance and potentially derecognizing it earlier than the legal release.
 - Additionally, consider how income from PPP loan forgiveness impacts debt covenants. In many cases, loan forgiveness or other income is excluded from financial covenants. Entities may need to clarify with lenders how calculations should be applied.
 - Entity may need to consider discussing with the lender or legal/bond counsel.

PPP Loan Forgiveness

- How is the amount of forgiveness determined?
 - Eligible costs paid or incurred
 - ◇ 24 weeks from date of loan
 - ◇ If loan before June 5, can elect shorter 8 week period
 - ◇ Costs can be more or less than total proceeds; loan forgiveness is limited to loan amount
- Which form do I use, EZ or long form?



Forgiveness - Continued

- Adjustments for FTE and Salary/Hourly Wage Reductions
 - ◇ Wage reductions in excess of 25% subtract dollar for dollar from eligible costs.
 - ◇ FTE Reduction Quotient is multiplied by all eligible costs less wage reductions.
 - ◇ Note there are numerous rules, safe harbors, and exceptions applicable to these reduction tests.



Forgiveness - Continued

- Payroll Cost 60% Requirement
 - ◇ Nonpayroll costs in excess of 40% of the loan forgiveness amount are disqualified.
- Emergency Injury Disaster Loan Advance Reduction
 - ◇ Forgiveness is reduced by the dollar amount of the EIDL advance received.
 - ◇ EIDL advance can be an amount from \$0-\$10,000.





Thanks again for joining us!

Please see our COVID Resource
page at www.claconnect.com!

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