



FASB Update

Denver Government & Nonprofit Training Academy – 2021

Adam Pyzdrowski, CPA, Principal

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Learning Objectives

1

Recognize COVID-19 relief programs available to nonprofits, who qualifies, and how they impact nonprofit organizations

2

Identify new and proposed FASB Accounting Standards Updates (ASUs) and effective dates

3

Determine which new Standards apply, and under what circumstances

4

Identify implementation considerations, challenges, and approaches



Covid-19 Assistance Programs



PRF and CRF Funds

PPP Loans

EIDL Loans

ERC Credits

HEERF

Shuttered Venue Grants

Other State and Local Assistance



COVID-19 Assistance Programs



ACCOUNTING AND FINANCIAL STATEMENT GUIDANCE
| BLOG

Am I Subject To Single Audit? A look at how federal funds, including PRF, may trigger additional audit requirements



ACCOUNTING AND FINANCIAL STATEMENT GUIDANCE
| WEBINAR

Economic Relief for Nonprofits and Associations – PPP, ERC and More



ACCOUNTING AND FINANCIAL STATEMENT GUIDANCE
| BLOG

Nonprofits Eligible for Second Round of PPP



FINANCIAL MANAGEMENT AND DISASTER RELIEF
| ARTICLE

How to Account for Forgivable PPP Loan Proceeds



ACCOUNTING AND FINANCIAL STATEMENT GUIDANCE
| ARTICLE

How to Account for Payroll Tax Deferrals



Accounting for PPP Loans

Standard	Initial Recognition	Derecognition
ASC 470 Debt – Debt treatment, option for any PPP loan	Financial liability with accrued interest <i>DB Cash / CR Notes Payable</i>	Debtor has been legally released or pays off the loan <i>DB Notes Payable / CR Gain on Extinguishment</i>
ASC 958-605 Revenue Recognition – Refundable advance, option if concludes the PPP loan represents a grant expected to be forgiven	Record a refundable advance (deferred liability), no interest accrual <i>DB Cash / CR Refundable Advance</i>	Contribution recognized once conditions of release have been substantially met or explicitly waived <i>DB Refundable Advance / CR Contribution Revenue</i>



ASC 958-605 Recognition for PPP- Right of Return and Barriers



Expect full or partial forgiveness

Paid eligible costs

Maintained FTEs and wages relative to
reference periods and/or met safe harbors

Application and review process

Don't forget about the right of return!



What is the Employee Retention Credit?



The ERC (ERC) is a fully refundable payroll tax credit for qualified wages (including allocable qualified health plan expenses) that eligible employers pay their employees.



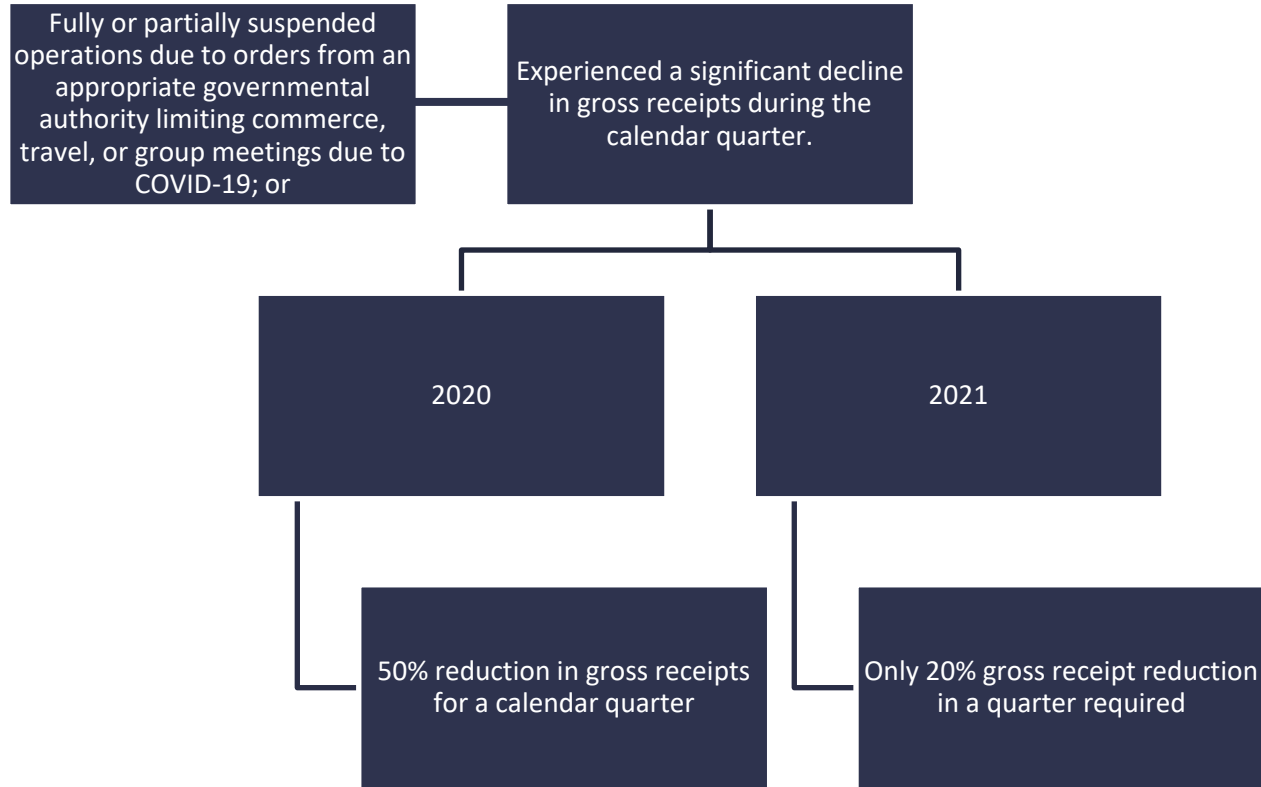
For 2020, the credit amount is 50 percent of qualified wages (including allocable qualified health plan expenses) up to \$10,000 for the year for each eligible employee.



For 2021, the credit amount is 70 percent of qualified wages (including allocable qualified health plan expenses), up to \$10,000 per quarter for each eligible employee.



Who is Eligible for the ERC?



Accounting for Credits and Deferral of Payroll Taxes

If requested as refund through 941s

- Payroll Tax Expense – recorded at full tax amount, gross of credits
- Grant or Other Income – recorded for amount of tax credit for which conditions have been met
- Account Receivable – 2020 credits outstanding at year end (cash not received as of 12/31/20 or 6/30/21)

If requested through advance

- Payroll Tax Expense – recorded at full tax amount, gross of credits
- Grant or Other Income – recorded for amount of tax credit for which conditions have been met
- Over/Under on Advance – If greater cash received than credits claim = liability; If greater credits claimed than cash received - receivable



Shuttered Venue Operators (SVO) Grant

- Eligible entities:
 - Live venue operators, theatrical producers and live performing arts organizations
 - Museums (public, tribal or private)
 - Motion picture theatre operators
 - Talent representatives
- Initial grant = 45% of 2019 gross earned revenue
- Supplemental grant = 50% of initial grant amount
- Overall max grant = \$10m



Shuttered Venue Operators (SVO) Grant

- Initial grant eligibility
 - Entity must be fully operational as of February 29, 2020,
 - Experienced a reduction of at least 25% in gross earned revenue during at least one quarter 2020 compared to same quarter in 2019, and
 - Resumed or intend to resume operations as of the grant date
- Supplemental grant eligibility
 - Supplemental grant available if Q1 2021 revenue is 30% or less of the Q1 2019



Shuttered Venue Operators (SVO) Grant

- Organization may NOT receive PPP2 and SVO grant
- 28-day priority plan established to provide funding to those orgs with greatest reduction of revenue and orgs with 50 or fewer employees
- Specific criteria exists for the allowed uses of SVO funds and dates when the funds must be spent



When is a Single Audit Required?

- Single audit is required when a state or local government, Indian tribe, institution of higher education (IHE), or nonprofit organization is the recipient or subrecipient of a federal award and expends \$750,000 or more of federal awards during their fiscal year.
- The \$750,000 threshold includes assistance received in the form of loans.



COVID-19 related funding

Funding	Subject to Single Audit?
PPP Loans	No
Provider Relief Funds (PRF)	Yes
Coronavirus Relief Fund (CRF)	Yes
Education Stabilization Fund (ESF)	Yes
Emergency Rental Assistance Program	Yes
Employee Retention Credit (ERC or ERTC) Program	No
Economic Injury Disaster Loans (EDIL)	Yes
Shuttered Venue Operators Grant Program	Yes



Where do I look for guidance if my entity/client has received COVID-19 related funding?

OMB - Office of Federal Financial Management's website

AICPA GAQC website - [GAQC COVID-19 Resources](#)

- [COVID-19 Related Funding & UG Applicability Matrix](#) as of 2/16/21

Agency websites

- Coronavirus Relief Fund (CRF) ([link](#))
- Provider Relief Fund (<https://www.hhs.gov/coronavirus/cares-act-provider-relief-fund/index.html>)
- Education Stabilization Fund (<https://oese.ed.gov/offices/education-stabilization-fund/>)

U.S. Department of the Treasury COVID-19 Economic Relief:

- <https://home.treasury.gov/policy-issues/coronavirus>





Accounting Standards Effective Now and in the Future

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Effective Dates

Public entities

- A public business entity;
- A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market;
- An employee benefit plan that files financial statements with the U.S. Securities and Exchange Commission (SEC).



ASUs Becoming Effective for 2020-2021 Financial Statements

Revenue Recognition (Topic 606)

- Effective date: One year deferral in 2020 – effective now if deferral elected
- Who is impacted: Entities with revenue streams resulting in each party receiving direct commensurate value
- Key changes: Evaluation and documentation of each material revenue stream; potential changes to how revenue is recognized; additional disclosure requirements

Fair Value Measurement Disclosure Framework (2018-13)

- Effective date: Years beginning after 12/15/19
- Who is impacted: Entities with fair value disclosures
- Key changes: Significant changes to disclosures for Level 3 investments, transfers between Level 1 and Level 2 investments, and investments in entities that calculate net asset value



FMV Disclosure Framework (2018-13)

Removes

- Amount and reasons for transfers between level 1 and 2
- Policy for timing of transfers between levels
- For non-public entities, the level 3 investments rollforward

Modifies

- Non-public entities disclose transfers into and out of level 3, and purchases and issues of level 3 assets and liabilities
- For NAV, only required to disclose timing of liquidation and timing of redemption of an investee's assets if investee has communicated

Additions (Public entities only)

- Disclose changes in unrealized gains and losses for period included in OCI for recurring level 3
- Disclose range and weighted average of significant unobservable inputs used to develop level 3 fair value measurements



FMV Disclosure Example

(\$ in millions)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)								
	Available-for-Sale Debt Securities			Hedge Fund Investments	Other Investments			Derivatives	Total
	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Debt Obligations	High-Yield Debt Securities	Private Equity Fund	Direct Venture Capital: Healthcare	Direct Venture Capital: Energy	Credit Contracts	
Opening balance	\$ 105	\$ 39	\$ 25	\$ 145	\$ 20	\$ 49	\$ 28	\$ 30	\$441
Transfers into Level 3	60 (a) (b)								60
Transfers out of Level 3	(5) (b) (c)								(5)
Total gains or losses for the period									
Included in earnings (or changes in net assets)	(8)			7	5	3	1	5	13
Included in other comprehensive income	(15)	(5)	(7)					(5)	(32)
Purchases, issues, sales, and settlements									
Purchases		16	17			5	3	18	59
Issues									
Sales	(12)			(62)		(4)			(78)
Settlements								(10)	(10)
Closing balance	\$ 125	\$ 50	\$ 35	\$ 90	\$ 25	\$ 53	\$ 32	\$ 38	\$448
Change in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period				\$ (5)	\$ 5	\$ 3	\$ 1	\$ 2	\$ 6
Change in unrealized gains or losses for the period included in other comprehensive income for assets held at the end of the reporting period	\$ (10)	\$ (5)	\$ (7)						\$ (24)

(a) Transferred from Level 2 to Level 3 because of a lack of observable market data, resulting from a decrease in market activity for the securities.

(b) ~~Footnote superseded by Accounting Standards Update No. 2018-13. The reporting entity's policy is to recognize transfers into and transfers out of Level 3 as of the date of the event or change in circumstances that caused the transfer.~~

(c) Transferred from Level 3 to Level 2 because observable market data became available for the securities.

(Note: For liabilities, a similar table should be presented.)



FMV Disclosure Example

Quantitative Information about Level 3 Fair Value Measurements				
(\$ in millions)	Fair Value at 12/31/X9	Valuation Technique(s)	Unobservable Input	Range (Weighted Average) ^(e)
Residential mortgage-backed securities	125	Discounted cash flow	Constant prepayment rate Probability of default Loss severity	3.5% – 5.5% (4.5%) 5% – 50% (10%) 40% – 100% (60%)
Commercial mortgage-backed securities	50	Discounted cash flow	Constant prepayment rate Probability of default Loss severity	3.0% – 5.0% (4.1%) 2% – 25% (5%) 10% – 50% (20%)
Collateralized debt obligations	35	Consensus pricing	Offered quotes Comparability adjustments (%)	20 – 45 (30) -10% – +15% (+5%)
Direct venture capital investments: healthcare	53	Discounted cash flow	Weighted average cost of capital Long-term revenue growth rate Long-term pretax operating margin Discount for lack of marketability ^(a) Control premium ^(a)	7% – 16% (12.1%) 2% – 5% (4.2%) 3% – 20% (10.3%) 5% – 20% (17%) 10% – 30% (20%)
		Market comparable companies	EBITDA multiple ^(b) Revenue multiple ^(b) Discount for lack of marketability ^(a) Control premium ^(a)	10 – 13 (11.3) 1.5 – 2.0 (1.7) 5% – 20% (17%) 10% – 30% (20%)

- (a) Represents amounts used when the reporting entity has determined that market participants would take into account these premiums and discounts when pricing the investments.
- (b) Represents amounts used when the reporting entity has determined that market participants would use such multiples when pricing the investments.
- (c) Represents the range of the volatility curves used in the valuation analysis that the reporting entity has determined market participants would use when pricing the contracts.
- (d) Represents the range of the credit default swap spread curves used in the valuation analysis that the reporting entity has determined market participants would use when pricing the contracts.
- (e) Unobservable inputs were weighted by the relative fair value of the instruments. For credit contracts, the average represents the arithmetic average of the inputs and is not weighted by the relative fair value or notional amount.



ASUs Becoming Effective for 2020-2021 Financial Statements

Goodwill and Intangibles – Simplifying the Test for Impairment (2019-06)

- Effective date: Upon issuance
- Who is impacted: Nonprofits that have recorded goodwill and intangibles
- Key changes: Amortize goodwill over ten years or less on a straight-line basis; test for impairment upon a triggering event; option to elect to test for impairment at the entity level

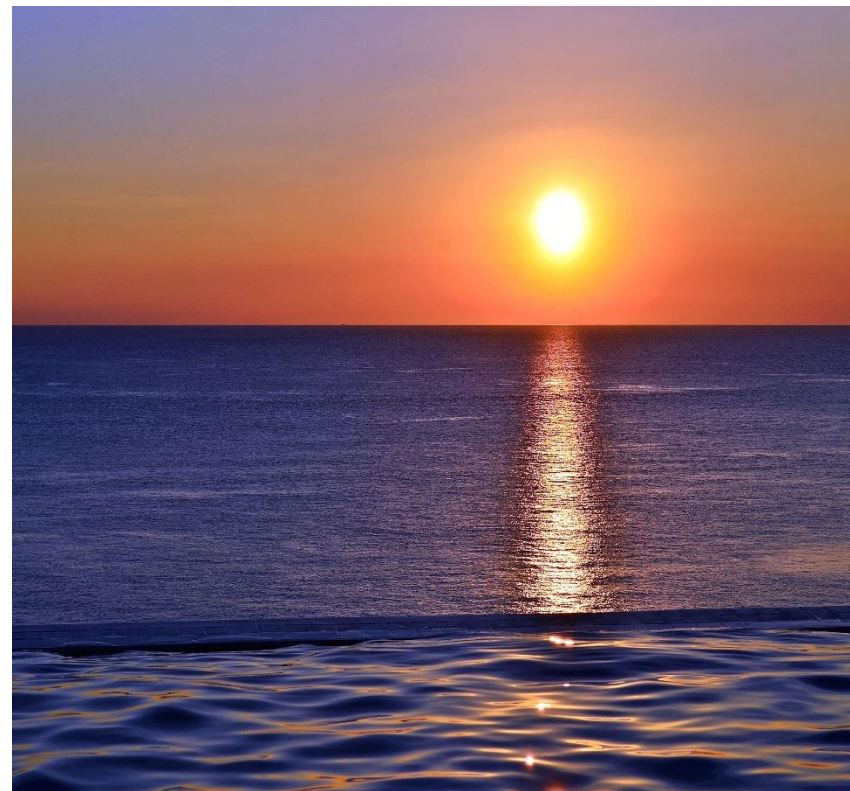
Updating the Definition of Collections (2019-03)

- Effective date: Years beginning after 12/15/19
- Who is impacted: Entities that maintain collections
- Key changes: Aligns definition of “collection” with American Alliance of Museums; policy for use of proceeds from collection items; definition of direct care



Standards on the Horizon

- Leases (Topic 842)
- Gifts in Kind (ASU 2020-07)
- Reference Rate Reform (ASU 2020-04)
- Auditor Reporting Standards (SAS 134-141)



Leases (Topic 842)



EFFECTIVE DATE:

FISCAL YEARS BEGINNING AFTER 12/15/21

(12/31/22; 6/30/23);

EXCEPT FOR PUBLIC NFP ENTITIES WHICH HAVE AN
EFFECTIVE DATE OF YEARS BEGINNING AFTER 12/15/19

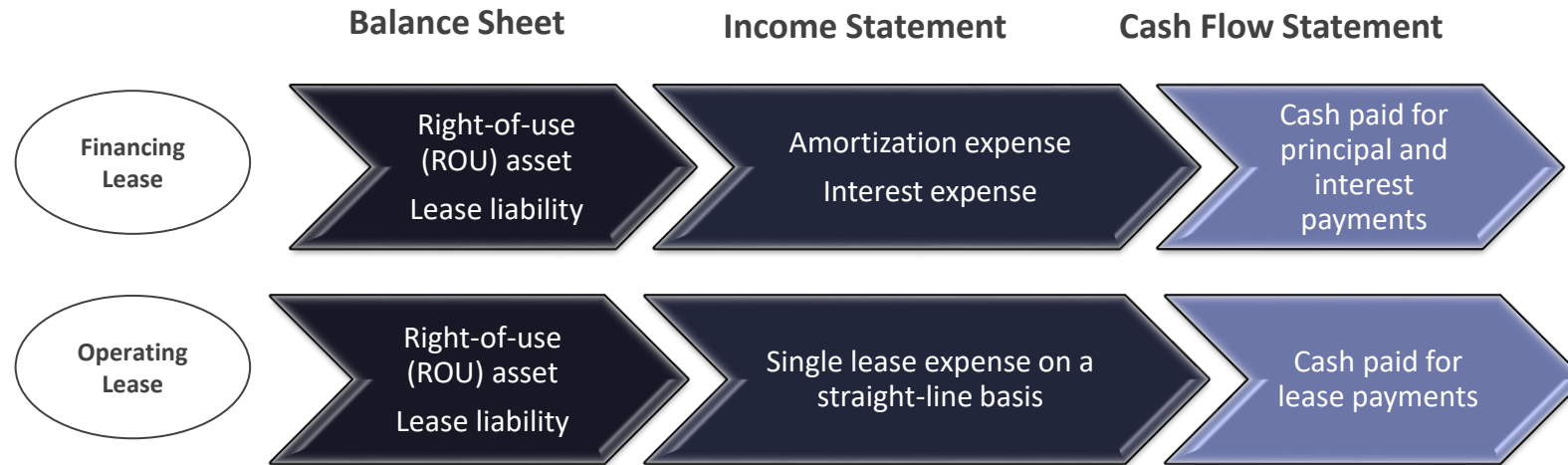
(12/31/20; 6/30/21)



PUBLIC NFP ENTITY = AN ENTITY THAT HAS ISSUED, OR IS
A CONDUIT BOND OBLIGOR FOR, SECURITIES THAT ARE
TRADED, LISTED, OR QUOTED ON AN EXCHANGE OR
OVER-THE-COUNTER MARKET



Leases (Topic 842; ASU 2016-02) – Lessee Accounting Overview



Classification is similar to that in Topic 840, *Lease*

Recognition and measurement exemption for short-term leases

Entities other than public business entities may use risk-free rates as practical expedient for measurement of all lease liabilities

Gifts in Kind (ASU 2020-07)



Effective Date: Annual reporting periods beginning after June 15, 2021

(6/30/22; 12/31/23)



Objective: Clarifies the presentation and disclosure of contributed nonfinancial assets; recognition and measurement requirements remain unchanged



How to prepare for implementation:

- Track amounts separately
- Prepare for additional disclosures - see examples included in the ASU
- Review related accounting policies



Gifts in Kind (ASU 2020-07) Specified Changes

Financial Statement Presentation:

- Contributed nonfinancial assets as a separate line in the statement of activities

Disclose:

- Disaggregation of the amount of contributed nonfinancial assets by category
- For each category disclose:
 - Qualitative info about monetized vs utilized. If utilized, then a description of the programs or other activities in which they were used
 - Policy about monetizing rather than utilizing
 - Description of donor-imposed restrictions
 - Description of valuation techniques and inputs to determine FMV
 - Principal market used to arrive at FMV in NFP is prohibited from participating in that market



Gifts in Kind (ASU 2020-07) Presentation

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20X1
(in thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains, and other support:			
Contributions	\$ 8,640	\$ 8,390	\$ 17,030
Contributions of cash and other financial assets	\$ 6,790	\$ 7,430	\$ 14,220
Contributions of nonfinancial assets	1,850	960	2,810
Fees	5,200		5,200
Investment return, net	6,650	18,300	24,950
Gain on sale of equipment	200		200
Other	150		150
Net assets released from restrictions (Note D):			



Gifts in Kind (ASU 2020-07) Disclosure Examples

Contributed Nonfinancial Assets

For the years ended December 31, contributed nonfinancial assets recognized within the statement of activities included:

	20X9	20X8
Building	\$ 550,000	\$ -
Household goods	95,556	100,486
Food	85,407	86,633
Medical Supplies	90,389	115,173
Pharmaceuticals	111,876	113,982
Clothing	85,765	83,890
Vehicles	127,900	-
Services	73,890	65,392
	<u>\$ 1,220,783</u>	<u>\$ 565,556</u>

NFP K recognized contributed nonfinancial assets within revenue, including a contributed building, vehicles, household goods, food, medical supplies, pharmaceuticals, clothing, and services. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

It is NFP K's policy to sell all contributed vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program

Contributed Nonfinancial Assets

	Revenue Recognized	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Building	\$550,000	General and Administrative	No associated donor restrictions	In valuing the contributed building, which is located in Metropolitan Area B, NFP K estimated the fair value on the basis of recent comparable sales prices in Metropolitan Area B's real estate market.
Household goods	\$95,556	Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Food	\$85,407	Natural Disaster Services; Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.



Gifts in Kind (ASU 2020-07) Disclosure Example LITE

CONTRIBUTED NONFINANCIAL ASSETS

For the year ended December 31, 20XX, contributed nonfinancial assets recognized within the statement of activities:

<u>Nonfinancial Asset</u>	<u>Revenue Recognized</u>	<u>How Utilized</u>	<u>Donor Restrictions</u>	<u>Valuation Technique</u>
Clothing	\$3,500	Community Shelter	No associated restrictions	Thrift store price guides
Children's books	\$2,200	Afterschool program	No associated restrictions	Used bookstore pricing



Reference Rate Reform (2020-04)



Effective Date: may be applied any time after 3/12/20 but no later than 12/31/22



Objective: Provides relief in accounting for contract modifications related to transitioning from LIBOR and other reference rates for a limited period of time



How to prepare for implementation: Inventory all contracts (receivables, debt, leases, derivatives) that reference discontinued rates; understand and apply the optional expedients relative to each type



Auditor Reporting Standards



- **Effective Date:** audits of financial statements for periods ending on or after December 15, 2021 (**12/31/21;** **6/30/22**)
- **Key Objectives:**
 - Significant changes to the form and content of the auditor's report
 - Additional communication with governance for significant unusual transactions
 - Expanded inquiries and audit procedures for related parties and consideration of fraud
 - Clarifies auditor's responsibilities regarding annual reports





What's
Next?





Questions

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Thank you!

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Nonprofit and State and Local Tax Update

2021 Denver Government and Nonprofit Training Academy

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Learning Objectives



Recognize what economic nexus is and how it can impact your organization



Discuss the various ways organizations may be subject to sales tax across the states



Describe recent tax changes affecting nonprofit organizations



Outline options to address the changes related to tax and reporting





State and Local Considerations

Dustin Hubbard

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State Tax Nexus

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State Tax Nexus – State's right to Tax

- Business taxed on net income from in-state sources if they have nexus
- Nexus describes:
 - Presence in or connection to a state
 - Amount and degree of business activity that must be present in order for state to tax
- Nexus is the connection the business has to the state and the states right to tax the entity



How is Nexus Established

- Physical Presence: Substantial physical presence always creates nexus for any state tax type
- Economic: Relates to sales within the state
- Doing Business: Many states use this broad definition as their nexus standard
- Factor or Bright-line: States use specified thresholds for sales, property and/or payroll
- Apportionment tells you a lot about nexus!



Physical Presence

- Created when a company has property, employees permanently or temporarily visiting the state or independent contractors permanently or temporarily in the state and acting on behalf of the company.

What Activities Create Nexus?

Individuals/activities in
other states

Professors conducting
online training from in-
home office

Editors of a trade
publication working from
their in-home office
outside of the
organization's home state

Travel outside one's
home state to run or
participate in functions

Speaking engagements

Research assignments

Development officer's
travel to various states

Economic Nexus

- Sales Tax
 - Applicable in all 45 states with a sales tax to some degree
 - Thresholds vary from \$1 – \$500,000
 - Transactions of 1 – 200
 - Need to look at marketplace facilitator laws as well
- Income Tax
 - Applicable in every state as well
 - Only 15 or so have thresholds of \$1 - \$1,000,000
 - Most use a constitutional analysis



What Taxes Apply Once Nexus is Determined

- Generally:
 - Most states will accept the federal tax-exempt status under IRC Section 501 for income tax purposes
 - Unrelated business income tax applies in many states – separate registration may be required
 - Separate registration is required for Sales and Use Tax (purchases) to receive tax exempt status
 - Franchise and taxes on capital generally will not apply if tax exempt for state purposes





State Taxation of Organizations



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Taxation of Organizations

Income/Franchise/Gross Receipts Tax

- Most states provide an exemption from income tax for nonprofit organizations.
- The exemption does not generally extend to “non-income based” taxes.
 - Washington B&O Tax
 - New Mexico Gross Receipts

Sales and Use Tax

- Many states provide an exemption from sales and use taxes for purchases by nonprofit organizations.
- The exemption does not extend to sales by the organization to an ultimate purchaser.



Sales Tax Concerns

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Number One Sales Tax Rule For All States

- All sales of tangible personal property and enumerated services are taxable unless a specific exemption exists
 - Does the state recognize the IRS tax exempt status of the organization for sales and use taxes?
 - Does this mean purchases are exempt from sales and use tax?
 - Is the organization required to collect tax on the sale of taxable goods and services?



Purchases

- Purchases are presumed taxable unless a specific exemption exists
- The most common exemption is for the purchase of goods used in the charitable purpose
 - software, office equipment & furniture, supplies, etc.
- Exemption certificates should be issued to suppliers where appropriate
- Don't assume that because no tax was assessed on an invoice that the product is exempt



Specific Implications

- Conferences
- Bookstores and online sales
- Data processing
- Radiology interpretations
- Subscriptions
- Billing services

Specific Implications (Continued)

- Services
 - Sourcing rules for services generally look to where the benefit is received
 - States like South Dakota, New Mexico, and Hawaii tax most services
 - May need to research additional states to determine if the service is taxable (e.g., data processing)
- Expansion of Tax Base
 - Digital Goods





Impact of Remote Workforce

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Impact of a Remote Workforce – Nexus

- Pre-COVID-19 – employee presence in new states subjects out-of-state companies to state taxes.
- Employee presence in new states/localities may subject out-of-state companies to new business taxes (income/franchise, sales and use, gross receipts taxes).
- Status-quo rules during COVID – many states have issued guidance waiving business tax nexus thresholds for COVID-19 telework for the duration of the pandemic.
 - How long will the waivers last, when will they be lifted?



Impact of a Remote Workforce – Withholding

- Prolonged telework arrangements
 - Withholding for personal income tax, unemployment comp.
 - State guidance
 - Status quo
 - Exceptions limited to “duration of pandemic”





Other Considerations

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Other Considerations

Registration with Secretary of State

- May need for tax registrations
- May need for other legal reasons

Charitable Solicitation Registration

- Requirement could be driven by nexus
- Website could create solicitation issues





Nonprofit Tax Update

Sarah Hintz

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Compliance Initiatives

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Compliance Initiatives



Worker misclassification and W-2/1099 matches



Retirement plans of small exempt organizations



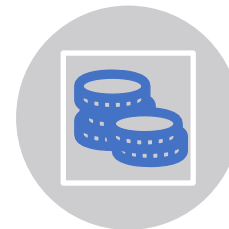
Retirement plans and worker misclassification



990-N filings



Excess compensation excise tax



Tax exempt bonds



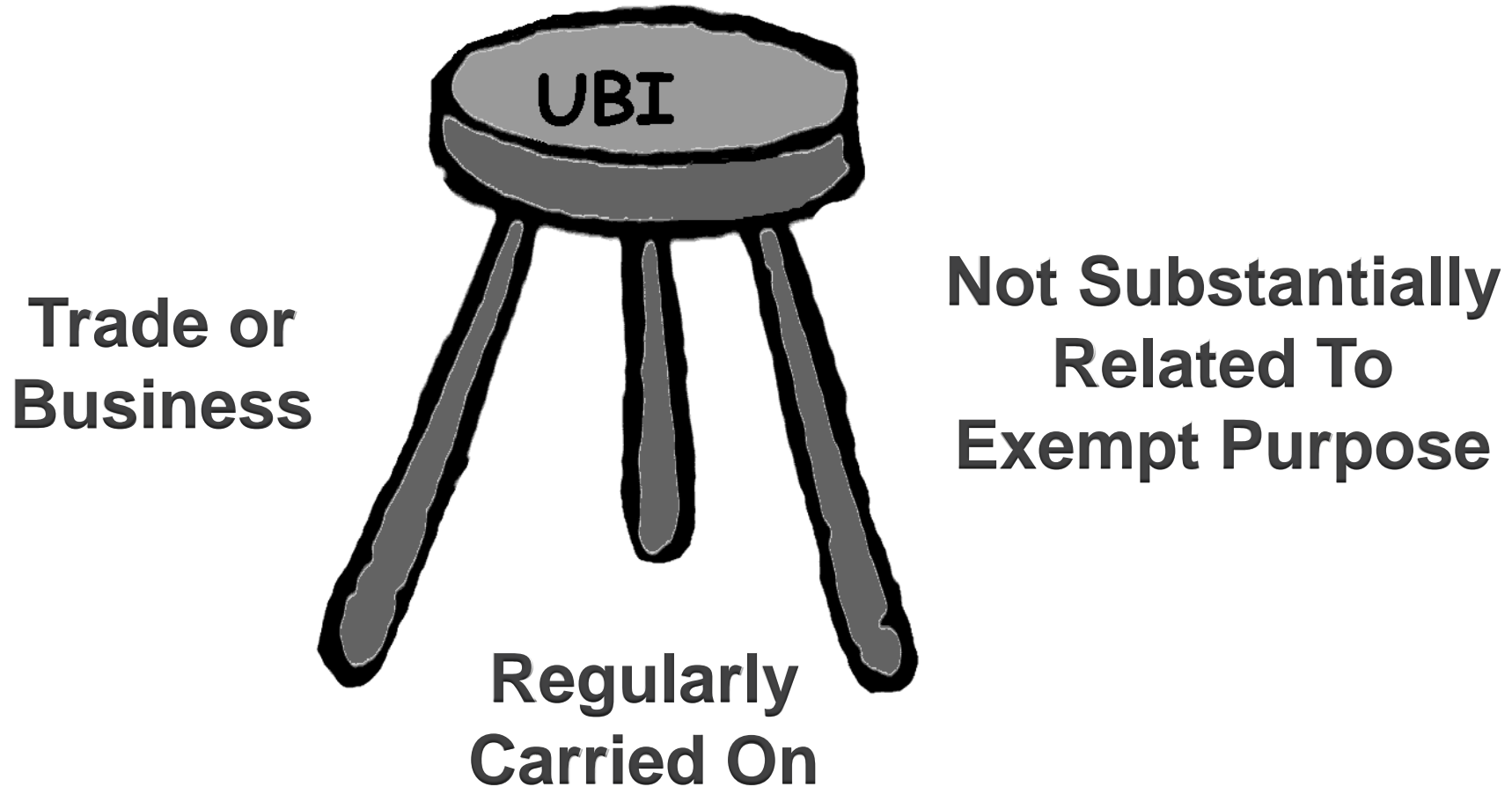


Unrelated Business Income

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UBI Defined – IRC § 512(a)(1)



Unrelated Business Income (UBI)

Potential Sources of UBI

- Advertising (qualified sponsorship payments are not UBI)
- Exclusivity contract
 - Exclusive sponsor vs. exclusive provider
- Alternative investments (Partnerships and S-Corp interests)
- Public use of facilities - Fitness centers, ice rinks, swimming pools, golf courses, cafeteria, childcare, etc.
- Royalties and personal property or mixed rental income
- Debt financed income

IRS Publication 598 provides examples and scenarios related to Unrelated Business Income



Tax Cuts and Jobs Act Changes

- Prior Rule (**Pre TCJA, 12/31/17 and before**): Exempt Organizations were able to aggregate their UBI activities.
- Current Rule (**Effective date of 1/1/18**): Losses from one unrelated business income activity can no longer offset gains of another.
- Notice 2018-67 (released August 21, 2018), Proposed Regulations issued April 2020 & Final Regulations issued November 19, 2020.



“Siloing or Bucketing”

- UBI is computed separately for each “silo” or “bucket”
- Initial guidance in Notice 2018-67
 - 6-digit NAICS codes
- Final guidance in proposed and final regulations
 - 2-digit NAICS codes
- How do I determine the 2-digit code?
 - **1.** Find the appropriate 6-digit code and
 - **2.** The first 2 digits of the 6-digit code designate the 2-digit code
- A change to a 2-digit code previously used is permitted under specific circumstances and disclosed on the 990-T.



Partnership Investments

- Exempt organizations are permitted to aggregate into a single “silo” all partnership investment activities if they meet the definition of a Qualified Partnership Interests (QPI).
 - If the partnership does not meet the definition of a QPI, the partnership interest is treated as a single trade or business*
 - For a partnership to be considered a qualifying partnership interest it must meet one of two tests:
 - **De minimis test:** Ownership (average beginning/ending) must be less than 2% of profit and capital interests.
 - **Participation test (previously named control test):** Directly hold no more than 20% of the capital interest and does not significantly participate in the partnership

*Investment activities that do not qualify as a QPI may need to use a 6-digit NAICS code



Net Operating Losses

- Tax Cuts and Jobs Act Changes to Net Operating Loss (NOL) rules
 - Effective for losses with tax years beginning **after December 31, 2017**
 - Indefinite carryforward but no carryback
 - NOL offset allowed up to **80%** of taxable income
 - NOLs follow the revenue stream from which they are created
 - Pre-2018 NOLs can be used to offset income from all silos and at **100% until exhausted**
 - **CARES Act Net Operating Loss Provisions**
 - NOLs generated in 2018-2020 can be carried back 5 years & offset **100%** of taxable income in years beginning before 1/1/18
 - Can't apply silo'd NOL to a different silo after 1/1/18 as siloing rules applied after 1/1/18 per IRS FAQ on 5/25/21
 - NOL Carryforward through 2020



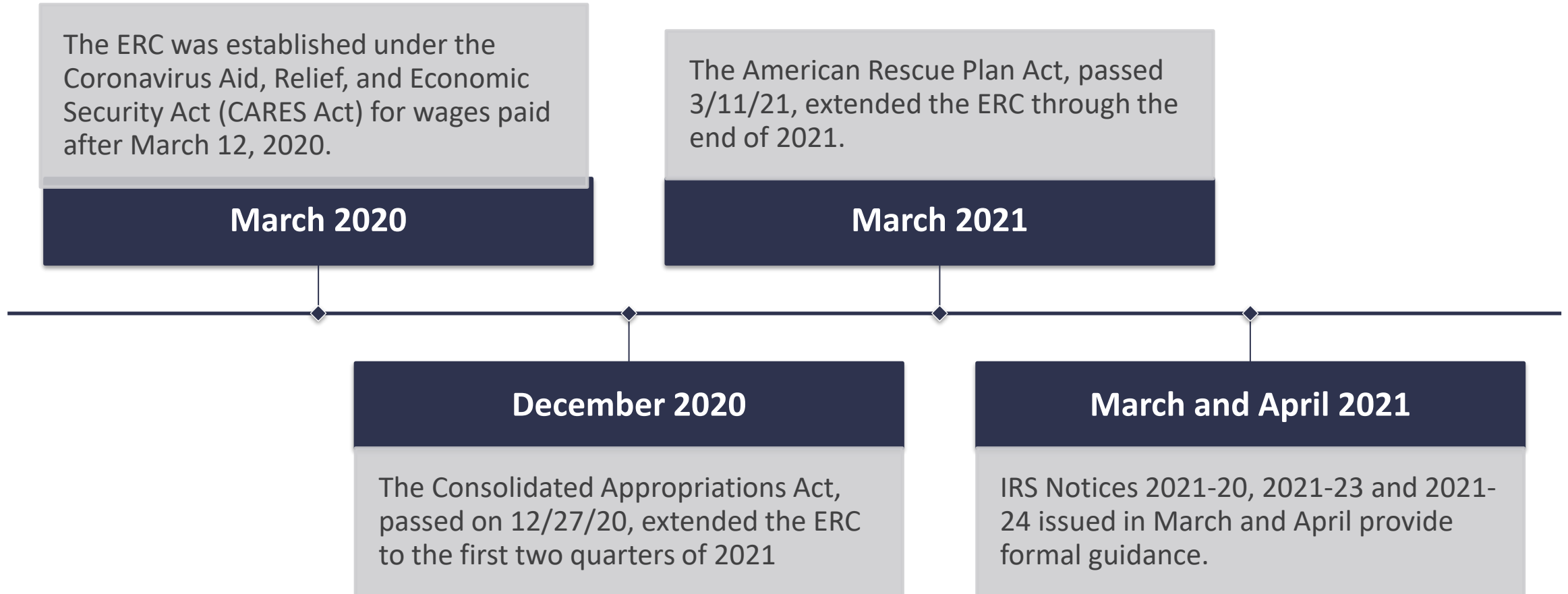


Employee Retention Credit Updates

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Employee Retention Credit (ERC) – Timeline



Employee Retention Credit – PPP Loan Interplay

Prior Law

- REPEALED – An organization that received a Paycheck Protection Program (PPP) loan was ineligible to claim the employee retention credit.
- This disallowance rule extended to all affiliated organizations, so that if one organization received a PPP loan, any other organization with more than 50% common board membership was ineligible to claim the credit.

Current Law

- An organization that received or receives a PPP loan is no longer prohibited from claiming the employee retention tax credit.
- The credit, however, may not be claimed for wages paid with the proceeds of a PPP loan that have been forgiven.
- An organization that received a PPP loan in 2020 and paid qualified wages in excess of the amount of the forgiven PPP loan used to pay wages, and is otherwise eligible to claim the credit, can claim the credit retroactively.

Current law is retroactive to original effective date of ERC for wages paid after March 12th, 2020



Employee Retention Credit – Eligibility & Qualified Wages

Prior Law

- **Gross receipts** were less than 50% of gross receipts for the same quarter in 2019 until such quarter as gross receipts were 80% of same quarter in 2019.
- **# of Employees:** 100 or less
- **Wages:** The credit was 50% of the qualified wages paid to an employee, plus the cost to continue providing health benefits to the employee.

Current Law

- **Gross receipts** are less than 80% of gross receipts for the same quarter in 2019.
- **# of Employees:** 500 or less
- **Wages:** Beginning January 1, 2021, the credit is 70% of qualified wages, plus the cost to continue providing health benefits to the employee.

Changes are effective 1/1/21 and forward



Employee Retention Credit – Maximum Credit

Prior Law

- Annual cap of \$5,000 per employee (\$10,000 in qualified wages x 50%).

Current Law

- Cap is increased to \$7,000 per employee for each quarter of 2021 (\$10,000 in qualified wages x 70%) for a possible \$28,000 credit per employee for the year.
- The 2021 credit is available even if the employer received the \$5,000 maximum credit for wages paid to such employee in 2020.

Change effective 1/1/21 and forward





Summary and Key Points

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Summary and Key Points

- Identify state & local activities and assess risk & impact
- Identify, train and educate staff that have potential to impact compliance efforts
 - Education outside of finance (development, event planners, athletics, marketing, etc.)
- UBI
 - Monitor new revenue streams and/or perform a UBI assessment
 - Sponsorships, royalties, advertising, etc.
- ERC – Are you an eligible employer with eligible wages?



Questions





Thank you!

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Understanding the New Lease Standard

Denver Government & Nonprofit Training Academy - 2021

Adam Pyzdrowski, CPA, Principal

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Learning Objectives



Identify the key elements of FASB Topic 842, *Leases*, and ASU 2016-02



Recognize examples of common leasing arrangements encountered by nonprofit and tax-exempt organizations and their related accounting treatment



Identify implementation considerations, challenges, and approaches





Background and Overview of the New Lease Standard

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What is a Lease?

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.



Why the Change?

Lessee

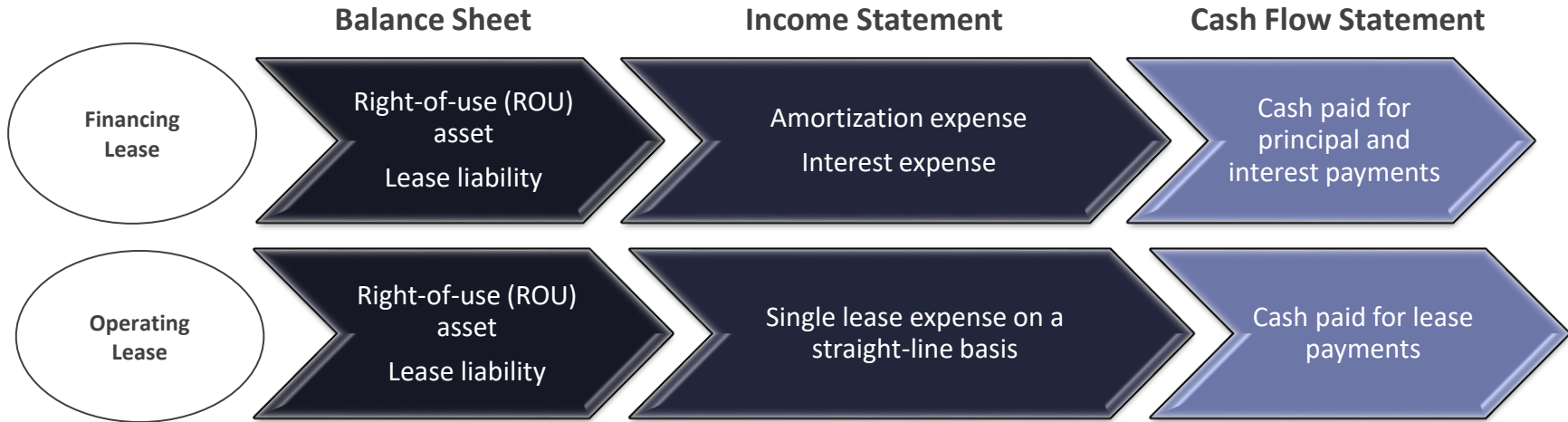
- Most lease assets and liabilities are off-balance sheet
- Limited information about operating leases

Lessor

- Lack of transparency regarding residual values
- Consistency with leases and revenue recognition



Leases (Topic 842; ASU 2016-02) – Lessee Accounting Overview



Classification is similar to that in Topic 840, *Lease*

Recognition and measurement exemption for short-term leases



An Overview

- Amended guidance issued February 2016 for the treatment of leases, including subleases
- Affects all industries
- Lessee will be required to recognize a right-of-use asset and lease liability for substantially all operating and finance leases
- Lessor accounting will remain relatively unchanged
- Changes the accounting for sale and leaseback transactions
- Enhanced disclosures for lessees and lessors



An Overview

Topic 842 **DOES NOT** apply to:

Leases of
intangible assets

Leases to explore
for or use
minerals, oil,
natural gas, and
similar
nonregenerative
resources

Leases of
biological assets,
including timber

Leases of
inventory

Leases of assets
under
construction



New Effective Dates

All other entities

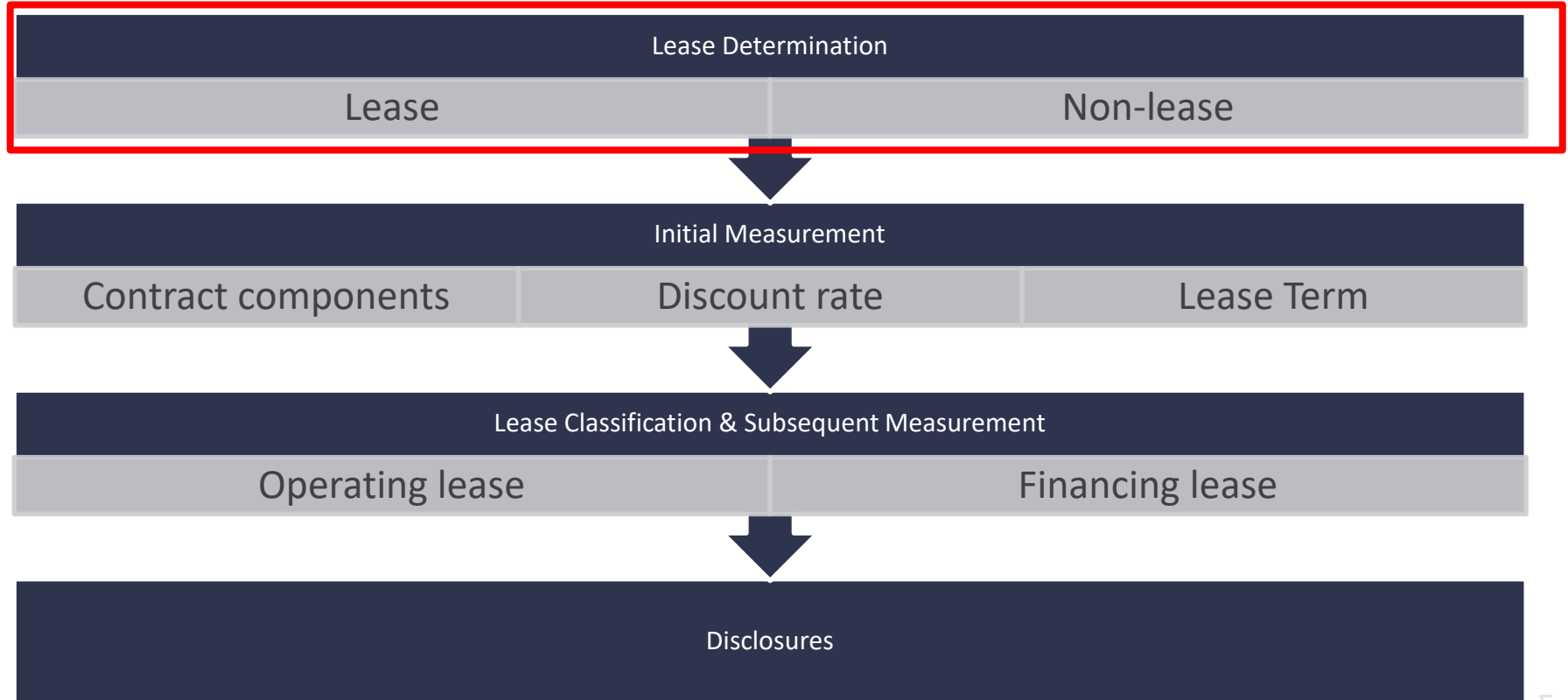
- **12/31/22; 6/30/23**

Public entities

- **12/31/20; 6/30/21**
- A public business entity;
- A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market;
- An employee benefit plan that files financial statements with the U.S. Securities and Exchange Commission (SEC).



Steps: Lease Analysis and Accounting





Lease Determination

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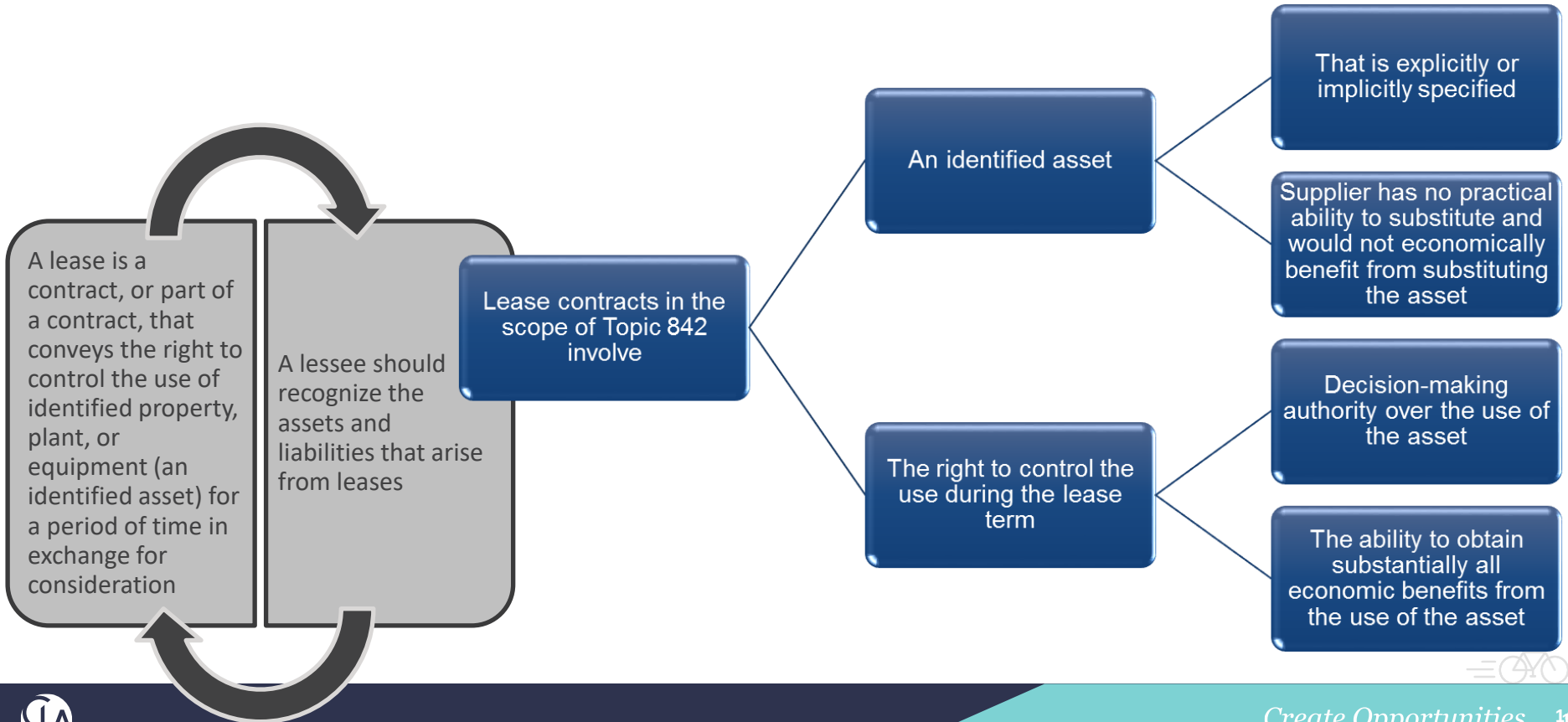
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What is a Lease?

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.



Lease Definition and Core Principle



Example – Concession Space

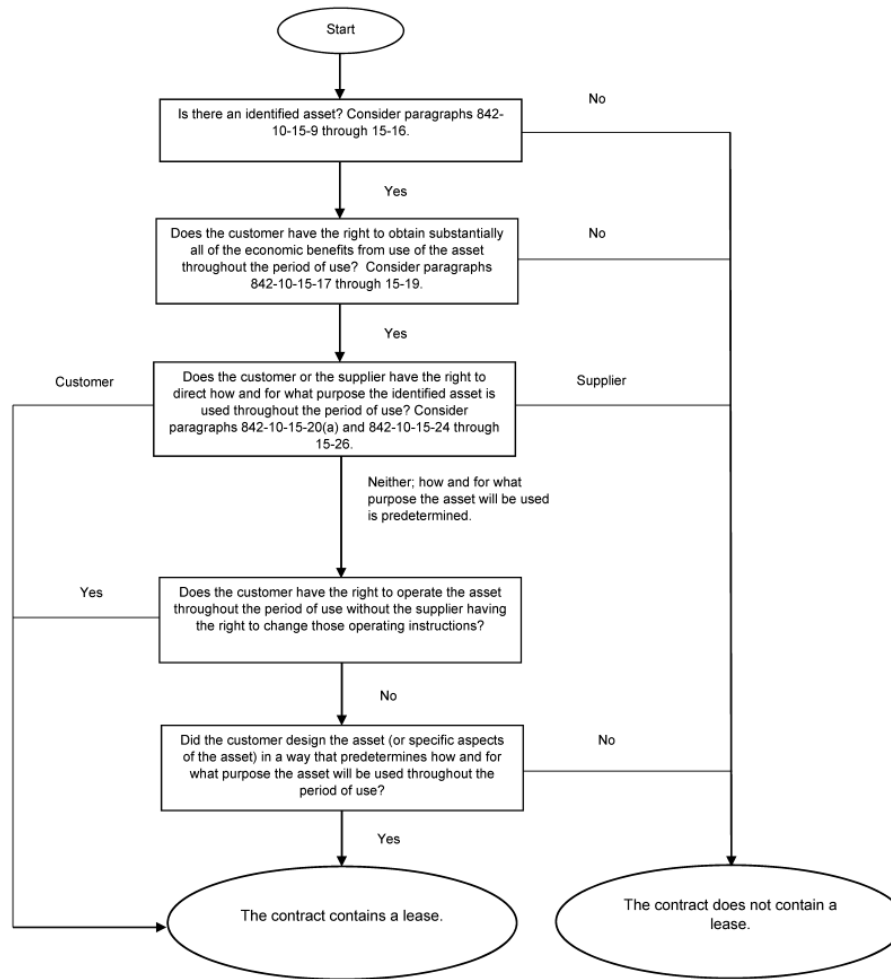
- A coffee company enters into a contract with an airport operator to use space in the airport to sell its goods for a 3 year period
- Contract specifies the amount of space. The space may be located at any of several boarding areas.
- Supplier can change the location of the space at any time during the period of use with minimal cost to the supplier
- Customer owns and uses a kiosk that can easily be moved
- Does the contract contain a lease?



Example 1 – Concession Space

- NO!
- There is no identified asset.
 - The contract is for space in the airport, but it can change at the discretion of the supplier
- Supplier has the substantive right to substitute the space
 - Practical ability to change
 - Would benefit economically from substitution
 - Minimal cost
 - Substituting allows the supplier to make the most effective use of the space at boarding areas as circumstances change





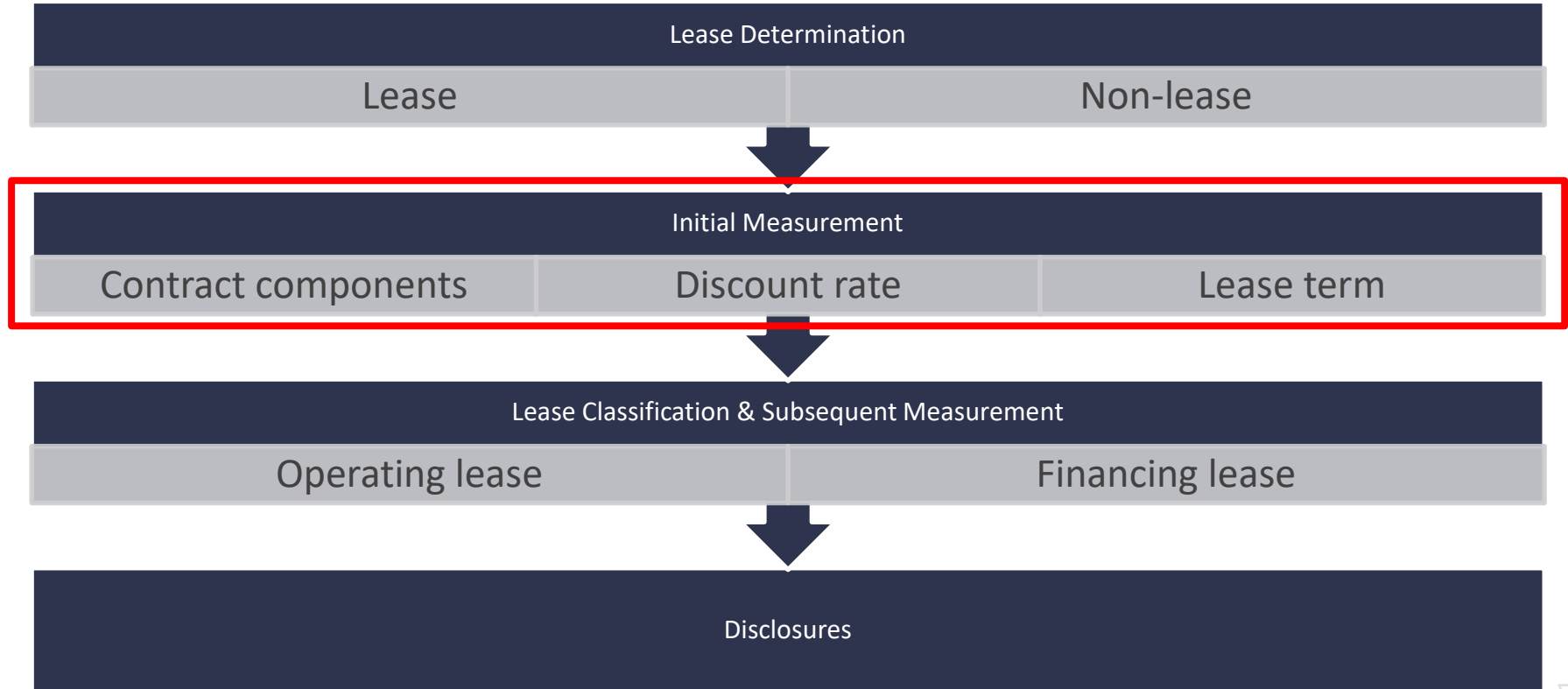


Initial Measurement

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Steps: Lease Analysis and Accounting



Implications: We Have a Lease...Now What?



All leases on balance sheet as a **Right-Of-Use (ROU) Asset** and **Lease Liability**



Measure the ROU Asset and the Lease Liability



Initial measurement of ROU Asset and Lease Liability is the same for operating and financing leases at beginning of lease



Initial Measurement

Lease liability =
present value of
the fixed
payments*

- Consideration allocated to lease & non-lease components
- Discount rate
- Lease term

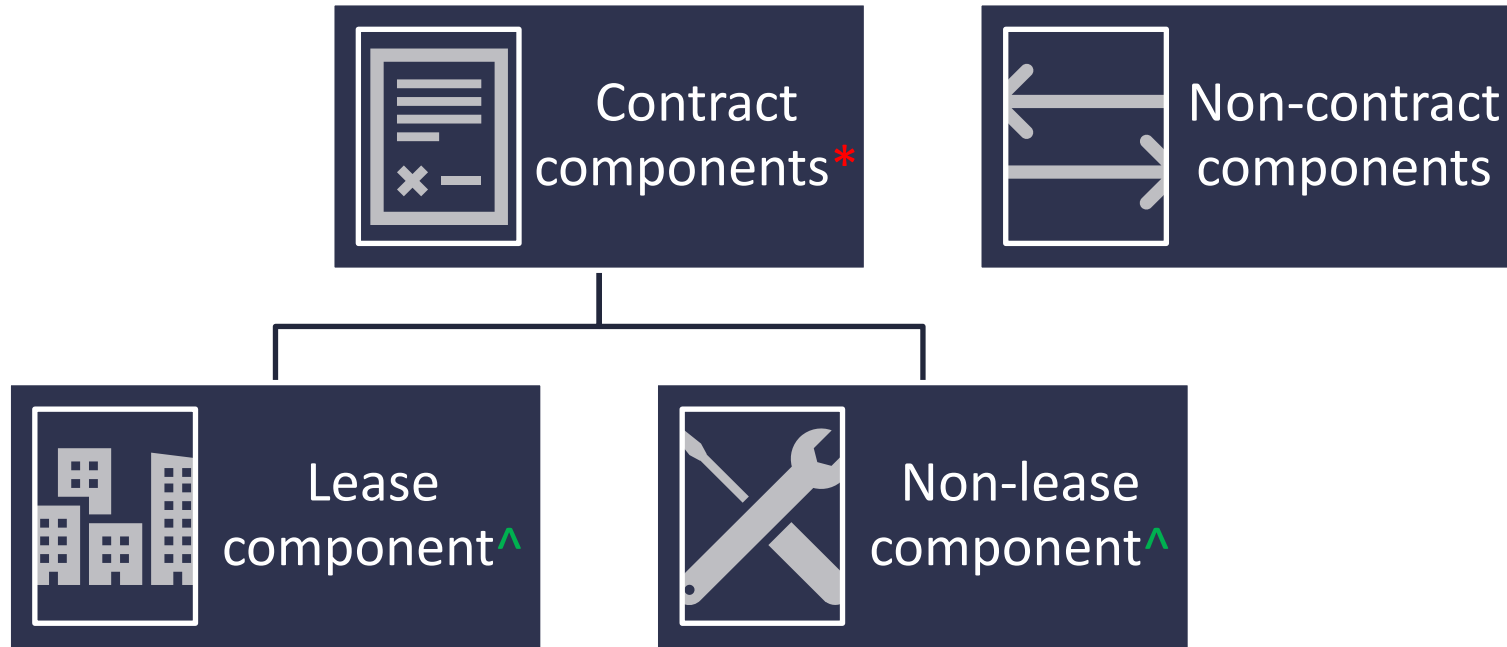
ROU Asset = the
cost of the asset

- Present value of lease liability
- Plus: Initial direct costs
- Less: Lease incentives

*Non-indexed variable payments are excluded



Separate & Allocate Lease Contract Components



^Allocate consideration only to contract components

*Practical expedient accounting policy election available to not separate lease and non-lease components = larger ROU Asset and Liability



Contract Components – Example 1

- Five-year lease for a building
- Annual lease payments are fixed at \$10,000 per year
- Payments for taxes and insurance are included in the contract
- Real estate taxes and insurance payments are variable and will be billed to the lessee each year



Contract Components – Example 1

- Are the real estate taxes and insurance components of the contract?
 - No - Lessee payments are a reimbursement of the lessor's costs
 - Not a payment for goods or services in addition to the right to use the building
- Contract contains a single lease component
 - The right to use the building
 - All (\$10,000) consideration allocated to this component as it is the only contract component
 - Variable payments are not allocated – not measured in liability



Contract Components – Example 2

- Five-year lease for a building
- Payments for taxes and insurance are included in a contract
- Annual lease payments are fixed at \$13,000 per year
- Fixed payments are itemized in the agreement
 - \$10,000 for rent
 - \$2,000 for real estate taxes
 - \$1,000 for insurance



Contract Components – Example 2

- Are the real estate taxes and insurance components of the contract?
 - No - Lessee payments are a reimbursement of the lessor's costs
- Contract contains a single lease component
 - The right to use the building
 - All consideration (\$13,000) allocated to this component as it is the only contract component
 - Fixed payments are allocated – measured in liability



Contract Components – Example 3

- Five-year lease for a building
- Payments for taxes, insurance, and common area maintenance are included in a contract
- Annual lease payments are fixed at \$13,000 per year and include rent, taxes, insurance, and building maintenance



Contract Components – Example 3

- Real estate taxes and insurance are still not components of the contract
- What about the common area maintenance?
 - Yes - Lessee receives a service from the lessor
 - A second component of the contract (non-lease component)
- Consideration is allocated among the two components using stand alone price ratio
 - Lease component = rent of office space
 - Non-lease component = common area maintenance
 - Lease component consideration used to measure liability



Contract Components – In Summary



Separate contract from non-contract components, and
Separate lease components from non-lease components



Allocate the consideration on a
relative standalone basis

Use observable standalone prices wherever
available



May elect practical expedient to not
separate the non-lease component

Accounting policy election



Discount Rate

Rate implicit in the lease, if not available then



Incremental borrowing rate, if not available then



Lessee that is a non-public NFP can use a risk-free discount rate using a period comparable with that of the lease term

- Example: 5-year lease uses a 5-year zero-coupon U.S. Treasury rate

Lease Term – Initial Measurement

- Slightly new definition
 - Noncancellable period for which lessee has right to use the underlying asset, plus periods covered by:
 - Option if lessee reasonably certain to extend
 - Option to terminate if lessee is reasonably certain not to exercise
 - Option to extend (or not terminate) controlled by lessor
- Reasonably certain
 - Must consider all relevant factors that create an economic incentive for the lessee to exercise the option
- Leasehold improvements can impact these considerations



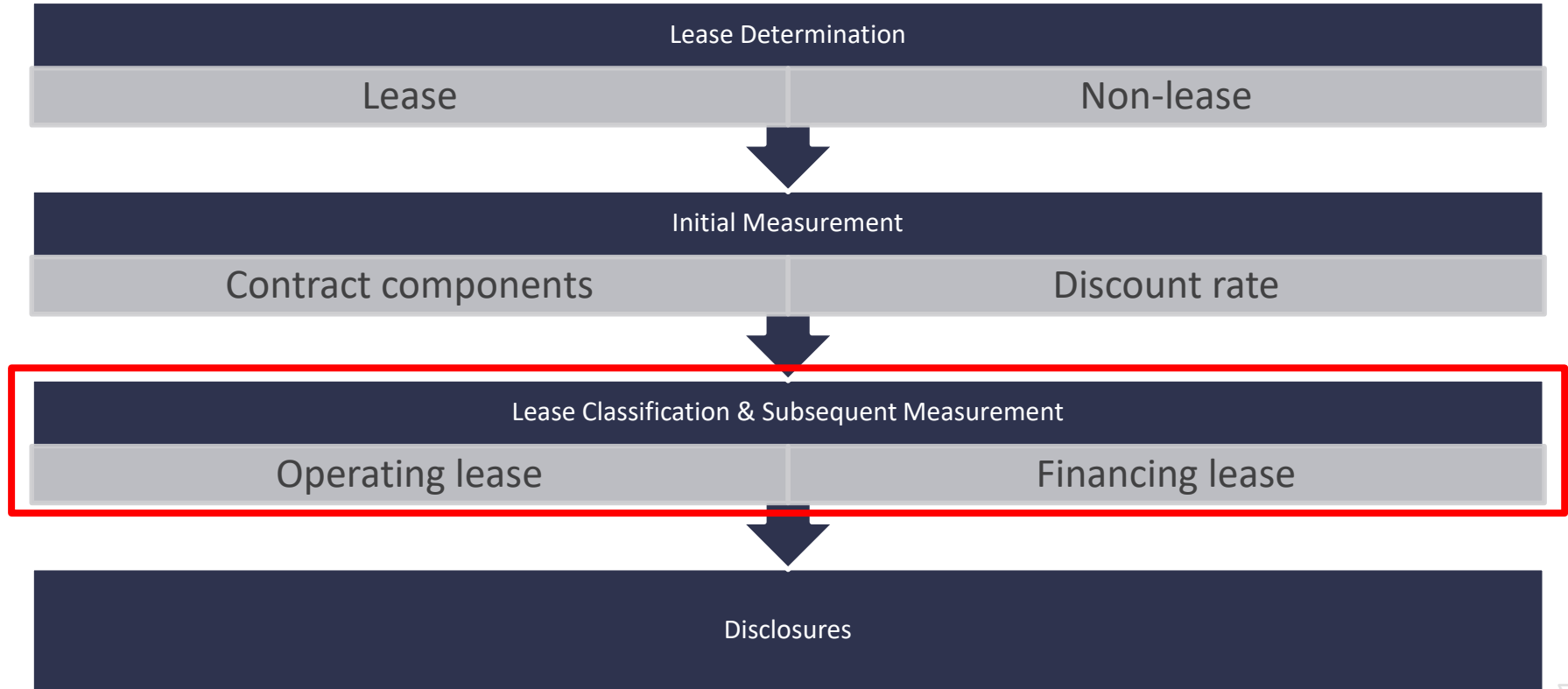


Lease Classification

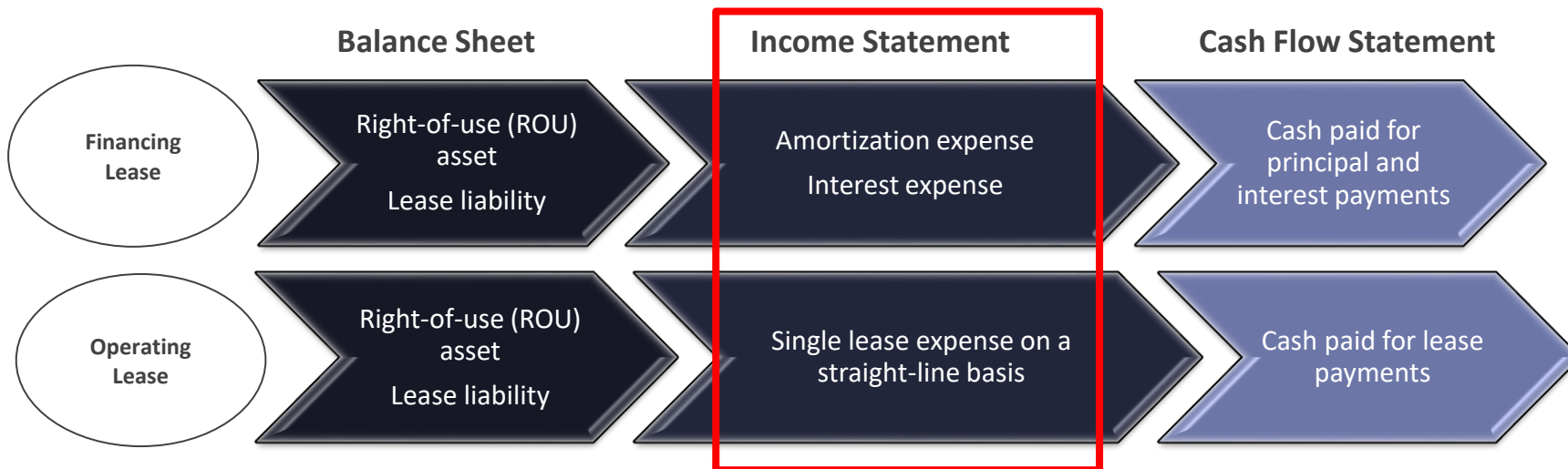
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Steps: Lease Analysis and Accounting



Leases (Topic 842; ASU 2016-02) – Lessee Accounting Overview



Classification is similar to that in Topic 840, *Lease*

Recognition and measurement exemption for short-term leases



Lease Classification – Lessee

Financing lease if ANY of the following 5 conditions are met:

Transfer of ownership

Option to purchase is reasonably certain

Lease term is a major part of the economic life

Present value of lease payments is substantially all of the fair value of the underlying asset

The underlying asset is of a specialized nature

If none of the above are met, the lease is an operating lease



Lease Classification – Lessee

Lease term is “major part” of the economic life

75% or more of remaining economic life of the underlying asset

A commencement date that falls at or near the end of the economic useful life refers to a commencement date that falls within the last 25% of the total economic life

PV of the lease payments is “substantially all” of the FV of the underlying asset

90% or more of the fair value of the underlying asset





Recognition and Measurement

Lessee Accounting

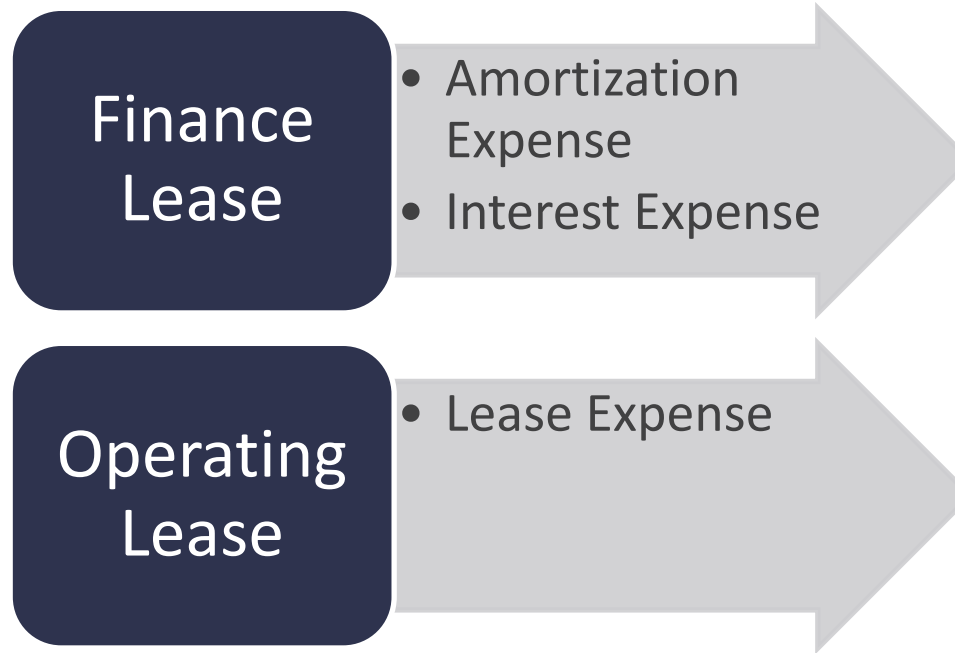
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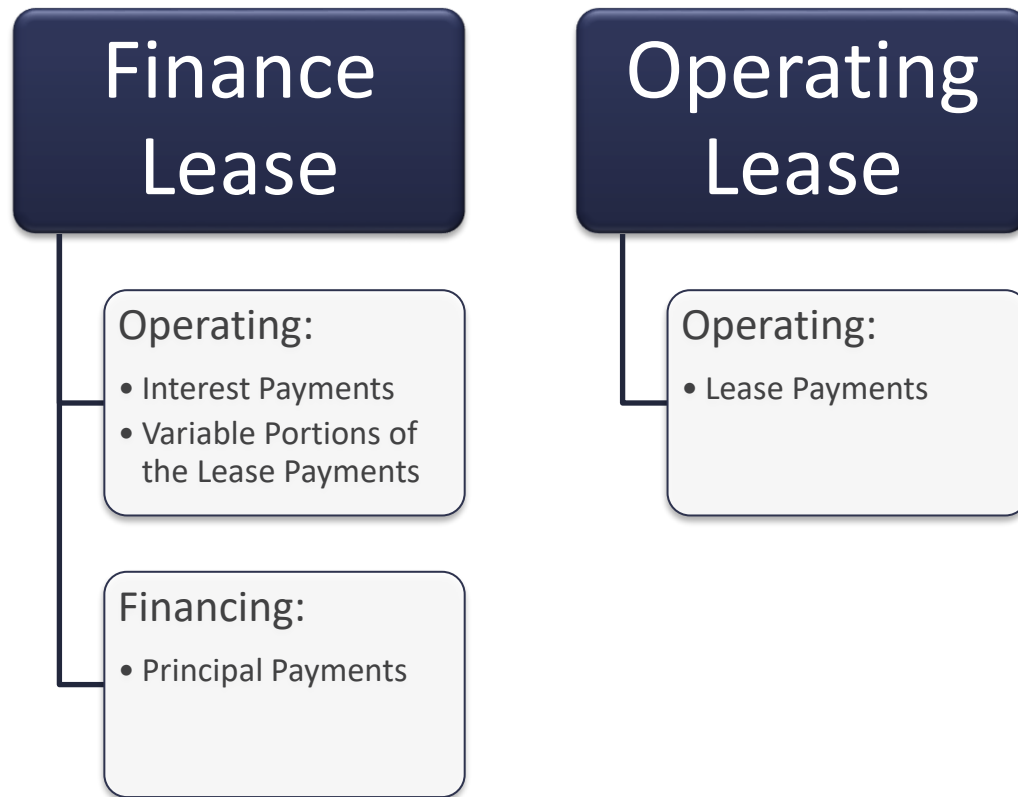
Balance Sheet Impact



Income Statement Impact



Cash Flow Statement Impact



Example – Operating Lease

3 year lease term

Annual rent of \$100, escalating \$3 annually

7% interest rate



Example – Operating Lease

Initial Recognition:

Dr. ROU Asset	270	
Cr. Lease Liab		270

Year 1 Entry:

Dr. Lease Exp	103	A	
Dr. Lease Liab	81	D	
Cr. Cash			100 B
Cr. Accum Amort			84 A-C

NOTE: No amortization expense is recorded! It is a component of the lease expense!

	Expense	Liability			Asset
		Payment	Interest	Principal	Amortiza tion
Year	A	B	C	D	A-C
1	103	100	19	81	84
2	103	103	13	90	90
3	103	106	7	99	96
	309	309	39	270	270



Example – Finance Lease

3 year lease term

Annual rent of \$100, escalating \$3 annually

7% interest rate

Example – Finance Lease

Initial Recognition:

Dr. ROU Asset	270	
Cr. Lease Liab		270

Year 1 Entry:

Dr. Interest Exp	19 C	
Dr. Amort Exp	90 A	
Dr. Lease Liab	81 D	
Cr. Cash		100 B
Cr. Accum Amort		90 A

	Asset	Liability			Expense
	Amortization	Payment	Interest	Principal	
Year	A	B	C	D	A+C
1	90	100	19	81	109
2	90	103	13	90	103
3	90	106	7	99	97
	270	309	39	270	309

NOTE: No lease expense is recorded.
Each component is recorded.



Lease Term – Subsequent Measurement

- Reassess only upon the occurrence of a:
 - Significant event/change in circumstances that is within the control of the lessee
 - Modification



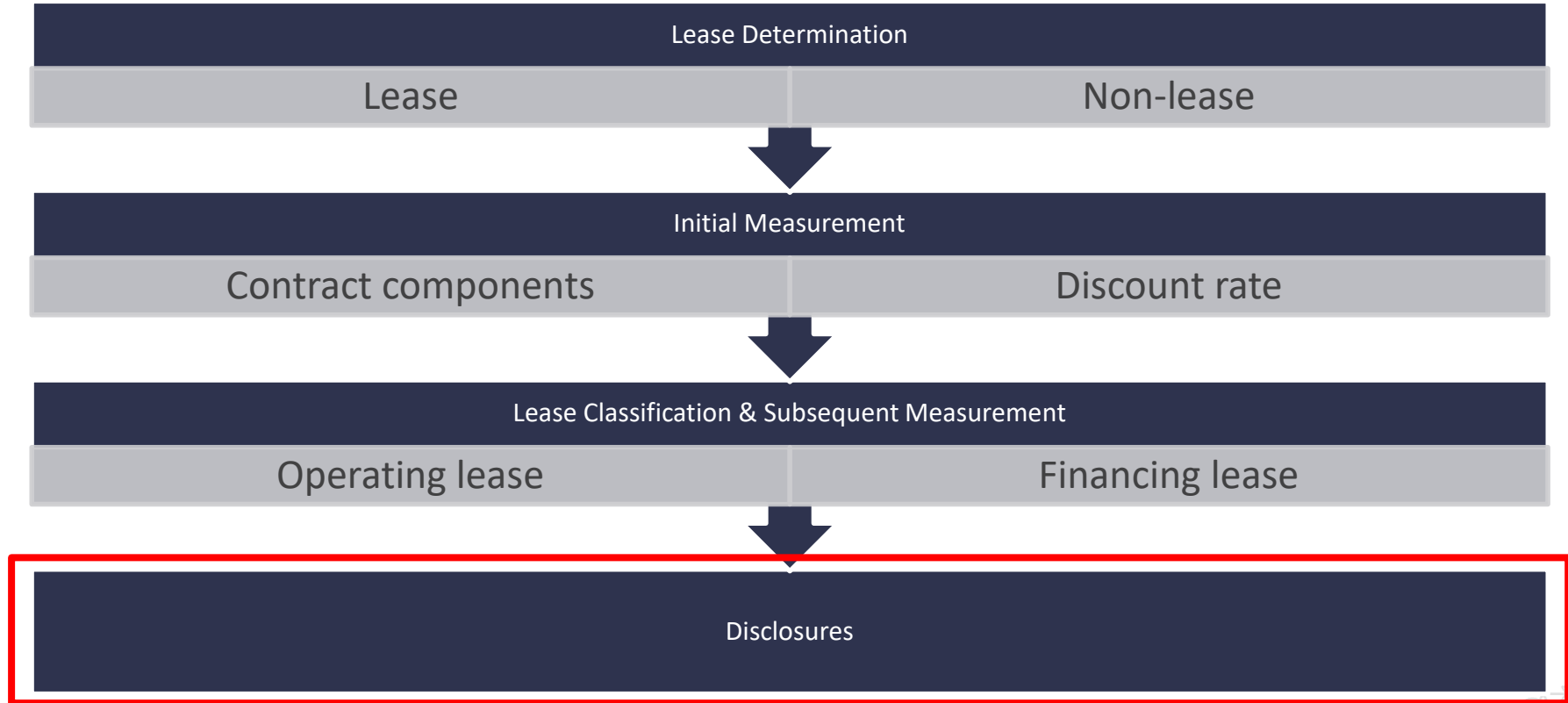


Disclosures

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Steps: Lease Analysis and Accounting



Disclosures



Objective

- Enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases



Requirement

- Enhanced qualitative and quantitative disclosures



Lessee Disclosures - Qualitative



Lessee Disclosures – Quantitative

Finance lease cost segregated between amortization and interest

Operating lease cost

Short-term lease cost

Variable lease cost

Sublease income

Gains/losses from sale and leaseback transactions



Lessee Disclosures – Quantitative (cont'd)

Segregate amounts for finance and operating leases for the following:

Cash paid for amounts included in the measurement of lease liabilities

Supplemental noncash information on lease liabilities arising from obtaining right-of-use assets

Weighted-average remaining lease term

Weighted-average discount rate



Example Disclosures – Quantitative

	2019	
Lease cost:		
Finance lease cost:		
Amortization of right-of-use assets	\$	-
Interest on lease liabilities		
Operating lease cost		
Short-term lease cost		
Variable lease cost		
Sublease income		
Total lease cost	\$	-
Other information:		
(Gains) and losses on sale leaseback transactions, net	\$	-
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from financing leases		
Operating cash flows from operating leases		
Financing cash flows from financing leases		
Right-of-use assets obtained in exchange for new financing lease liabilities		
Right-of-use assets obtained in exchange for new operating lease liabilities		
Weighted-average remaining lease term - financing leases		x years
Weighted-average remaining lease term - operating leases		x years
Weighted-average discount rate - financing leases		
Weighted-average discount rate - operating leases		



Lessee Disclosures – Quantitative (cont'd)

Maturity Schedule for first five years

Finance lease liabilities

Operating lease liabilities

undiscounted
cash flows

First 5 years &
total for
remaining

Reconcile to
balance sheet

undiscounted
cash flows

First 5 years &
total for
remaining

Reconcile to
balance sheet



Example Disclosures – Maturity Table

A maturity analysis of annual undiscounted cash flows for lease liabilities as of December 31, 2019, is as follows:

<u>Year</u>	<u>Financing Leases</u>	<u>Operating Leases</u>
2020	\$ -	\$ -
2021		
2022		
2023		
2024		
Thereafter		
Total	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2019, the Company has additional operating and finance leases, primarily copiers and facility rental, that have not yet commenced of \$XXX and \$XXX, respectively. The operating and finance leases will commence between fiscal year 2020 and fiscal year 2021 with lease terms of 1 year to 20 years.





Other Considerations

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Transition Methods Available

CY = year of
adoption

Original
Transition
Method (ASU
2016-02)

- CY - 842
- PY - 842

Cumulative effect
adjustment at the
beginning of the
earliest period
presented

PY =
comparative
period

Additional
Transition
Method (ASU
2018-11)

- CY - 842
- PY - 840

Cumulative effect
adjustment at the
beginning of the CY



Transition – Package of Practical Expedients

- An entity need not reassess:
 - Whether any expired or existing contract are or contain embedded leases
 - Lease classification of any expired or existing leases
 - Initial direct costs for any existing leases
- Applies to leases that commenced **BEFORE** the effective date
- Must apply as a package to all leases
 - Can not pick and choose which leases
 - Can not pick and choose which practical expedients



Transition – Hindsight Practical Expedient

- Hindsight can also be elected as a practical expedient
 - Determination of lease term
 - Impairment of right-of-use assets
 - Can be used separately or in conjunction with package
 - Must apply consistently to all leases





Action Items

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Implementation Considerations



Where Do I Start? Start With One.

Test run with your largest existing lease

Create an amortization table to support balance sheet and ongoing income statement journal entries

Gather needed info from lease documents & create disclosures for lease that meet requirements of new standard

Create template for these processes to replicate for existing leases and future leases

Document lease determination, classification, calculation, and disclosure processes in accounting policy document



After the test run, consider:



Should an external party review the perform lease determination, classification, calculation and disclosure?



Does your team have the capacity to do this internally, or is external help needed?



Does your team need a technology solution to perform lease determinatoin, classification, calculation and disclosure; or can this be done manually?

- Transition vs on-going

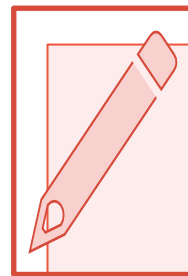


Then Expand to Portfolio of Leases



List of Leases & Service Contracts

- Begin gathering data on existing leases
- Consider completeness of list*



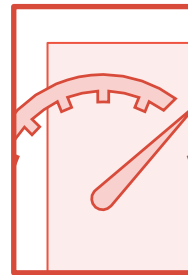
Document practical expedients

- Decide & document which practical expedients to adopt



Communicate Internally

- Share accounting policy document with procurement department & other stakeholders^



Debt Covenant Review

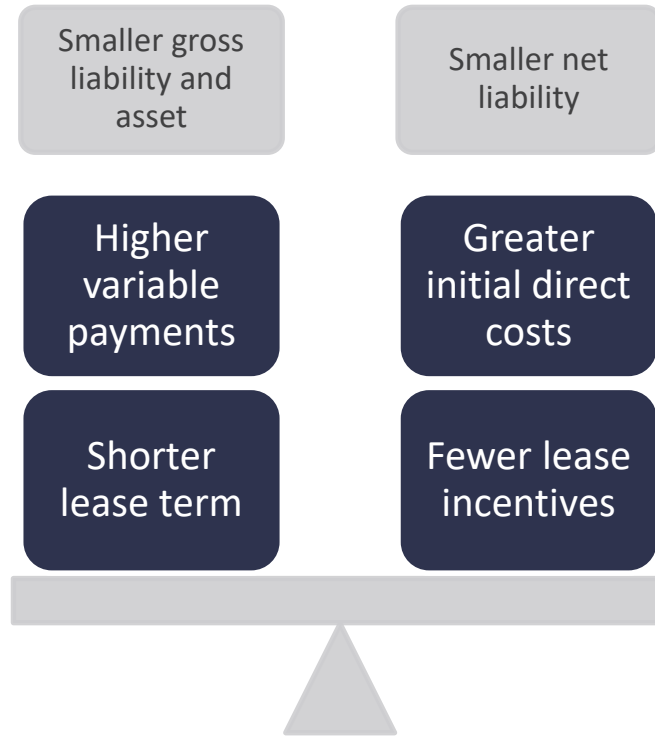
- Review existing and future debt agreements for covenants that will be impacted

*Consider embedded leases in service contracts

^Consider updating your capitalization policy



Economics of Lease Arrangements





Lease Assistance from CLA

Lease Accounting (ASC 842 and GASB 87)

Understanding the requirements of the new lease accounting standards can help you move forward with confidence.

We're committed to helping address what matters most to you:

- Understanding and complying with the concepts in the new lease standard
- Identifying how the standard may impact the recording and disclosure of leases in your financial statements
- Adjusting processes and developing new procedures to capture data required to meet the new lease accounting standard
- Training staff who may have to change their processes
- Selecting and implementing a lease software solution
- Assessing the organizational impacts beyond general accounting and financial reporting



Embedded leases need to be reported in your financial statements. However, they are often and easily overlooked.

OPERATIONS
Coffee and Embedded Leases
By Walker Wilkerson
4/16/2021

Key insights

- Embedded leases are found in every industry.
- These leases need to be reported in your financial statements.
- You can make embedded leases easier to identify with a few modifications to your current business practices.

in f t e o s SHARE

CLA exists to *Create Opportunities*
For our clients
For our people
For our communities



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