



Accounting Considerations Impacting Nonprofits at June 30, 2021 and Beyond

June 3, 2021

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Learning Objectives

1

Identify accounting standards that may be applicable to your organization for 2021 due to the financial impact from the COVID environment

2

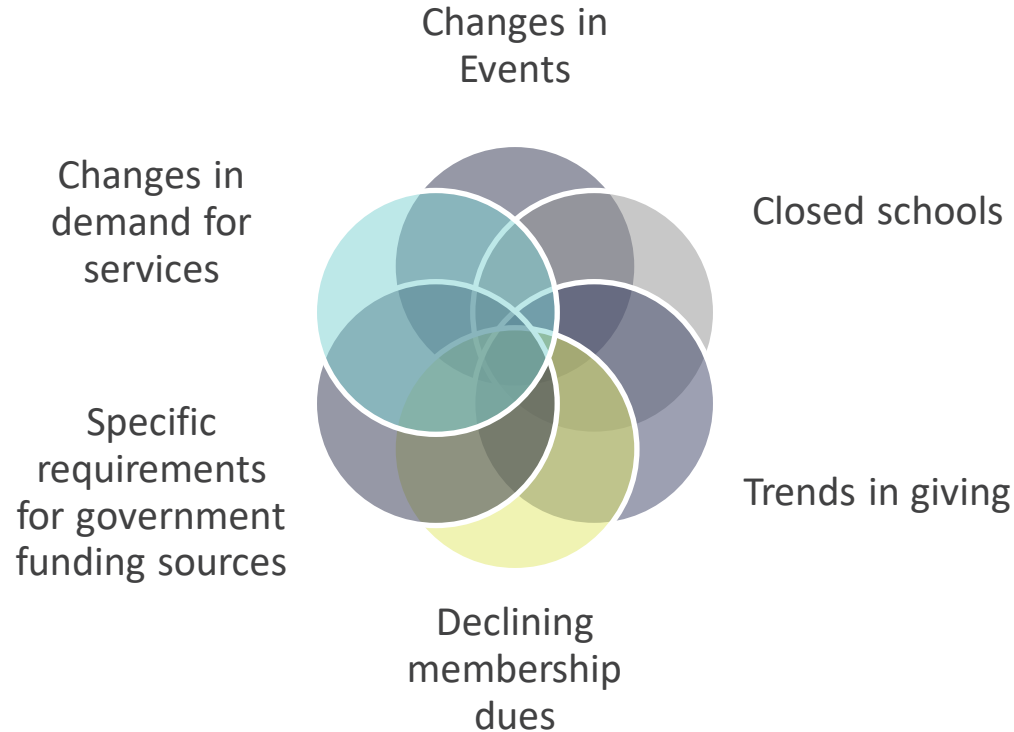
Recognize new accounting standards effective for the 2021 financial reporting and future periods and understand how to develop a plan for effective implementation

3

Describe the impact to the financial statements for PPP and other CARES Act funding



How did the pandemic impact your organization?



Accounting Considerations

Fair value measures	Asset impairment	Changes in Events
Functional Allocation of Expenses	Risks and uncertainties – operations, estimates, liquidity	Reserve for uncollectible accounts
Insurance Recoveries	Going concern considerations	Debt covenants and waivers
Lease concessions	Use of restricted funds, changes in restrictions	Endowment Loans



Changes in Events



Going Concern



Going Concern – Key Definitions



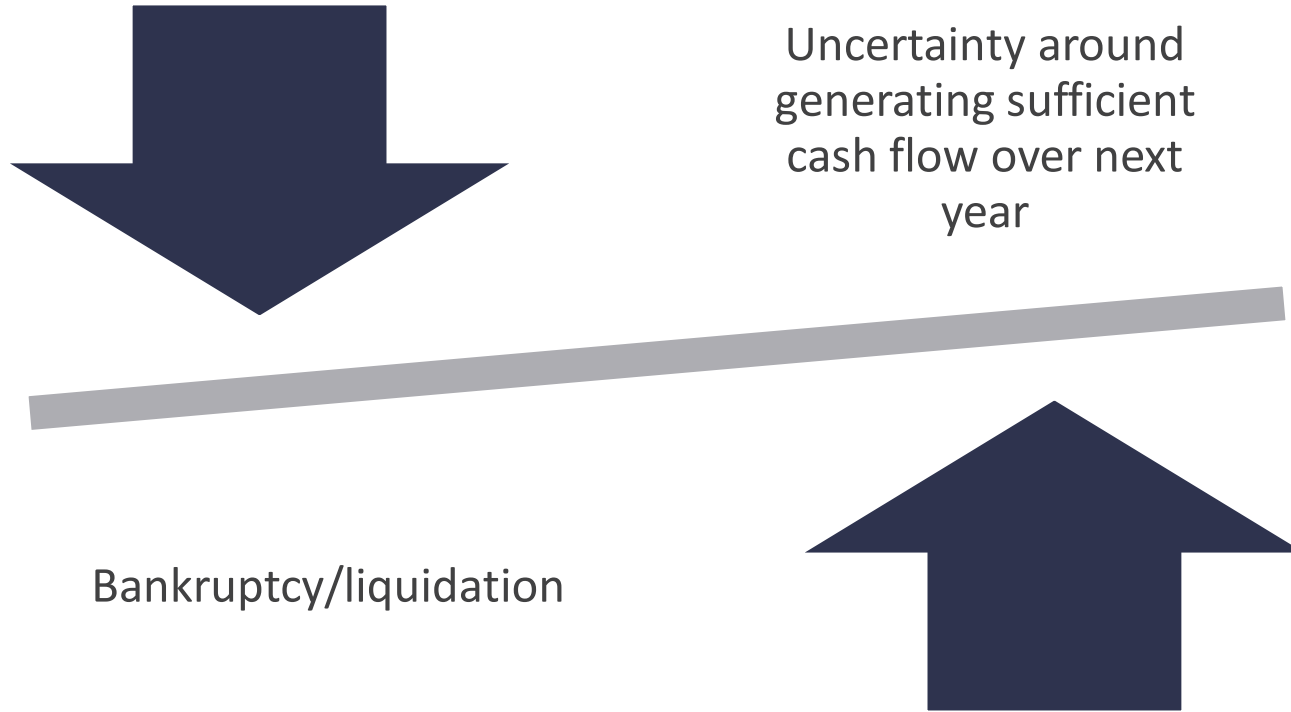
*Substantial doubt about an organization's ability to continue as a **going concern** exists when conditions and events, considered in the aggregate, indicate that it is probable that the organization will be unable to meet its obligations when they become due within one year of the date that the financial statements are issued or are available to be issued.*
([FASB ASC 205-40-20](#))



Look-forward period per FASB: One year after the date the financial statements are issued or are available to be issued.*



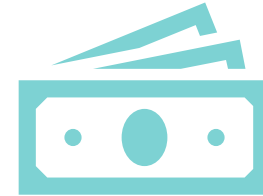
Going Concern – Common Myth



Going Concern – Management's Responsibilities



Evaluation



Plans

Disposing assets
Borrowing money
Restructuring debt
Reducing or delaying expenditures



Functional Allocation of Expenses

Cancelled
events

Discontinued
programs

Expenses paid
for with PPP
funding

Unique one-
time Covid
expenses



Lease Concessions



FASB Practical Expedient



May elect to treat qualifying lease concessions as if they were based on enforceable rights and obligations and therefore forego detail review of each lease



Qualifying Concessions = 1) Related to COVID-19, 2) No substantial increase in the lessee's obligation or the lessor's rights under the contract



Common accounting methods

Account as if no changes made (accrue a payable)

Account for deferred payments as variable lease payments
(negative lease expense in months payments due)



What should you be doing now to address these items?

- Inventory any unique circumstances that occurred during your fiscal year as a result of the pandemic
- Consult on any accounting implications



Polling Question



What type of new funding did you receive this year as a result of the pandemic?

- A) PPP Loan(s)
- B) PRF or CRF Funds
- C) EIDL Loan
- D) HEERF Funds
- E) Shuttered Venue Grant
- F) ERC and FFCRA Credits
- G) Other state/local resources
- H) Multiple sources
- I) None



Covid-19 Assistance Programs



PRF and CRF Funds

PPP Loans

EIDL Loans

ERC and FFCRA Credits

Shuttered Venue Grants

HEERF

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>



Accounting for PPP Loans

Standard	Initial Recognition	Derecognition
GASBS 70 Gov't entity (NFP that reports under GASB) – Loan treatment	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>

AICPA: Nongovernmental entities with material PPP loans should adequately disclose their accounting policy for such loans and the related impact to the financial statements



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!



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 Assistance – Single Audit

- Did you receive any of the following?
 - Provider Relief Fund (PRF)
 - Coronavirus Relief Fund (CRF)
 - Coronavirus Emergency Supplemental Funding Program
 - Disaster Assistance Loans (Economic Injury Disaster Loans)
 - Education Stabilization Fund
 - Uninsured COVID Testing and Treatment
 - Grants for New and Expanded Services under the Health Center Program
 - Emergency Grants to Address Mental and Substance Use Disorders During COVID-19
 - Rural Health Clinic Testing



Single Audit Considerations

- Compliance with the applicable federal statutes and regulations and the terms and conditions of the federal awards (compliance Supplement and grant agreements)
- Proper internal controls over compliance requirements
- Policies and procedures



What is the Employer 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?

- Organizations that:
 - Fully or partially suspended operations due to orders from an appropriate governmental authority limiting commerce, travel, or group meetings due to COVID-19; or
 - Experienced a significant decline in gross receipts during the calendar quarter.



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 – credits outstanding at year end (cash not received as of year end)

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





Accounting Standards Effective Now and in the Future

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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 (2018-03)

- 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



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: Entities 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)



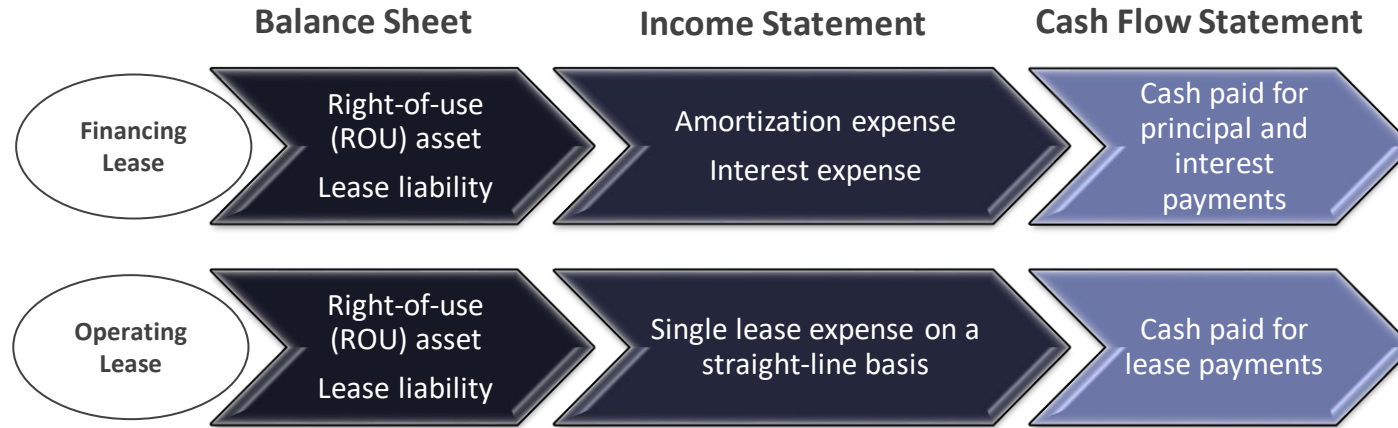
EFFECTIVE DATE: FISCAL YEARS BEGINNING AFTER
12/15/21; EXCEPT FOR PUBLIC NFP ENTITIES WHICH HAVE
AN EFFECTIVE DATE OF YEARS BEGINNING AFTER
12/15/19



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



Leases – Getting Ready

Inventory of leases – *What's out there? Know your leases and service contracts. Where are your lease documents?*

Materiality – *How modern is your capitalization policy?*

Debt covenants – *To what extent will capitalizing your operating leases affect covenants based on leverage ratios?*

Complex Calculations - *How will you perform the calculations to record? Will this require a software solution? How much time will it take?*



Gifts in Kind (ASU 2020-07)



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



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



Reference Rate Reform



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
- **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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