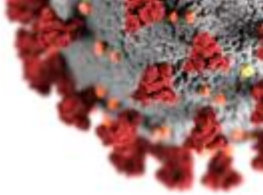
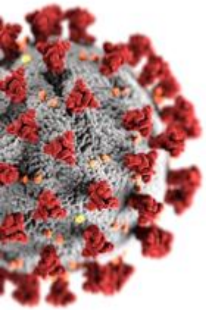
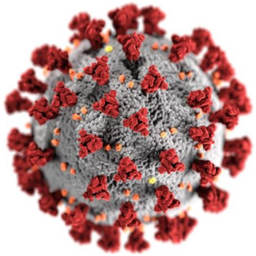
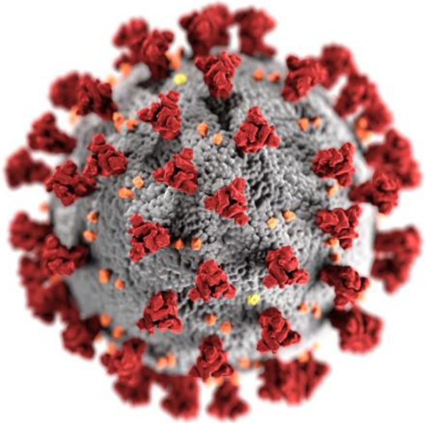


How This Pandemic Has Disrupted Businesses & Impacted Accounting Practice



Wayne Thomas
University of Oklahoma





The UNIVERSITY of OKLAHOMA PRICE COLLEGE OF BUSINESS

Mc Graw Hill Education

Introduction

Wayne Thomas is the W.K. Newton Chair and George Lynn Cross Research Professor of Accounting at the University of Oklahoma. He currently serves as Interim Dean at the Michael F. Price College of Business.

His primary teaching includes:

- Financial Accounting (275 students per section)
- Intermediate Accounting (classroom & online)

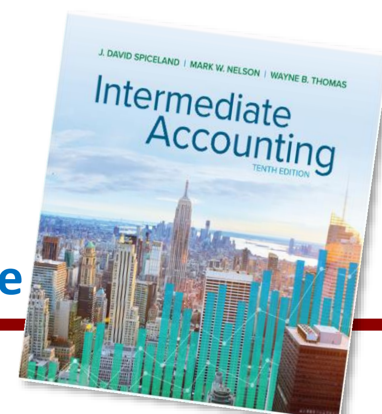
He co-authors:

- *Financial Accounting* 5e with David Spiceland and Don Herrmann
- *Intermediate Accounting* 10e with David Spiceland and Mark Nelson

David Spiceland
Wayne Thomas
Don Herrmann

Financial Accounting 5e

Intermediate Accounting 10e

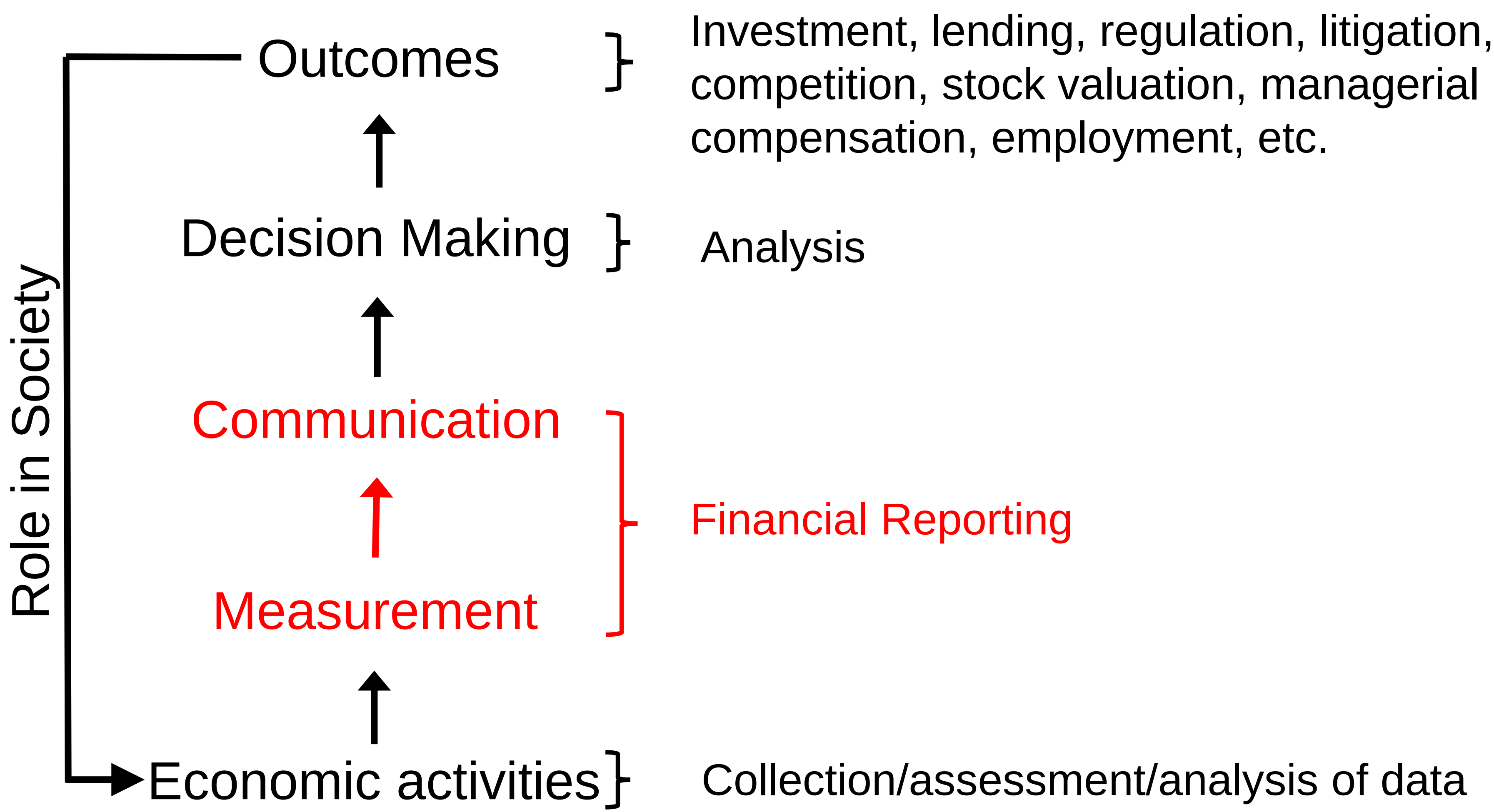


David Spiceland
Mark Nelson
Wayne Thomas

Response to COVID-19

Consumers	• Reduced or eliminated nonessential purchases • Changed behaviors (social distancing)
Businesses	• Self-imposed disruptions • Government-imposed disruptions (shelter-in-place, school closures) • Other disruptions (supply chain, employees)
Governments	• Operational guidelines and limitations • Relief packages (e.g., CARES Act)
Regulators and Standard Setters	• Guidance to capture economic effects • Ease or modify certain reporting requirements

The Role of Financial Reporting



The Role of Financial Reporting

Role in Society

Outcomes

↑

Decision Making

↑

Communication

↑

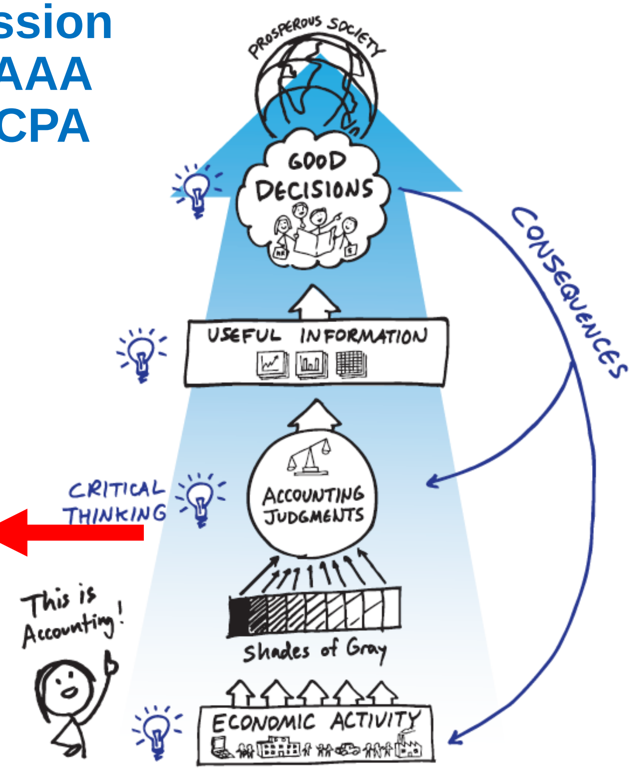
Measurement

↑

Economic activities

Historical but also forward-looking:
- Estimations
- Discretion
- Perceptions
- Uncertainty
- Disclosures

Pathways Commission of the AAA and AICPA



The Role of Financial Reporting

"As we face these challenging times, investors and other stakeholders need high-quality financial information more than ever. The proper functioning of our capital markets depends on a regular supply of high-quality financial information that enables investors, lenders, and other stakeholders to make informed decisions. Although markets and companies face uncertainties, we have a robust and longstanding financial reporting system in place, including the accounting, disclosure, and auditing models that will help us to address recent challenges."

Sagar Teotia
Chief Accountant at the SEC

Financial reporting matters. It's part of the solution.

Today's Discussion

CARES Act Reflected in Financial Reporting

- **C**oronavirus **A**id, **R**elief and **E**conomic **S**ecurity Act (3/27/2020)
- Income tax relief
- Employer payroll tax relief
- Paycheck Protection Program (PPP)
- Government loans
- Government grants
- GAAP deferral – CECL and others
- GAAP suspension – Troubled debt restructuring

Other Financial Reporting Effects of COVID-19

- Asset impairments
- Revenue recognition
- Risk-related disclosures
- Non-GAAP EPS disclosures

Concepts & Teaching Opportunities

- How government tax relief is captured in financial reporting.
- How government loans and grants are captured in financial reporting.
- Some transactions have no specified GAAP (turn to IFRS?).
- GAAP may be suspended, resulting in non-GAAP financial statements.
- Delay in filing deadlines or new standards deferred (accounting relief).
- Discussion of debt versus equity.
- Emphasis on forward-looking estimates used in many reported amounts (uncertainty can have a big impact).
- Financial accounting shouldn't cause the problem (recognized losses).
- Significant events emphasize financial reporting effects.
- Demonstrate the reality of financial reporting and its important role in capital markets and a prosperous society.
- Many interesting real-world examples to come.

Income Tax Relief

CARES Act – NOLs:

- Different from the Tax Cuts & Jobs Act of 2017:
  (1) NOLs arising in 2018-2020 can be carried back 5 years, and
  (2) 80% annual limitation on carryforwards is removed.
- NOLs arising in 2017 can be carried back 2 years.
- Spans past tax years with 35% rate (bigger effect).

Reporting Implication:

- Existing DTA due to NOLs could be converted to tax receivables.
- Ability to carry back NOLs may lead to receivable being greater than DTA (higher tax rate and net of valuation allowance).
- Removal of 80% limit on carryforwards could reduce valuation allowance.
- However, if there is substantial doubt about future profitability of the company, valuation allowance may actually increase.

Income Tax Relief

<u>Example of NOL Effect on DTAs</u>

- A company reports net operating (taxable) income in each year:

<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
$100	$100	$0	$(200)

- In 2019, the NOL cannot be carried back to prior years because of TCJA, leading to a DTA of $50 (assuming tax rate of 25%).
- The company estimates a 40% chance it won't recover the DTA and establishes a valuation allowance of $20.
- The net DTA in 2019 is $30 (= $50 DTA − $20 valuation allowance).
- The CARES Act allows the 2019 NOL of $100 to be carried back to 2016 and 2017 (with assumed tax rate of 40%).
- There is no longer uncertainty in the DTA being realized (no valuation allowance is needed).
- **The company coverts the $30 net DTA into $80 tax receivable.**

Income Tax Relief

CARES Act – Interest Deductibility:

- Currently, interest expense deductible up to 30% of taxable income.
- Deductibility increased 50% for 2019 and 2020 tax years.
- Can use (presumably higher) 2019 income to calculate the limit.

Reporting Implication:

- Could affect permanent difference as well as valuation allowances.

Employer Payroll Tax Relief

CARES Act – Employer Payroll Tax Deferral:

- Affects most companies.
- Defer employer portion of payroll taxes from date of Act through December 31, 2020.
- Payments due in two installments, December 31, 2021 and 2022.
- Credit up to 50% of eligible wages in current quarter (50% per employee per quarter).

Reporting Implication:

- Accrue payroll expense.
- Create deferred tax asset.
- Recognize credit as government grant.

Paycheck Protection Plan (PPP)

CARES Act – SBA Loans:

- Small Business Administration (SBA) provides guaranteed loans.
- $10M maximum.
- Personal guarantee, collateral requirements, and borrower fees are waived.
- Principal and interest forgiven if funds used for payroll and other eligible payments (max 25% of funds used for other)
- Entities receiving loans greater than $2M subject to audit.

Reporting Implication:

- Loan or grant? If initially a loan, when to recognize as grant?
- No clear guidance in the accounting literature.
- Possibly, record loan and convert to grant in systematic and rational manner as provisions of the PPP program met.

Industry-Specific Loan Program (ISLP)

<u>CARES Act – Government Loans:</u>

- Loans are given with 1% interest and are not forgivable (unlike PPP).
- To passenger airlines and related businesses and to businesses critical to national security.
- Must establish evidence of (a) losses related to COVID-19 and (b) other sources of funding not available.
- No dividends payments or share repurchases allowed (until 12 months after repaid).
- Retain existing employees through 9/30/2020 (to the extent possible, but limit reduction to 10%).
- Public companies issue stock warrants to U.S. Treasury.
- Nonpublic companies grant stock warrants or debt to U.S. Treasury.
- For other large and midsize companies not covered by ISLP, similar loans available with similar provisions (but no warrants required).

Industry-Specific Loan Program (ISLP)

Reporting Implication:

- No specific guidance under U.S. GAAP.
- 1% loans do not require imputed interest.
- ASC 835-30-15-3(e) excludes from the scope of this guidance "transactions where interest rates are affected by the tax attributed or legal restrictions prescribed by a governmental agency (for example, industrial revenue bonds, tax exempt obligations, government guaranteed obligations, income tax settlements)."

Government Grants

<u>CARES Act – Grants to Targeted Industries:</u>

- Pandemic relief for aviation workers (PRAW) – To be used for payroll-related costs.
- Healthcare providers.
- Educational institutions (50% must go to students).

<u>Reporting Implication:</u>

- No specific guidance under U.S. GAAP.
- Possibly accounted for as revenue (e.g., reimbursement for patient health care).
- Many will likely recognize as deferred income (liability) and allocate over time to (1) other income or (2) related expenses.

GAAP Deferrals

CARES Act – CECL and Others:

- Old GAAP (incurred loss model) – Recognize credit losses when probable.
- CECL (ASU 2016-13) – recognize current expected credit losses (lower threshold for recognition, amount of losses likely increases)
- Defer implementation of CECL.
- From March 27 to December 31, 2020.
- Applied to debt related to COVID-19.
- Allowed for insured depository institutions, bank holding companies, and their affiliates.
- Also defer revenue recognition for private company franchisors and lease standard for private companies and public NFP

Reporting Implication:

- CECL deferral – Allow companies to avoid additional loss recognition.
- Lesson learned from Financial Crisis.

GAAP Suspension

CARES Act – Troubled Debt Restructuring:

- Applied to loan modifications related to COVID-19.
- Allowed for financial institutions.
- Executed on loans that were not more than 30 days past due as of 12/31/19.
- Modified between 3/1/20 and earlier of 60 days past end of national emergency or 12/31/20.

Reporting Implication:

- Suspend GAAP (ASC 310-40)
- Allow companies to avoid loss recognition

Other Issues—Impairments

Typical order:

- Receivables – cash expected to be collected (allowance method)
- Inventory – lower of cost or (1) LCNRV or (2) LCM
- Indefinite-lived intangibles – at least annually
- Property and equipment – when events and circumstances dictate
- Goodwill – at least annually

Uncertainty:

- Most assets will need to be considered for impairment (interim).
- Current environment complicates forecast of selling prices, future revenues, undiscounted cash flows.
- Current environment complicates fair value estimation.
- Companies may need to adjust upward the discount rate for company-specific risks.

Other Issues—Inventory

- LCNRV: Reduction in net realizable value (estimated selling price minus costs of completion, disposal and transportation).
- Examples: Perishable inventory, overstocked items, change in customer demands, higher selling costs.
- LCM: Market = replacement cost, difficult to determine.
- Overhead costs not allocated to inventory during abnormally low production periods (expensed immediately).
- Interim period LIFO liquidation possible due to supply chain issues, do not recognize in interim reports if expected to be resolved by the end of the year.

Other Issues—Revenue Recognition

Variable consideration:

- Constrained to an amount that is probable that a revenue reversal will not occur.

  Examples of changes:

- Company can no longer provide services due to employee, supply chain, and operating restrictions.
- Performance bonus (e.g., growth in sales not likely).
- Unusually high customer returns.

Other issues:

- Contract existence depends on probable collection of substantially all that the seller is entitled to receive.
- Changes in standalone selling prices for contract modifications (e.g., change in performance obligations).

Other Issues—Disclosures (tons)

- Risk factors
  - Customers, suppliers, employees, ability to make and receive payments, etc.
- Forward-looking statements
  - Caution that such statements are highly uncertain in light of COVID-19.
- MD&A
  - Impact on historical trends and known uncertainties.
- Liquidity and capital resources
  - Customer payments, credit access, lender covenants, etc.
- 8-K Current Report
  - No specific requirement but as significant events occur.
- SEC extending filing deadlines by 45 days for reports due between March 1 and July 1, 2020.

Other Issues—Subsequent Events

- Event that occurs after the fiscal year-end but before financial statements are issued.
- Type 1 – event that provides additional information about conditions that existed at the balance sheet date.
  - ➢ Recognized in prior year financial statements.
- Type 2 – event that provides new information that did not exist at the balance sheet date.
  - ➢ Not recognized but disclosure.
- COVID-19 = Type 2.
- Affects many retail companies (January year-ends).

Subsequent Event

- Macy’s (year ended February 1, 2020)
- Subsequent Events (partial) – As a result of this outbreak, on March 18, 2020, the Company temporarily closed all stores and the stores will remain closed until it is safe to reopen to prioritize the health and safety of its customers, colleagues and communities… COVID-19 has had a negative impact on the Company's operations and financial results to date, and the full financial impact of the virus cannot be reasonably estimated at this time due to uncertainty as to its severity and duration… As a result, in March 2020, the Company fully drew on the $1,500 million credit facility, announced the suspension of quarterly cash dividends beginning in the second quarter of 2020, and took additional steps to reduce discretionary spending and other expenditures including a temporary furlough for the majority of its employee population. The Company's Board of Directors rescinded its authorization of any unused amounts under the Company's share repurchase program.

Wynn Resorts

- Revenues are down

Results of Operations

Summary of first quarter 2020 results

The following table summarizes our financial results for the periods presented (in thousands, except per share data):

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Increase/ (Decrease)	Percent Change
Operating revenues	$ 953,716	$ 1,651,546	$ (697,830)	(42.3)
Net income (loss) attributable to Wynn Resorts, Limited	(402,037)	104,872	(506,909)	(483.4)
Diluted net income (loss) per share	(3.77)	0.98	(4.75)	(484.7)
Adjusted Property EBITDA (1)	(5,329)	494,777	(500,106)	(101.1)

(1) See Item 1—"Financial Statements," Note 16, "Segment Information," for a reconciliation of Adjusted Property EBITDA to net income (loss) attributable to Wynn Resorts, Limited.

The decrease in operating revenues for the three months ended March 31, 2020 was primarily driven by decreases of $467.1 million, $294.4 million, and $77.2 million from Wynn Palace, Wynn Macau, and our Las Vegas Operations, respectively. These declines were precipitated by the adverse effects of the COVID-19 outbreak during the three months ended March 31, 2020, which include the closure of our casino operations in Macau for a 15-day period and their subsequent reopening on a reduced basis, and the closure of our Las Vegas Operations on March 17, 2020 for the remainder of the first quarter of 2020. Operating revenues from Encore Boston Harbor were $140.9 million. Encore Boston Harbor closed to the public on March 15, 2020 for the remainder of the first quarter of 2020.

The decrease in net income (loss) attributable to Wynn Resorts, Limited for the three months ended March 31, 2020 was primarily related to the adverse effects of the COVID-19 outbreak on the results of our operations for the three months ended March 31, 2020, and includes the impact of $75.7 million of expense accrued during the quarter related to our commitment to pay salary, tips, and benefits continuation for all of our U.S. employees for the period from April 1 through May 15, 2020.

Wynn Resorts

- Expenses associated with operations are down, but expenses associated with credit losses are up.

Operating expenses

The table below presents operating expenses (in thousands):

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Increase/ (Decrease)	Percent Change
Operating expenses:				
Casino	$ 442,690	$ 750,071	$ (307,381)	(41.0)
Rooms	73,480	63,706	9,774	15.3
Food and beverage	175,910	148,761	27,149	18.3
Entertainment, retail and other	45,580	44,044	1,536	3.5
General and administrative	234,328	217,322	17,006	7.8
Provision for credit losses	20,613	5,422	15,191	280.2
Pre-opening	2,551	27,713	(25,162)	(90.8)
Depreciation and amortization	178,746	136,557	42,189	30.9
Property charges and other	27,229	2,774	24,455	881.6
Total operating expenses	**$ 1,201,127**	**$ 1,396,370**	**$ (195,243)**	(14.0)

Delta Airlines - Impairments

- May 14, 2020 8-K disclosure:
- The board of directors of Delta Air Lines, Inc. (“Delta,” “we,” or “our”) on May 13, 2020 authorized a plan to retire our Boeing 777 aircraft and remove them from service by the end of 2020. We also previously determined to accelerate the retirement of our MD-90 aircraft, which will exit the fleet effective June 2020. These decisions are intended to better align our network with lower passenger demand stemming from the **COVID-19 pandemic**, streamline and modernize our fleet, and generate cost savings.
- As a result of these decisions, we evaluated our Boeing 777 and MD-90 aircraft for impairment and concluded that the carrying value of these aircraft was no longer recoverable when compared to their estimated remaining future cash flows. Consequently, during the June 2020 quarter, we expect to record non-cash impairment charges associated with these aircraft. Although the actual amount of the charges has not yet been finalized, we expect the aggregate impairment charges to range from **$1.4 billion to $1.7 billion**, before tax.

Delta Airlines – CARES Act

- Form 10-Q for March 31, 2020, CARES Act:
- In April 2020, we were granted $5.4 billion in emergency relief through the payroll support program of the CARES Act to be paid in installments through July 2020. The relief payments are conditioned on our agreement to refrain from conducting involuntary employee layoffs or furloughs through September 30, 2020.
- Other conditions include prohibitions on share repurchases and dividends through September 30, 2021, continuing essential air service as directed by the U.S. Department of Transportation and certain limitations on executive compensation. The relief payments include $3.8 billion in grants and $1.6 billion in an unsecured 10-year low interest loan. The loan includes annual interest rates of 1.00% for the first five years (through April 2025) and the Secured Overnight Financing Rate ("SOFR") plus 2.00% in the final five years. In return, we have agreed to issue to the U.S. Department of the Treasury over 6.5 million warrants to acquire Delta common stock. These warrants include an exercise price of $24.39 per share and have a five-year term.
- Finally, the CARES Act also provides for deferred payment of the employer portion of social security taxes through the end of 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due

Tenet Healthcare – Liquidity

- Q1 earnings announcement:
- The Company has taken various actions to mitigate the impact of COVID-19, including enhancing its liquidity by issuing $700 million of secured notes in April 2020 and increasing its line-of-credit borrowing capacity from $1.5 billion to $1.9 billion in April 2020, reducing its planned capital expenditures this year by $300 million, reducing discretionary spend, and flexing down costs or furloughing employees due to reduced patient volumes that do not impact the ability to provide care to current patient volume levels. The Company is extensively planning how its businesses will ramp back up as government-imposed restrictions are lifted to protect the safety of all of its constituents and ensure resources are deployed appropriately for the volume levels as they recover.