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>> WARSAME WARSAME: Good morning. I am Warsame Warsame, I use he and him pronouns, and I am the central regional coordinator at the Minnesota Council of Nonprofits. Thank you for joining MCN and our partners, Clifton Larson Allen and Propel Nonprofits, today as we look specifically at PPP forgiveness for nonprofits.

Before we get started with our feature speakers, MCN's program manager, Shannon McCarville, will share a few notes on the technology we are using today and how we will be encouraging and tracking questions as we go along. We appreciate you being here. Welcome.

>> SHANNON McCARVILLE: Hello, everyone. Welcome. My name is Shannon McCarville, and I am the program manager at the Minnesota Council of Nonprofits. I would like to call your attention to the Zoom tools you will be using to engage in this session today. Look to the bottom to of your screen and click on the Chat and Q&A buttons. That will pop those out and be available to you for the whole session. In this session, the Chat function will be a way for you to communicate with the presenters, and you will have an option to chat with other participants.

To ask questions during the session, use the Q&A function. You will also be able to upvote a question you'd like to see answered and comment on questions. One important thing to note, the Chat box is only to share comments with the entire group, not ask questions of the presenters. But when you'd like to comment to the group, change the To drop-down to all panelists and attendees so everyone can see. This is also going to be closed captioned. You can click on the arrow below in the toolbar on CC.

This session will be recorded and post today MCN's COVID-19 resources page by Monday morning along with the slides.

Now I will turn it over to Kate Barr from Propel Nonprofits

>> KATE BARR: Thank you, Shannon. It's good to have all of you join us today. I am glad you are all here for this topic that I know has been probably vexing many of you for a while now, and I am really grateful to our partners from CliftonLarsonAllen to bring their great expertise and knowledge of this topic.

This topic, of course, has been something that has been important to all of you and to all of us ever since the Paycheck Protection Program started. The opportunity to receive federal relief at a time of COVID-19 and have that amount forgiven was such a relief, such a lifeline for so many organizations, including Propel, in fact, that as we all suffered this very sudden shake-up in our revenue sources, new expenses, and great uncertainty. So having that federal relief is helpful.

I want to set just a couple of pieces of context for the topic here today, and one of them goes back to the very design of PPP and what PPP is and what it isn't. I think it's very helpful to just kind of remember that this Paycheck Protection Program, which was put together back in March, it was put together quite quickly as you recall. As you may recall, the rollout was rough, to say the least. It was implemented by the federal government through the Small Business Administration, and the SBA's very purpose is to support small businesses, not nonprofits. So the fact that nonprofits were included in the PPP and were eligible for the PPP, 501(c)(3) nonprofits and C19s, not every kind of nonprofits, but 501(c)(3)s was a great advocacy success for the nonprofit sector that was led by some important organizations that we were grateful to for doing that.

It's helpful also to remember that the SBA isn't generally geared to working with nonprofits. Nonprofits are generally not eligible for SBA programs. So I just remind you that because every time you read some rule about PPP and you read something -- and I know we will talk about some very specific nonprofit aspects of it, and you think that doesn't make sense. That's not how nonprofits work. Just keep in mind the SBA isn't set up to know how nonprofits work. And so many of the things we are going to talk about today and all of you have been dealing with both internally and maybe with your auditors that really are kind of the most problematic pieces of figuring it out, what it is is we are figuring this out as we go along in the nonprofit sector and with partners like CLA because it wasn't designed that way. It was really designed in a pretty straightforward way for small businesses. I just find that helpful context to have.

The Paycheck Protection Program funds and that federal relief has been really important, as I said, and we know the SBA did release public information last week of the participants, how much loans were made nationally and how many were made in each state. In Minnesota, about 5300 nonprofits did receive PPP funds during the period of time that the SBA released the information. They released a list of all of the loans, but they only disclosed the names of those organization that got PPP loan of $150,000 or more, and in Minnesota, that was about 1100 nonprofits that received $150,000 or more in PPP, so the vast majority were much less than that. In fact, if you look at the full list of PPP loans in Minnesota for nonprofits, some of them were a thousand dollars. And then the largest ones were between $5 million and $10 million. So that full list has been released. It is public. You may have read some articles about it or seen some news reports about it.

I do think it's important that if your nonprofit did receive more than $150,000 in PPP, just be aware that your name is on that list. It's not with a specific dollar amount. It's in a range. But your name is on that list, and I think it's always good when there's public information for you to be aware of it so if it's helpful for you to have some talking points about why that was important to you, how that federal relief was helpful, that you are prepared to share that information.

Now, in terms of the topic today, the forgiveness, this has, of course, been the big promise of PPP is that we could have these funds come in in federal relief and have them forgiven as long as they were used for the right purpose and that we document them right. And that's what we are going to hear from Karen and Toby from CLA about. They are going to spend about 40 minutes doing a presentation, really sharing both the specifics about the forgiveness, how to calculate the payroll, some of the rules about whether or not you had wage reductions or reductions in the number of employees, and then some very specific nonprofit questions, which is why we wanted to do this partnership with Propel and MCN is because we know there are nonprofit components to this that have to do with accounting, that have to do with your other sources of funding and some other specifics around nonprofits that they will talk about.

We are leaving at least 20 minutes at the end for questions and answers, so do be prepared. Please use the Q&A box that Shannon described for those questions that you may have, and I encourage you to do the upvoting where you say yes, this is important to me, please, and then -- or to comment on the questions. It's really helpful to help to manage that Q&A to make sure that if 50 of you have the same question, we'll be sure and get to it. So please do that.

I also have to say, just as a final comment, that this has been an evolving program, as you know. If you are geeky enough to be paying attention to all the SBA releases, they have a kind of advisory, a guidance that they call the Interim Final Rule, which is -- I find it now such an amusing term -- an Interim Final Rule, and I think there have been either 18 or 19 Interim Final Rules about the PPP so far. And we know that there are still some open questions. And so if you feel like you are kind of pulling your hair out because the rules are changing or you are not sure, you are not alone. This is a shared experience. We know that it's not clear. It has gotten clearer. We are moving forward. And the forgiveness process is starting to come into focus. But there are still some questions. But we also know that you are all really anxious to know that you are going to have that forgiveness, that you are going to be able to count on it, and that you know how to apply for it. So that's what we are going to have Karen and Toby talk us through.

And I am going to turn it over to them and have them lead us through the session, and then we'll come back and do the Q&A. So again, I will be watching the Q&A box, and again, thanks all for joining us.

Karen and Toby?

>> KAREN GRIES: Thank you so much, Kate. Maybe I'll have you advance the slides, Shannon? Perhaps go forward into a little bit further into the forgiveness calculation slide.

With PPP, Kate had mentioned we recognize the fact that so many of us have gone through the process to actually apply for our loans, you know, received our loans. Now we are thinking forgiveness. If you as an organization -- I assume that everyone on the call actually has a PPP loan outstanding, but I know a number of organizations that we have worked with as a firm, knowing that there is still money on the table and knowing that recent legislation had indicated that applications for PPP funding can occur through August 8, and I think last I heard is roughly a billion dollars is still available, that if you have peers or others that you know that are still contemplating going in for PPP funding, really encourage them to do so. There is this limited window of a few number of weeks where we can still actually go forward with applications, and we want to make certain that everyone that is able to is taking advantage of this.

Next slide please, Sharon. Some of the PPP basics. I am going to go through some information that many of you are going to sit back and say this is basic information, but again, depending on where you are at in your nonprofit's lifecycle on PPP, it's just general foundational information. Again, some of the basics as far as what's eligible for forgiveness, we all know that it's our payroll costs and our nonpayroll costs. So we think in terms of our salaries, our benefits, our retirement, state and local taxes that are assessed on the employers are part of what goes into our forgiveness costs, and then our nonpayroll costs. But one of the items that we've really had to wrestle with and dress is this thought of the 8-week period and how does that interplay with the 24-week period that recently came about?

I believe that when PPP was first enacted, the thought was we'll have this program available the 1st of April, we'll allow for 8 weeks for organizations to spend the funds, because when we went in to obtain the financing, we took two and a half times our monthly payroll, which would equate to 8 weeks, and that's the period we had to pay the funds. By the time June 30 rolled around, it was enough to get us through this difficult time of COVID. However, that's not what we are experiencing.

So Congress enacted another piece of legislation that really changed that covered period. So you have an option. Many of you, if you had a loan before June 5, you have the option of using either an 8-week period or up to 24 weeks for your forgiveness period in which to incur and spend those dollars. If you have a loan that actually occurred, originated after June 5, you do have up to 24 weeks. So the way this actually reads is that an organization has, in essence, up to 24 weeks in which to spend the dollars.

The next slide actually talks about the covered period and how it works. As you can see, on the next slide, if we could just advance, the time period to track your forgiveness is either 24 weeks or you have that 8-week option if your loan originated before June 5. If you did, in essence, obtain your funding April 1, your loan was funded around the 15th, the end of your covered period, your 8 weeks, would have been June 9. But what we have experienced with many of our employers is perhaps not all the funds were used for payroll during that period. So having this alternative covered period or alternative payroll covered period allows us to have the ability to use all of the loan proceeds at any point in time up to that full 24-week period. So if you are finding that you are not actually spending your cash within that 8-week period and you are not maximizing forgiveness, you have the ability to use up to 24 weeks for your forgiveness period. The key is that it is up to 24 weeks. We do believe that there is the option for organizations to, in essence, say I need more than 8 weeks, but I don't need the full 24 weeks. So I want to cut off my alternative payroll covered period at 18 weeks or 10 weeks. Again, this, perhaps, is not legislatively or through Treasury a provision that has been mandated, but as we read the legislation, we believe that is an option for organizations.

What can be covered? The next slide you'll see talks about some of this basic information, the payroll questions. Many of our employees are working in very difficult situations when you think in terms of healthcare workers, our social service area, those that are interfacing with the public and food shelves and other types of nonprofits, and we have, perhaps, within our organizations provided some type of incentive or hazard pay to our employees, and yes, that would be eligible for payroll as long as it's within those payroll costs. We are not certain about some items. You know, if there's bonuses that aren't paid or retirement plan contributions from 2019, not certain about those types of items. And then healthcare benefits are some other questions that we are actually still wrestling with. As Kate had indicated, the SBA guidance has been welcomed guidance, but it's not necessarily providing information that is specifically relevant to us in the not-for-profit area.

As I looked at the attendee listing and really thinking about who is on the call, we've had questions concerning the application of alternative size standards to our not-for-profit organization. For myself, it was a question that I posed to SBA early in April, and we've yet to see an official answer on a question such as that.

On the next slide, talking about nonpayroll costs, as we know, your interest on your mortgage obligations, I should say, your rents, utilities, interest on other debt obligations, again, as long as you had a contract in place by February 15, those costs are also eligible costs to be used for your PPP funds. With this longer alternative period, I think what we are finding is many employers, or at least those that we speak to in the not-for-profit area, are actually finding that the longer period allows them to perhaps focus on payroll costs being the cost that the PPP funding are used for, and not so much relying on the nonpayroll costs. You may find you are actually looking at your payroll costs satisfying the forgiveness and not dipping into other costs as far as being that accounting. You still keep track of what were those costs used for, but again, if the majority of your costs -- or perhaps your loan is actually fully extinguished as far as the proceeds through the use of payroll -- the other costs would not be spent for that purpose.

Now what I will do is turn it over to Toby to talk through what I think is much of what we are here, to talk through the forgiveness amounts and payments.

>> TOBY BIEBL: We will start working through and start off with the forgiveness amount. That is really the question at hand is how much of my PPP loan is going to be forgiven? How the application works, the forgiveness amount is really the lowest of three buckets, and you can kind of see those buckets on the screen here, and the buckets are the columns that are on the screen. You can see that the first column actually has several different blocks. So there's somewhat of a process that needs to be followed to determine, I guess, the amount for the first bucket, and we will definitely get into those various components. The second bucket here is the PPP loan amount, and this kind of makes sense. You can't have a forgiveness amount more than the loan itself. And the third bucket here is payroll cost

60% requirement. And what this is is it is a requirement that at least 60% of the forgiveness amount relate to payroll costs. It is not a requirement that 60% of the proceeds of the loan be used for payroll costs. It is computed by taking payroll costs from the application, that's line 1 on the application, and dividing by .6.

Now, I mentioned that the first bucket here, the first column on the slide, is a little bit more complex, and there's layers of computation here. So let's talk you through that. 1A, how much did the entity spend on allowable costs? That kind of just gets to the allowable cost that is Karen outlined for us, the payroll costs as well as the nonpayroll cost items. After that question is answered, the application has you look and answer the question: Did the entity maintain wages for employees at least 75% of Q1 of 2020? So this is, I guess, part of the application on the full application. It's not on the EZ Application. It does exclude high earners, so those with $100,000 or more in 2019 are excluded from this computation. It's the salary/hourly wage reduction computation. So after we have our allowable costs from 1A, less a reduction if we are subject to the salary hourly wage reduction, we also need to look at our FTE count and see if we need to have an FTE reduction quotient apply. The question being answered here is did the entity maintain their FTEs? If they did, then they may not face a reduction. But if they did not maintain their FTEs, there may be a reduction. And we'll talk about exactly how the salary hourly wage reduction works as well as the FTE reduction quotient.

And then you can see at the bottom of the slide here no matter which of the three buckets is the lowest, for all of them, if you did also receive an EIDL, economic injury disaster loan, the advance part of that loan does come off your PPP forgiveness amount. And that is an advance of up to $10,000. So there is potential if you received an EIDL loan, another $10,000 would come off your forgiveness amount.

Okay. So let's take a look at some of these reduction tests. We are first going to get into the salary/hourly wage reduction test. And the theory here goes that loan forgiveness is reduced if an employee's -- notice that it says an employee, so it's done on a per-employee basis -- if an employee's average salary or hourly wage during the covered period or alternative payroll covered period, if it was reduced by greater than 25% compared to that employee's average salary or hourly wage earned in Q1 of 2020. This only applies to employees that were employees during the covered period or alternative payroll covered period who received compensation at an annualized rate of less than $100,000 in 2019 or who were not employees in 2019. So this test does not apply to employees who made over $100,000 on an annualized rate in 2019.

There are a couple of safe harbors for this test, so let's go ahead and take a look at some of those safe harbor tests. There's really two safe harbors related to this potential reduction. One general safe harbor is if your salary or hourly wages were not reduced for your employees, you are not subject to this test. If you did reduce salaries or hourly wages between February 15 and April 26 and restored those salaries or hourly wages to the level that they were at as of February 15 by the earlier of the forgiveness application date -- so when the application is submitted -- or by 12/31, you may be eligible for a safe harbor. Now, it should be pointed out that this is how the application currently reads. There is potential that the SBA could change that. But right now, how the application reads and the safe harbor reads is if you had a salary or hourly wage reduction for your employees that occurred after April 26, and maybe you restored that reduction by the time you submit your forgiveness application, how the safe harbor is currently set up, this safe harbor does not apply, and the borrower must go through the salary/hourly wage reduction calculation.

Let's go ahead and take a look at that calculation, and this calculation is really a three-step calculation. And as I said before, this is a calculation that must be completed for each employee that the salary/hourly wage rate reduction test pertains to. Again, that's the employees that made less than $100,000 on an annualized rate in 2019 as well as new employees.

So first thing you need to do is determine if the pay rate was reduced by more than 25%. So to compute this, what you are going to do is you are going to provide the average annual salary rate during the covered period or alternative payroll covered period by the average annual salary rate for the first quarter of 2020. If that result is .75 or more, no reduction has occurred, no reduction, I guess, has occurred for purposes of the application, and you can kind of stop with this computation for that employee. If the result of that first computation is less than .75, then you need to proceed on to step 2 and potentially on to step 3. So let's take a look at step 2.

So step 2 really just checks to see if the reduction in salary or hourly wages occurred prior to April 26 and is potentially available for safe harbor. If that reduction occurred after April 26, then this safe harbor does not apply, and you need to move on to step 3. Let's go ahead and take a look at step 3.

So step 3 is where we actually determine a dollar amount here, so we are going to determine the amount of reduction. There's a couple of components here. First what we are going to do is we are going to look to, hey, what was the specific employee's average annual salary or hourly wages during Q1 of 2020? And we are going to take that amount and multiply it by .75. Then from that amount, what we are going to do is subtract the average annual salary/hourly wage that was computed for during the covered period or alternative payroll covered period. And then we are going to end up with a difference there. If we end up with a difference, we are going to multiply that difference, and this is where things get a little bit more complex. For salaried employees, we are going to have an annualized number at this point. So we are going to multiply that difference by either 8/52 or 24/52 depending on the length of the period the borrower is using. For hourly employees, we have the number we are going to end up after we multiply by .75 then subtract the hourly wage for the covered period or alternative payroll covered period. We are going to end up with an hourly rate. What we need to do there, then, is take the number of hours that the employee worked in Q1 of 2020 and multiply that amount by the number of weeks in the covered period or alternative payroll covered period.

It also should be noted here that the forgiveness reduction, if there is a forgiveness reduction, it is going to apply to the full 24-week period, the 24-week covered week that's chosen, or 8-week period, regardless if the employee is there for the entire period and even regardless if the application is submitted early. The SBA was very clear on that in one of their Interim Final Rules. I think it was the June 22nd Interim Final Rule.

So let's take this calculation, and let's just apply an example here. So let's imagine the world in which we have a salaried employee in a pre-COVID world that's making $52,000. Okay? And we'll just say that our covered period begins June 1, so that's the day that we receive the loan proceeds from our lender was June 1. And we are going to elect the 24-week period, so our covered period is going to run through November 15 of 2020. So we have an employee making $52,000. That employee continues to make $52,000 until August 1 of 2020, at which point that employee's salary is cut in half. So that employee is still working the same number of hours as before but now is being compensated at a level of 50% less. So your August 1 computation is $26,000. Average annual compensation is $26,000. So what we'll do is we'll compute what the average annualized salary is for the covered period. So you have a number of weeks where that employee was being paid $52,000, a number of weeks where that employee is being paid $26,000 during our covered period. So it turns out that the average annual salary during the covered period is $35,750. And that is an annualized rate. Okay. So taking that number and kind of working our way through the computation, when we go to step 1, say hey, did this employee have a 25% or greater reduction in their salary? The answer is yes, when we take the $35,750 and divide it by their Q1, 2020 average rate, which in this case was $52,000, we end up with .6875. That's less than .75, so we do have a reduction.

Okay. We look to step 2. That says hey, is there safe harbor here? The reduction in this case applied after April 26, so the safe harbor is not available.

Okay. Then we move on to step 3, and this is where we actually compute the amount of reduction in our forgiveness. We take the average annual salary of the employee in a pre-COVID world, so I should say of Q1 of 2020, which was $52,000, and we multiply that by .75. We get to $39,000, and then we compare that $39,000 to the actual average annual salary during the covered period, which was $35,507. The difference there is $3,250. Now, we have an annualized rate there, that $3,250 is an annualized rate, so what we need to do is multiply that by 24/52 because we are choosing the 24-week covered period. So after we do that, we end up with a $1,500 reduction, and that is a $1,500 reduction for this employee to our forgiveness amount.

Okay. We will move on now to the FTE reduction test. And before we get into the specifics of how this test works, I think it's important for us to understand and talk about how are we going to compute what a full-time equivalent is. And the SBA has provided two methods here, a standard method as well as a simplified method. When you look at your full-time employee, it doesn't really matter what method you choose for full-time employees who work 40 hours a week or no. They are going to be counted as one FTE. So the difference really is in the part-time employees. When you look at the standard method of FTE computation, when we look at the standard method, the part-time employees, we are going to take the aggregate number of hours worked in a week and divide it by 40. That's going to end up in some decimal. We will add that employee's particular decimal with the rest of our employees, and we will calculate the average pay period using an average for the covered period or alternative payroll covered period.

Simplified method very similar, except instead of going through calculation, we just say hey, if you are a part-time employee, you work less than 40 hours, we are going to assign you .5 FTE. Then you add up all your FTEs, calculate the average for your covered period or average payroll, alternative payroll covered period using the simplified method. I think the important thing here is whatever method you use, you need to be consistent in your use of the methods, how the FTE test, he reduction quotient test works as you look for a prior pre-COVID period for FTEs. You need to be consistent in how you calculate your FTEs across the different periods for purposes of the test.

Okay. So let's look, see if there's any safe harbors with the FTE reduction quotient test, and there are really three potential safe harbors here. There is a general safe harbor which says you didn't have a reduction in the number of employees or the average paid hours between January 1, 2020, and the end of the covered period or the end of the alternative payroll covered period. Okay. This is also criteria 2 for the EZ Application. If you meet that criteria, you may be able to file an EZ Application. There is FTE reduction safe harbor 1. This safe harbor says that if you are unable to operate at the same level of business activity due to COVID, you may qualify for a safe harbor. And really, the important thing here is to document the reduction in business activity that's occurred during the covered period, and then it stems directly or indirectly from COVID requirements established or from guidance issued by Health and Human Services, Center for Disease Control, or OSHA. And you can see there's a subbullet there too that says state and local government shutdown orders may have been based on guidance by federal agents. Then there is something we are going to call FTE reduction safe harbor 2, just like the application does. That is if you have an FTE reduction during the period from February 15 to April 26, if you restore that to February 15 levels by the time you submit your application or by December 31, 2020, you would be available to have that FTE reduction safe harbor 2.

Having FTE reduction safe harbor 2, you are going to have to use the full application and not the EZ Application.

All right. There is also some FTE reduction exceptions. So moving on to the next slide. These are reduction exceptions. They are not specifically called safe harbors, but they are reduction exceptions, and you are not penalized for them. You do not have a reduction FTE calculation if certain circumstances have occurred. Let's take a look at the third bullet as that's mainly the most common here. You might have an employee that during the covered period was fired for cause. You might have had an employee who voluntarily resigned, you might have a period who voluntarily requested or received a reduction in hours. If that's the case, SBA has been pretty clear that, hey, you are not going to face a penalty for that in your FTE reduction quotient. Now, they also haven't stated explicitly how that calculation is going to work, and we are still waiting for some guidance there, but right now how things are set up, if you do have some of these reduction exceptions, you need to use the long form, the 3508 form, and not the EZ Form.

Okay. So let's take a look at the calculation. So if we move on to the FTE reduction quotient calculation, earlier I said that what you are going to do here is compare your FTEs during the covered period, alternative payroll covered period, to the FTEs in a reference period. So the FTE reference period, you actually have the choice here of two different periods. These are the pre-COVID FTE levels you may have had. You can either look to February 15, 2019 -- excuse me. I should say between February 15, 2019, and June 30, 2019, or you can look to January and February of 2020. And I will say, too, it's going to be in the borrower's interest to choose the lower FTE number here between those two reference periods because this is the denominator in your FTE reduction quotient. The numerator of your FTE reduction quotient is going to be the average weekly FTEs during your covered period or alternative payroll covered period. So taking your average FTEs during your covered period or alternative payroll covered period, dividing that by your FTE reference period FTEs gets you your FTE reduction quotient. What you do is multiply your forgivable expenses by your FTE reduction quotient. If -- that reduction quotient cannot be above 1, so the maximum it can be is 1, and if it is 1, you have no reduction.

Let's take just a run-through of a quick example here. Let's imagine we have an entity where there's $200,000 in forgivable expenses. Maybe that's some payroll costs and nonpayroll costs. And this is after the salary/hourly wage reduction -- subtraction. We have $200,000 of potential forgivable expenses. We have an FTE reference period where our average weekly FTEs, let's say we have a hundred FTEs. During the payroll period or alternative covered payroll period, we have average FTEs of 80. So that means our FTE reduction quotient is going to be .8. We take 80 divided by 100 to get .8. So since we had $200,000 of forgivable expenses, our FTE reduction quotient is .8. We now have a potential forgiveness amount for $160,000 for the end of that first column.

Ok. Now, you might be asking is there some interplay between the salary/hourly wage reduction and the FTE reduction quote? It's a great question, so let's move on to the next slide. And the SBA has said that reductions should not be double-counted by these two reduction tests. And the notion has come up too that, hey, you might have an employee that has a salary/hourly wage reduction due to a reduction in hours worked but not due to an hourly pay reduction, and if that's the case, the FTE reduction quotient would apply. The salary hourly wage reduction will not. So in the example I gave earlier where we talked about the employee making $52,000, and that employee's salary got reduced to $26,000, if the situation applied where hey, we are going to pay this employee $26,000 but we are only going to have him work 50% of the time, then it would be the FTE reduction quotient that would apply as opposed to the salary/hourly wage reduction test.

Okay. Now I am going to turn it back over to Karen to talk through some of the specifics of the forgiveness process.

>> KAREN GRIES: Thank you. Thanks, Toby. Good information. I know it's a lot of details of information. And we have about ten minutes left of our presentation, so we'll go through it very quickly because we want to leave enough time for Q&A at the end.

Toby briefly, on the next slide, spoke about the forgiveness application itself, the 3508. There is an EZ form. The only takeaway I want to leave you with, as is the case in the tax world where I am typically practicing, EZ does not mean it's always easier as to whether or not this applies to you. As Toby indicated, with all of the different qualifications for wage reductions, you still need to go through the computations. So you are still accumulating all of those details in the background, whether or not you complete the full 3508 or you are doing the actual EZ form.

The timing of when to go in on the application itself, as you

can see on the next slide and as we spoke of, you can submit your application at any time before maturity. And if we advance to the next slide, you may do it anytime during that covered period, and keep in mind that the forgiveness can be requested at any time within 10 months after the end of your covered period. You do have to start payments, so you have to start servicing your debt after 10 months. So again, what's key is that you want to be accumulating your documentation. You want to know where you are at now. As we were planning for this presentation, Kate, Toby, I, and others were on the phone talking about this forgiveness, and many clients want to be going in for forgiveness at this point in time. Now is the time to be doing your forgiveness planning and see where you are at. If you end your covered period at 8 weeks, if you extend to 10 weeks, do you need the 18 or 24 weeks? Do some planning at this point in time. Banks right now are not able to accept or not accepting applications. Once you submit the application to your bank, your bank will have 60 days in which to come back to you, and then SBA has 90 days for their review. So I think initially when we were originally thinking this would be a program that would end June 30, our clients were hoping they would get in and get forgiveness by the time their fiscal year ended at June 30, but it's very possible that even our 12/31 year-ends may not have a notification on forgiveness by the time your December 31 fiscal year or your tax year of 12/31 even ends.
So you may have a loan on your books even at that point in time.

Now we'd like to maybe pivot a bit. We've talked about the forgiveness application and the forgiveness process, but maybe speak a little bit about accounting issues as it relates to the PPP funding because, again, we are concerned about forgiveness, but we are also concerned about how do we treat the PPP loan? What are implications to other grant programs or other funding programs that we have? And how will this be impacting our financial statements?

So what I'll do is turn it back to Toby to spend maybe the next five minutes talking about these accounting considerations.

>> TOBY BIEBL: Sure. Thank you, Karen.

Let's just briefly touch before we get into some of the specifics for the nonprofits on the SBA review procedures, SBA is going to have up to six years to review these loans and forgiveness related to them. I think there's a documentation for nonprofits here. Maintain your documentation related to your forgiveness application for at least 6 years.

Okay. Let's move on to nonprofit impacts. And as Karen said, we are going to talk about accounting for the PPP loan, single audit implications, double-dipping, and unemployment insurance.

All right. So accounting for the PPP loan. So AICPA as well as GASB has come out with some guidance on how accounting should be accounting for the PPP loan. We have a chart that's relatively helpful here. This is kind of what the AICPA came out and said for nonprofits. And the AICPA said hey, there's really two options on how you can account for these nonprofits. Option 1 is regardless of your expectations on repayment or forgiveness, nonprofits may account for the loan as a financial liability and accrue interest. And to do this, you would follow ASC 470 Debt standard. The initial recognition here, you are going to debit Cash, credit Notes Payable. How that stays on the books remains a liability until the loan is in part or fully forgiven, and then if there's any residual there, too, when the borrower would pay off the loan. So when the debtor is legally released, a journal entry would be made to debit Notes Payable and then credit Gain on Extinguishment. Okay?

Now, if the nonprofit can conclude that the loan represents a grant that's expected to be forgiven, the nonprofit may consider ASC 958-605 treatment under Revenue Recognition, and in this situation, you would record your refundable advance for revenue or liability here, and there wouldn't be an interest accrual. So you would debit Cash and credit Refundable Advance.

Then recognizing forgiveness, you would recognize a contribution once the conditions of the release have been substantially or explicitly met, so you would debit the Refundable Advance and credit the Contribution Revenue.

As far as the GASB's guidance, so on the next slide here, it's very similar to ASC 470 or debt treatment. Essentially, no real difference there. But we do have a nonprofit entity that's recording under GASB, they would need to follow the debt treatment. And the AICPA also said that hey, nongovernmental entities with material PPP loans should adequately disclose their accounting policy for loans and related impact on the financial statement. So important to note.

All right. As we move on and look at the question of single audits, the nonprofits know when you get awards or assistance from the federal government, your single audit flags should be raised. Guidance has said PPP loans are not subject to single audits. There is another assistance program out there, the economic injury disaster loans, the EIDL loans. Those are subject to single audits. And remember here the single audit threshold is $750,000 in total federal financial assistance. So if you have an EIDL loan, say, for $200,000, that's going to count towards that $750,000 threshold.

All right. Let's consider double dipping. So as we move on here and kind of consider other potential impacts to nonprofits, nonprofits sometimes are receiving grants to do the great work that nonprofits do. So the Office of Management and Budget kind of had a comment on this in a June memo. What they said is hey, payroll costs paid with PPP loans or any other federal CARES Act program must not be charged to current federal awards, as it would result in the federal government paying for the same expenditure twice. Essentially, the nonprofit would be double dipping. The OMB also said that hey, awarding agencies must also make sure that they maintain appropriate records and cost documentation, so they stress the importance of maintaining good documentation.

So as we move on here and look at the OMB position, it analogizes to other grant awarding agencies. So if there are some questions on if you potentially have double dipping problems with your grant, you might be able to make some budget or grant modifications or potentially have some grant extensions when you talk to your funders.

All right. Now we'll turn back over to Karen here, and she will talk us through unemployment insurance.

>> KAREN GRIES: Wonderful. I think the last thing that we wanted to talk about -- because this is something that's really critical to many of us as nonprofit employers, we are self-insured for unemployment purposes. As we've all known or we've heard is that the CARES Act provided it would be that 50% of our unemployment claims that will be billed for that credit. So we are only responsible for 50% of our unemployment claims as a self-insured employer and not 100%. And really, what upset the apple cart for us was DOL that issued guidance in April that said the state should bill 100%, collect on it, and then really satisfy the obligation back to the employers at a future point in time. You know, creating, really, cash flow difficulties for many of our nonprofit and governmental employers.

There is currently a bill that has passed Congress, so it passed the House and the Senate, and it's waiting presidential signature. It's the Protecting Nonprofits from Catastrophic Cash Flow Strain Act. Now, I am trying to figure out the acronym that we are going to come up with for that act, but it's really just a procedural change that will allow the 50% subsidy that's going to come from the federal government to be assessed prior to charging our not-for-profits for the unemployment claims. So in the end, our nonprofits will still be obligated for that 50%, but you won't have to pay 100% of your obligation and then receive the credit at a future point in time. And again, we are waiting to hear from the president. I believe recent communications that have come out from MCN is that the state has, perhaps, halted billings that are going to self-insured employers, knowing that this is a signature area. But wanted to make everyone on this call aware of the fact that there is at least some relief that's provided to not-for-profit organizations. Knowing that there were, in essence, incentives put in place with the Family First Act for organizations not to be impacted by COVID-related claims, if they were a taxpaying entity looking at paying into the unemployment system, it really put us as self-employed employers for unemployment purposes at a significant disadvantage. So that's why we had the change in the CARES Act.

So with that being said, I believe, Kate, we are maybe three minutes over on the presentation that we wanted to walk through. There are some resources on the next slide that are areas for you to gain additional information on this topic of COVID, PPP funding, forgiveness, accounting procedures, et cetera. So with that, Kate, I'll turn it back to you.

>> KATE BARR: Thank you, Karen, and thank you, Toby, for sharing all of that great overview and all of those details. There are a lot of details. We have a lot of questions in the Q&A, so I am going to go right to them. And I am going to kind of group them, but the question that has most up votes, so I will start there, goes to this double-dipping topic, Toby, that you were talking about and, Karen, that you understand. Is you talked about the federal and how OMB rules around federal funds, but for other funders, whether it's state or local government or private foundations with restricted grants, where there are other sources of funds that are paying some but not all payroll, how does that interplay? And I am going to kind of expand the question about how do you document it, about how you are using funds for payroll? Are we talking about all funders when we say "other granting agencies"? Are you saying any sources of funds? Is that what you are defining? And then how would you communicate to those funders about that combination, about we may have a state contract, for example, that we didn't bill on for one month because we use PPP, and how do you do that communication? So that's the biggest question on here.

>> KAREN GRIES: And it's a great question, Kate, because I think it's very clear with the information that came out for single audit purposes, we shouldn't be double dipping. You know, the federal government won't pay awards for costs twice. But that applies to other funders also on the state level or even your foundation support or other grantors. If you have funds that are coming from other sources, as an organization, if those funds are paid for with PPP funding, what is key and critical is that you are reaching out to that funder first and foremost to really see if the funder has the latitude or ability to change the restriction on those dollars.

We've seen in our grantor community many times funders or private foundations and others are willing to change the restrictions on those grants. They are really willing to work with organizations in this difficult time. So I think communication is key so that they are not surprised after the fact, perhaps feeling that PPP funds paid for all of their costs, so what did you use their funding for?

Now, I have also seen that the state governments, not so much communications that I have had in the State of Minnesota, but communications coming from clients in other states, State of Illinois that's very specific that says this is what our dollars will pay for, and if you have another funding source to cover those dollars, we expect you to repay those dollars back to us. So again, knowing that up front so you can plan accordingly.

I think as we've talked about it internally at the firm, we've basically said you should never double dip into anything. You should always work with your funder to make certain. You can get some type of maybe different agreement or release on some of those restrictions. Then it becomes the accounting for it. And being very clear as far as your accounting system or how you are tracking your costs. So you know what's covered under your federal awards, what's covered by federal purposes, what's covered on your state grant, and then what's actually covered under your other funding sources. So that's a real long-winded answer to that question, Kate, but I think the key is communication so that you keep your funders happy because you want to have them coming back once we are done with this difficult time.

>> KATE BARR: And then I am going to just kind of -- one of the things I heard you say essentially around documentation is it's kind of using that documentation you probably have in place for time tracking, allocations, and how you are just documenting that so that if you would have to.

Do you have any idea whether or not that level of detail will be required when you submit your forgiveness application to document your payroll?

>> TOBY BIEBL: I think it's pretty clear that the amount you put on your application for payroll costs is definitely going to need to be supported. So in the aspect, too, here, when we are talking about, hey, there's, you know, an organization that has a PPP loan as well as, you know, other granting agency funds used for payroll purposes, you know, I think there's an ability there to kind of carve out and say hey, you know, these funds, these payroll costs were paid for by our other granting agency. You know, the residual we can use those PPP funds, so that's what we are going to put on the application. And the numbers on the application need to be backed up.

>> KATE BARR: Okay. Thanks.

So one other group of questions has to do with this 8 week, 24 week, and something in between question, Karen. So if you have -- there are a number of questions that essentially say what if it's 12 weeks for us or 14 weeks? And so do we know exactly what the guidelines are around what time period we are counting as or covered period?

>> TOBY BIEBL: I would be happy to take, I guess, a stab at this one to start with. So if you -- if your PPP loan originated before June 5, you have an option. You have an option of an 8-week period or a 24-week period. If your PPP loan, I guess, was disbursed after June 5, then you are forced into the 24-week period, and you don't even have the 8-week period option. So it's less of a question. But what I heard the question is kind of saying hey, is there a point in time when we are able to submit our application potentially ahead or before the 24-week period is over, and hey, how does that work with our application? And I think there's a little bit of a lack of clarity here, honestly, and it's somewhat of a hurry-up-and-wait

situation. We are all eager to, you know, gain some clarity over what that forgiveness amount is, but right now there just isn't the full amount of clarity.

We do know -- and it's particularly in those reduction tests that I talked about. We do know with the salary/hourly wage reduction test, even if you submit your forgiveness application before your 20-week period is up, your reduction is still going to apply for the full 24-week period, meaning for salaried employees, you are still going to have to multiply it by 24/52, and for hourly employees or hourly wage reductions, you are still going to have to multiply that by 24 weeks. We don't really know how it works with the FTE reduction quotient test. So right now we are kind of waiting for more guidance from the SBA on that. And frankly, too, on the other side of this forgiveness process, the lenders are still waiting on more guidance, too, from the SBA, and it's, frankly, the kind of common sentiment from the lenders is, while there might be forgiveness applications out there on the Treasury website, we are not accepting them right now. So it's a little bit of a wait process right now.

>> KATE BARR: Yeah, I would actually affirm that, the idea that most of the lenders aren't -- some of them are accepting applications right now. Many of them are not. And I know that many of you on the webinar are eager to actually at least do an estimate or do your calculations, and this is one where on the resource slide that is on the screen right now, that FMA, which is Fiscal Management Associates, in their PPP toolbox, they have a number of spreadsheets and calculations that you can do estimators and calculations for all of these, including the forgiveness, the salaries, the FTEs, and I would recommend that you go ahead and use the tools that they have. They were built specifically for nonprofits, so it's a particularly useful set of tools, just to at least give yourself that head start on understanding all those calculations. But generally speaking, the lenders are not accepting applications yet.

>> TOBY BIEBL: Yeah, but I will say there is some clarity or it definitely appears that you can submit your application before your 24-week period is up. We just don't have full visibility as to how some of these calculations work.

>> KATE BARR: And one question that was asked and a number of people up voted was specifically since we are talking about the SBA forgiveness application is who is eligible to fill out that EZ? Who can do the EZ, and who has to use the standard form? It's that

>> KAREN GRIES: Great question. And I am going to go back to that slide because I will admit I don't have that slide memorized. If you have had no reductions within your staffing, you are eligible. If you had no wage reductions, you know, below for the greater than 25%, and you had no reduction in the number of employees or average hours paid from January 1 to the end of your covered period, you would

be able to use that application. Or if you had no wage reductions greater than 25% and you are unable to operate at the same level of business activity that you had for pre-COVID, you are eligible to use the 3508A. I think it goes back to you still have to go through all the computations. You still have to go through all the work to make the determination that you qualify to use the EZ or the short form. So if you only have 9 employees within your agency, it will be much easier than if you have 120 employees within your agency. As you are trying to apply those wage reductions that Toby was going through the details with, it's much more cumbersome with more employees versus less. That's what we are finding as we have people working directly with our nonprofits to go through those forgiveness estimations.

>> KATE BARR: Yeah, there is a question here about the forgiveness calculator tools. It's the FMA link, the last link on the slide down there.

There's another kind of group of questions here that is about kind of organizations that have employees that are either -- they are either seasonal operations, they only work in the summer or something, or they are organization that is have a lot of fluctuations, performing arts being a good example where you have actors and designers, but they are employees, but they are short-term, is any kind of guidance you have about how to do those FTE accounts in particular, probably, Toby, during when, during any given period of time, it's predictable you are always going to have fluctuating, but especially during COVID when there has not been the ability to operate. Is that a reduction or does it fall under one of the safe harbors?

>> TOBY BIEBL: Yeah, that's a good question. I should state, too, as far as the FTE reduction quotient goes, on the slides I talked about the borrower has a choice of two periods. There is actually a choice of three periods. There is the case of seasonal employees. And I guess how that works is in the case of seasonal employees, either the preceding periods or any consecutive 12-week period between 5/1/2019 and 9/15/2019. So there is, as far as the FTE reduction test goes, there is an option for more seasonal-type employers.

Was there a little bit more to that question, Kate? My apologies.

>> KATE BARR: No, the questions are quite specific to organizations, and a number of them were performing arts organizations that they have two things happening. One is because of COVID, they haven't been able to operate, really, with audiences. But then secondly, it's common for them to have fluctuations in the number of FTEs at any given time because they are short-term, so how do you count an FTE when they work for two months?

>> TOBY BIEBL: Okay. Yeah, I would look to, one, the seasonal reference period. But two, there's potential here that the employer

might be able to take advantage of one of the FTE safe harbors, in particular the FTE safe harbor about not being able to operate to the full extent because of COVID and the required establishment guidelines that have been put out by federal agencies and how that's indirectly, you know, maybe replicated by some state shutdowns and mandates. That might be something to look into more.

>> KATE BARR: Great, great, great.

So I am looking at the clock. So I am going to do a bit of a lightning round for you, Toby and Karen, because I think there are some questions here that will be fairly quick for you to answer, but we can just do a little one.

One is in the eligible costs under payroll with benefits and healthcare, are HSA contributions eligible?

>> KAREN GRIES: They are not eligible. It's interesting because HRAs are eligible, but HSAs are not. Deemed more of an income protection type plan, not a health plan.

>> KATE BARR: Okay. What about life insurance?

>> KAREN GRIES: Life insurance also would not be eligible. Life insurance is a form of income replacement, so an income protection type plan, as is the case with disability, those costs are not included as a health cost.

>> KATE BARR: Okay. What is included in utilities?

>> KAREN GRIES: Utilities would be the traditional costs that we typically look at that you had in place as of February 15 -- electric, gas, other items, Internet at your office, water, et cetera. So those would be utilities.

>> KATE BARR: Okay. What about interest on other debt, not mortgage debt, but other debt? Did you say -- I think there was a comment on the slide and the question was that those are not eligible for forgiveness?

>> TOBY BIEBL: Yes, that is correct. This is kind of an oddity within the PPP. Interest on other debt, it is an eligible expense, so you can use your PPP proceeds to pay interest on other debt. It's not eligible for forgiveness.

>> KATE BARR: So that would be potentially a tail that you would have for the repayment of the PPP if you included that.

>> TOBY BIEBL: Yes, if some of your PPP proceeds are spent on interest in other debt payments, that means effectively in essence, you would have a loan at the end of your -- -- after your PPP ends.

>> KAREN GRIES: I think this is why, too, many organizations are utilizing this longer period to potentially say all of their PPP funds or even more than the required minimums, more than your 60% that we have now or the 75% that we had previously, that you are actually saying the PPP funds went towards payroll.

>> KATE BARR: Uh-huh, okay.

One other kind of lightning round question is there has been some coverage in some news reports that Congress is considering or

SBA is considering kind of a blanket forgiveness for loans under a certain size. So would you hold off on the forgiveness process if your loan was under $150,000, which seems to be the threshold they are talking about?

>> TOBY BIEBL: Yeah, so right now, Congress is on recess right now. They are coming back, it's my understanding, late July/early August. And there are some proposals. Right now there is a bill that's been introduced in the Senate, and it's bipartisan, led by Cramer out of North Dakota. But that bill essentially says hey, if your PPP loan was under $150,000, there might be a simplified method to obtain your forgiveness, and that simplified method is going to consistent of, at least how the bill is written, is an anti-station statement, a one-page document, where you essentially make some certifications that you used your loan proceeds in certain ways, and if so, it's automatically forgiven. It also holds the lenders harmless if the borrower made a falsehood on their attestation statement. It's tough to say what will happen, but I have heard that that proposal is gaining ground, and it might be a simpler path to forgiveness. And considering that Congress is coming back into session relatively soon and considering that lenders right now generally are not accepting applications, I don't see any reason why not to wait a couple weeks and see what happens.

>> KATE BARR: Yeah, and I know a number of the lenders say they are going to create online versions of the form anyway because then they can automate them in the system, and they don't have those up and running yet.

A couple other quick questions. One is, Karen, I think you referenced the fact that nonprofits are self-insured on unemployment. But can you confirm that all nonprofits or only some nonprofits self-insured?

>> KAREN GRIES: You would be self-insured if you elected to not be under the regular unemployment system within the State of Minnesota. The regular process or as a regular employer, you would be assessed an experience rating based on your unemployment claims, and you pay a state unemployment tax on a quarterly basis, same as you do with other unemployment. So it's something that you do need to --

>> KATE BARR: So nonprofits that are paying state unemployment, they are not self-insured.

>> KAREN GRIES: Right, correct.

>> KATE BARR: Just one more last lightning round, then I will wrap us up before 11:15. How will these be reported on the 990?

>> KAREN GRIES: You know, that's a very good question. To me, the reporting of the PPP funds, if it's reported in your financial statements as a loan, we are reporting a loan at that point in time. So really, it depends on how is it reported for financial purposes because your 990 will follow what's done for GAAP. So if it's a loan

at the end of your fiscal year or your tax year, then it will be reported as a loan. And if it converts into revenue that at a future point in time it's revenue, or you make the determination up front that it's revenue to the organization, it will be reported as another -- I will call it a contribution coming into the organization. So keep in mind that unless we are told otherwise, your 990 follows GAAP.

>> KATE BARR: Good. Good. Well, we are really at time, so again, I want to thank Karen and Toby very much for sharing your knowledge and expertise. Again, these slides will be posted on the MCN COVID Resource page on Monday, and we will download the Q&A. We weren't able to answer every question. We will download it and see if there are a number that we can put together in sort of an FAQ that we would put up on the Propel site, but I think that we got to kind of the biggest questions, so really appreciate it.

And know, everyone, that this is, as I said, still an evolving process. There's more guidance coming, but if nothing else, you know from the Q&A and Chat that you are not alone. You all had the same questions. So I think that we learned a lot today. Thank you so much, Karen and Toby. Thank you, Shannon, Warsame, and it was a pleasure to be here with all of you. Have a good Friday afternoon and a good weekend. Thank you all.

>> KAREN GRIES: Thank you.

>> TOBY BIEBL: Thanks all. Thanks, Kate.

(End of session, 11:15 a.m. CT.)