

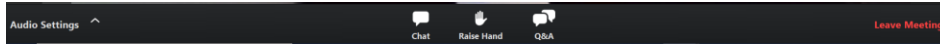
Paycheck Protection Program (PPP) Forgiveness for Nonprofits



Free Webinar | July 17 | 10 - 11:15 am Central Time



Get ready to engage in three easy steps!

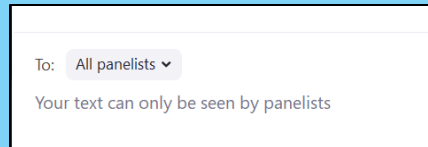
1. Scroll to the bottom of your screen.
2. There you will see a toolbar like this:



3. On that toolbar, click on chat  and Q&A  so these tools are available to you throughout the session.*

*These tools are available in most but not all sessions.

Having technical issues?
Let us know us know via private
chat by selecting “All panelists.”

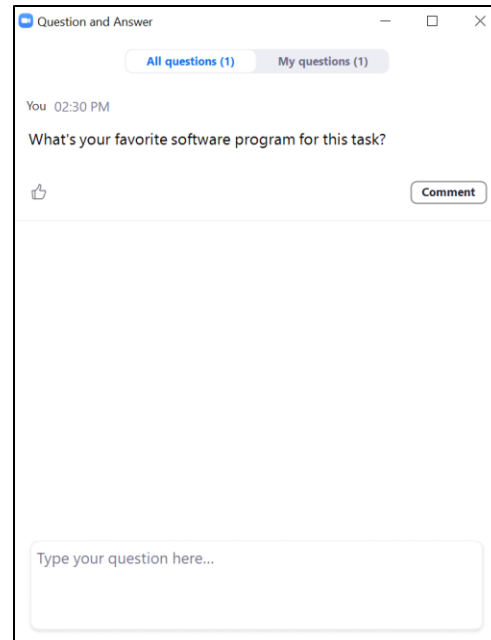
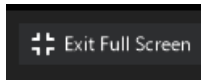
A screenshot of a chat input field. At the top, it says 'To: All panelists' with a dropdown arrow. Below that, a preview of the message reads: 'Your text can only be seen by panelists'.

Have a question for our presenters?

Ask your questions with the Q&A tool.

You can also give a “thumbs up” to the questions you’d most like to have answered.

Zoom Tip: Exit out of “full screen” mode to view the slides and the presenter’s video simultaneously.



Paycheck Protection Program Forgiveness for Nonprofits

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July 17, 2020

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Create Opportunities

Disclaimer

- *This presentation is for educational purposes only. It should not be construed or relied on as legal advice or to create any client, advisory, fiduciary, or professional relationship between you and CLA. You should consult with your legal counsel if you have questions or concerns regarding your eligibility to participate in the Paycheck Protection Program (PPP) or other PPP-related issues.*
- *This presentation considers guidance provided by the SBA and US Department of the Treasury through July 7, 2020. Additional guidance is being provided on a regular basis, please refer to the US Department of the Treasury website (<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>) for recent updates.*





Welcome

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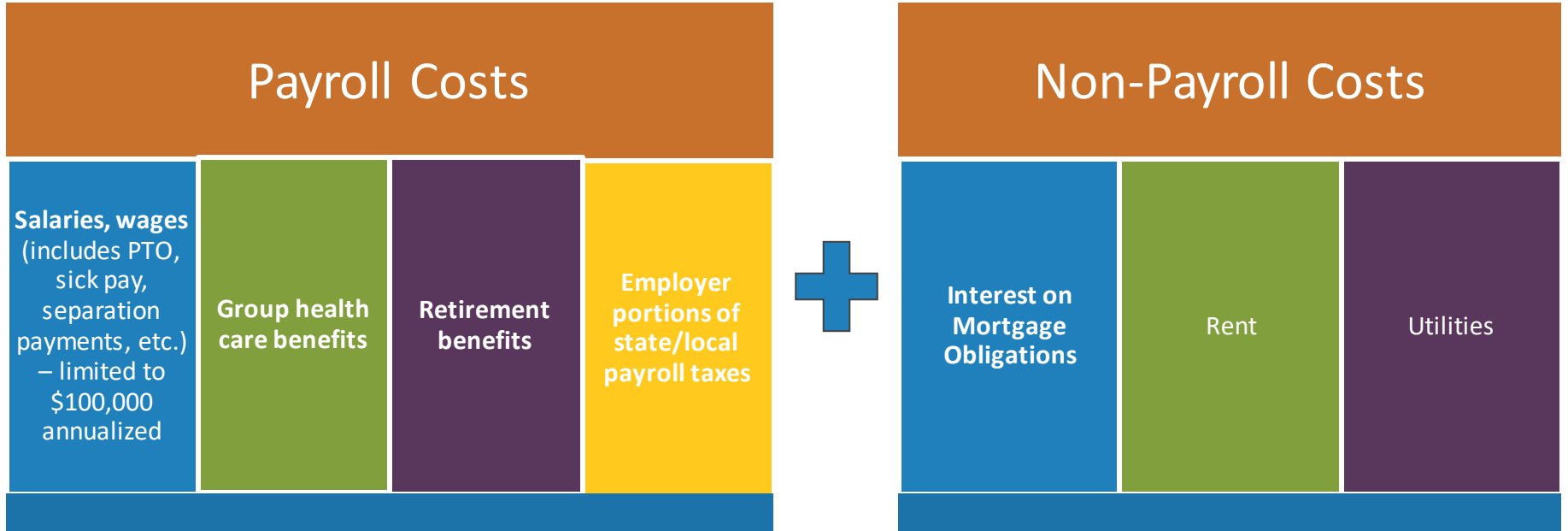


Forgiveness Calculation

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PPP Basics: What's Eligible for Forgiveness

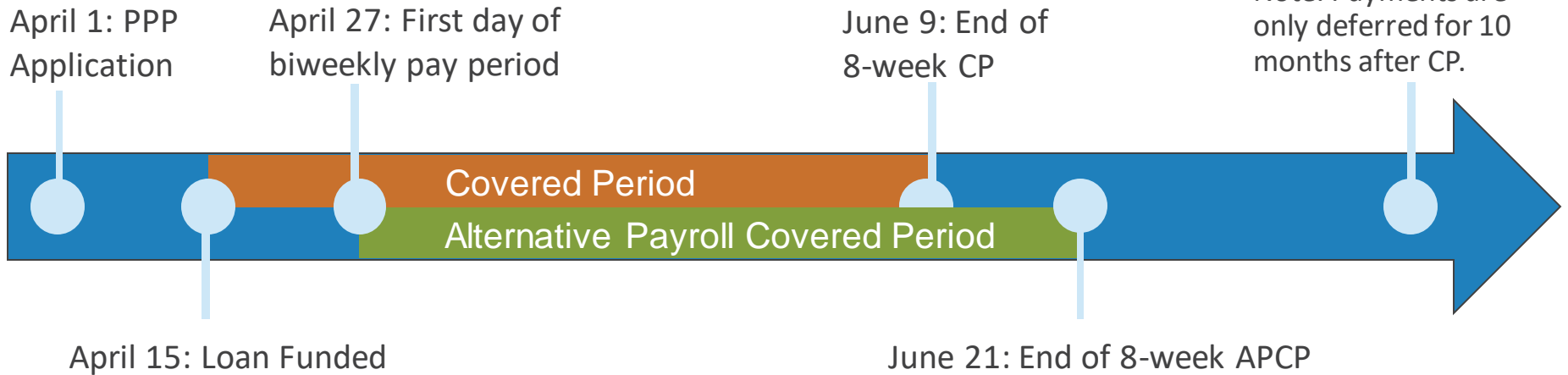


Covered Period: 24 weeks or 8 weeks (for loans before June 5)

How does the covered period work?

- Time period to track costs for forgiveness
- 24 weeks (8-week option for loans before June 5)
- Option for Alternative Payroll Covered Period

Application Date: Any time on or before maturity (including during CP) if used all proceeds reported on forgiveness application.
Note: Payments are only deferred for 10 months after CP.

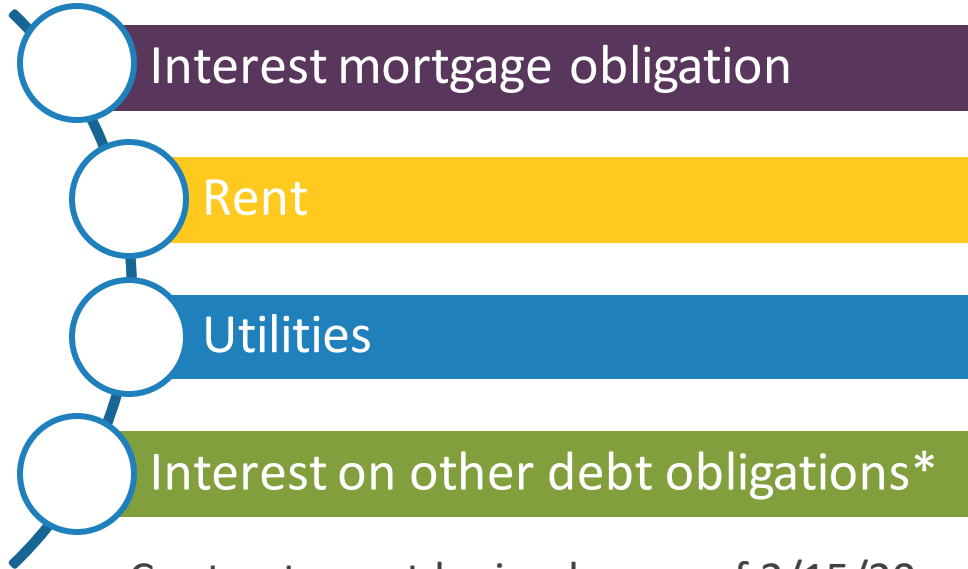


Payroll Questions

- Bonuses and/or hazard pay are eligible
- Unclear if amounts in arrears will be eligible
 - Deferred comp from 2020
 - 2019 bonuses not yet paid
 - 2019 retirement plan contributions
- Health Care Benefits
 - Includes payments on self-insured plans
 - Excludes “income continuation” benefits (LTD, STD, Life)



Non-Payroll Costs



- Contracts must be in place as of 2/15/20
- All the above are considered non-payroll costs

*May not be considered for forgiveness

Forgiveness Amount

Lowest of the three amounts calculated below

#1A. How much did the entity spend on allowable costs?
(Lines 1-4 both forms)

#1B. Did the entity maintain wages at least 75% of prior quarter?
(excludes high earners)
(Line 5, Schedule A, line 3)

#1C. Did the entity maintain FTEs?
(includes re-hires thru 12/31)
(Line 7, Schedule A, Line 13)

#2. What was the PPP loan amount?

(Line 9 on Form 3508 or
Line 6 of Form 3508EZ)

#3. Payroll Cost 60% Requirement
(Line 10 on Form 3508
or Line 7 on Form 3508EZ)
*Payroll costs from application line 1
divided by 0.60*

Less: EIDL advance (up to \$10,000)



Salary/Hourly Wage Reduction Test

- Loan forgiveness is reduced if an employee's average salary or hourly wage during the CP or APCP was reduced by greater than 25% compared to the employee's average salary or hourly wage earned during Q1 2020
 - Only applies to employees during the CP or APCP who received compensation at an annualized rate of less than \$100K in 2019 or who were not employees in 2019
 - ◇ Employees who made over \$100K (annualized rate) in 2019 are not included in this test



Salary/Hourly Wage Safe Harbors

- Safe harbor if salary/hourly wages not reduced
- Safe harbor if salary/hourly wages were reduced from 2/15/2020 – 4/26/2020 but restored to 2/15/2020 level by earlier of forgiveness application date or 12/31/2020
 - If salary/hourly wage reduction occurs after 4/26/2020 and salary/hourly wages are restored before the forgiveness application date (or unrestored), the Salary/Hourly Wage Safe Harbor does not apply and the borrower must go through the Salary/Hourly Wage Reduction calculation



Salary/Hourly Wage Reduction Steps

Must be completed for each employee that the Salary/Hourly Wage Reduction Test pertains to:

NOTE: The following is from the SBA Loan Forgiveness Application Form 3508

1. Determine if pay was reduced by more than 25%
 - Divide average annual salary/hourly wage during the CP or APCP by the average annual salary/hourly wage between 1/1/20 and 3/31/20
 - If result is 0.75 or more, no reduction will apply for employee | STOP
 - If result is less than 0.75, proceed to Step 2



Salary/Hourly Wage Reduction Steps (cont.)

2. Determine if Salary/Hourly Wage Reduction Safe Harbor is met:
 - Compare (a) annual salary/hourly wage as of 2/15/20 to (b) average annual salary/hourly wage between 2/15/20 and 4/26/20
 - If (b) \geq (a), proceed to Step 3
 - If (b) $<$ (a), compare (c) average annual salary/hourly wage as of earlier of forgiveness application date or 12/31/20 to (a)
 - If (c) \geq (a), SH applies and no reduction to forgiveness for employee | STOP
 - If (c) $<$ (a), proceed to Step 3



Salary/Hourly Wage Reduction Steps (cont.)

3. Determine if Salary/Hourly Wage Reduction:

- Multiply average annual salary/hourly wage Q1 2020 by 0.75
- Subtract average annual salary/hourly wage during CP or APCP
- Multiply the difference by:
 - Hourly employees: average # of hrs worked per week in Q1 2020 and by the number of weeks in the Covered Period (8 or 24).
 - Salary employees: the number of weeks in the Covered Period (8 or 24) and divide this result by 52
 - *Result is the amount of forgiveness reduction for that employee*
- *Forgiveness reduction (if any) applies to the full 24-week or 8-week period, regardless if employee is there for the entire period*



2 Methods for Full-Time Equivalent Employees

Standard Method

- Full-time employee (40+ hours / week) = 1 FTE
- Part-time employee = aggregate # of hours / 40
- Calculate for each pay period and use an average for the CP or APCP

Simplified Method

- Full-time employee (40+ hours / week) = 1 FTE
- Part-time employee = 0.5 FTE (regardless of hours)
- Calculate for each pay period and use an average for the CP or APCP

FTE Reduction Quotient

- FTE Reduction Safe Harbors:
 - General safe harbor: No reduction in # of employees or the ave paid hours between 1/1/20 and the end of the CP or APCP (Criteria #2 for EZ Application)
 - FTE Reduction Safe Harbor 1: Unable to operate at the same level of business activity due to COVID (Criteria #3 for EZ Application)
 - ◇ Document reduction in business activity during CP stems directly or indirectly from COVID requirements established or guidance issued by HHS, CDC or OSHA
 - State and local government shutdown orders based on federal agency guidelines
 - FTE Reduction Safe Harbor 2: FTE reduction during the period from 2/15/20 to 4/26/20 is restored to 2/15/20 level by earlier of application date or 12/31/20
 - ◇ only available if borrower uses Form 3508 application



FTE Reduction Quotient (cont.)

- *FTE reduction exceptions do not reduce Borrower's loan forgiveness*
 - Not able to rehire previous employees AND are unable to hire similarly qualified employees for unfilled positions
 - Not able to restore any reduction in hours because employee rejected the offer
 - Employee that were a) fired for cause, b) voluntarily resigned or c) voluntarily requested and received reduction in hours
 - Must use Form 3508 application to reflect these exceptions



FTE Reduction Quotient (cont.)

- FTE Reference Periods: Choice of two periods
 - Between 2/15/19 and 6/30/19
 - Between 1/1/20 and 2/29/20
- FTE Test
 - If borrower reduces headcount after 4/26/2020 or reduced headcount between 2/15/2020 and 4/26/2020 but does not meet the FTE Reduction Safe Harbor 2, then subject to the following reduction:
 - ◇ 1 – Calculate average weekly FTEs during the applicable FTE Reference Period
 - ◇ 2 – Calculate the average weekly FTEs during the CP or APCP
 - ◇ 3 – Calculate the FTE Reduction Quotient, which equals the #2 divided by #1.
 - If #3 above is less than 1.0, multiply the result by the spend on eligible Forgivable Expenses less the Salary/Wage Reduction computed.

Salary/Hourly Wage Reduction and FTE Reduction Quotient:

- Reductions should not be double counted by Salary/Hourly Wage Reduction test and FTE Reduction Quotient test
 - If an employee has salary/hourly wage reduction due to a reduction in hours worked, but not due to an hourly pay reduction, FTE Reduction Quotient will apply, but the Salary/Hourly Wage Reduction will not



Forgiveness Process

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Loan Forgiveness Application(s)

- Loan Forgiveness Application (Form 3508) and Instructions
- New EZ Form and Instructions
 - Self-employed with no employees
 - No wage reduction > 25% and no reduction in # of employee or ave paid hours from 1/1/20 – end of CP (ignore reductions if borrower tried to rehire or restore hours)
 - No wage reduction > 25% and “unable to operate at same level of business activity”



Timing

- Borrower may submit any time on or before maturity
 - Includes DURING the covered period
 - Must have used all proceeds for which borrower is requesting forgiveness
 - Still need documentation (e.g. Form 941)
- Lenders waiting for more instructions
- Lender will have 60 days and SBA will have 90 days for review
- Forgiveness requested within 10 months of CP end
 - Yes - Extends deferral until forgiveness is remitted to the lender
 - No - Start servicing loan



SBA Review Procedures

- Will have 6 years to review
 - Potential impact on future merger and acquisitions
- Elements of review
 - Eligibility (except for “necessity” safe harbor if < \$2 million)
 - Loan amount and use of proceeds
 - Loan forgiveness
- Unclear if \$2M threshold for “total review” will be measured at Affiliated Group Level or individual loan



Nonprofit Impacts

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Accounting for PPP Loan

- Applicable Guidance
 - AICPA Technical Question and Answer (TQA) 3200.18, *Borrower Accounting for a Forgivable Loan Received Under the Small Business Administration Paycheck Protection Program*
 - GASB Technical Bulletin 2020-1, *Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Security Act (CARES Act) and Coronavirus Diseases*



Accounting for PPP Loan (cont.)

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 Loan (cont.)

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



COVID Assistance and Single Audits

- PPP Loan – not subject to single audit
- SBA EIDL – is subject to single audit
 - \$750K in total federal financial assistance (incl. EIDL) for single audit threshold to apply



Double Dipping Prohibited

- Office of Management and Budget (OMB): June 2020 *Administrative Relief Exceptions for COVID-19 Crisis*
 - Payroll costs paid with PPP loans or any other Federal CARES Act programs **must not** be charged to current Federal awards as it would result in the Federal gov't paying the same expenditures twice
 - Awarding agencies must require recipients to maintain appropriate records and cost documentation



Double Dipping Prohibited (cont.)

- OMB position analogizes to other grant awarding agencies
- *If there are questions on grant award and PPP interplay, talk to the grant awarding agency*
 - *Budget/grant modifications*
 - *Grant extensions*

Self-Insured Employers for Unemployment

- Self-insured employers receive from federal government 50% credit to cover cost of claims
- DOL issued guidance indicating states would bill and collect 100% of costs (April 27, 2020)
- Protecting Nonprofits from Catastrophic Cash Flow Strain Act
 - Procedural change allowing 50% subsidy from federal government to be accessed prior to charging the NFP
 - ◇ Waiting to be signed by the President



Resources

- Treasury Website

<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>

- SBA Website

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options>

- CLA's COVID Relief Center and Livestreams

<https://www.claconnect.com/COVID19>

- US Chamber of Commerce

<https://www.uschamber.com/coronavirus>

- FMA

<https://fmaonline.net/ppptoolbox/>



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