

Who CARES? We Do – Part II

Nonprofit Webcast May 8, 2020

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor



Create Opportunities

Disclaimers

The information contained herein is general in nature and is not intended, and should not be construed, as legal, accounting, or tax advice or opinion provided by CliftonLarsonAllen LLP to the user. The user also is cautioned that this material may not be applicable to, or suitable for, the user's specific circumstances or needs, and may require consideration of non-tax and other tax factors if any action is to be contemplated. The user should contact his or her CliftonLarsonAllen LLP or other tax professional prior to taking any action based upon this information. CliftonLarsonAllen LLP assumes no obligation to inform the user of any changes in tax laws or other factors that could affect the information contained herein.



Agenda

- Nonprofit Hot Topics
 - Self-insured unemployment
 - Tax opportunities
 - Single audit
 - Alternative funding sources
- PPP Loans
 - Certifications
 - Forgiveness
- Live Q&A

Self-Insured Unemployment

- For organizations that “self-insure” (aka: reimbursing employers), CARES provided 50% federal reimbursement for unemployment costs.
- On April 27, the Department of Labor released guidance (UIPL 18-20) instructing states to bill reimbursing employers for 100% of costs now, potentially penalizing states that provide additional assistance.
- While the 50% “reimbursement” would be provided later, **this structure would create a cash flow burden for nonprofits.**
- The National Council of Nonprofits and others have been pressuring for changes, including increasing relief to 100% and changing language to “reduce cost of” vs. “reimburse.”

WHAT SHOULD YOU DO?

1. Confirm if this is relevant for you. Do you pay State Unemployment Taxes (SUTA)? If so, you do not self-insure.
2. If you do self-insure, contact your state council of nonprofits to understand your state’s approach and if you need to prepare for a cash outlay.



Tax Opportunities

- Families First Coronavirus Response Act and CARES Act created tax credit opportunities
 - Paid Sick Leave Credit and Emergency FMLA
 - ◇ Available to employers with fewer than 500 employees
 - Employee Retention Tax Credit
 - ◇ Available to employers with operations that are fully/partially suspended or have reduction in gross receipts [not available if you kept PPP funds post 5/14]
 - ◇ IRS to issue guidance on how tax exempt organizations determine gross receipt
- Employer Social Security (6.2%) Tax Payment Deferral
 - 50% of the tax may be deferred to December 31, 2021 with remainder paid December 31, 2022

WHAT SHOULD YOU DO?

1. Identify if you are eligible for any of these credits. Check out a helpful grid [HERE](#).
2. Determine the cash-flow impact of the credits and deferrals; incorporate in your projections.



Single Audit and PPP Funding Integration

- OMB issued guidance indicating PPP funding does not trigger single audit requirements
- Organizations must still address whether allowable expenses for PPP funding are paid by other funding sources

WHAT SHOULD YOU DO?

1. Confirm whether the organization does have other funding sources reimbursing or paying expenses to be covered with PPP
2. Reach out to funders to determine whether a release of restrictions may be obtained
3. If funding is from government sources, contact the agency to determine their position on the funding



Funding Sources

Economic Injury Disaster Loans (EIDL)

- 4/15 the SBA stopped accepting new applications; **if you submitted prior, your application is still in line to be processed. You may also receive up to \$10k advance.**
- 4/27 Congress passed a bill allocating an additional \$50B to EIDL and \$10B to EIDL advanced grants
- Due to demand, SBA is currently only accepting applications from agricultural businesses with 500 or fewer employees.

WHAT SHOULD YOU DO?

1. If you applied for an EIDL before 4/15 and haven't heard from the SBA, prepare the financial information the SBA will request next so you can quickly submit.
2. If you haven't applied already, continue watching [sba.gov](https://www.sba.gov) to see if they open up applications again, though it will likely require additional funding.



Funding Sources

Main Street Lending

- 4/9 the Federal Reserve announced a \$600B effort to provide loans to mid-size businesses. Initially, there was no clarity provided on nonprofit eligibility.
- 4/30 the Fed announced changes to the program (lowering the minimum loan size to \$500k and increasing the size of eligible businesses. This announcement included clarification that **nonprofits are not eligible** for Main Street Lending, but that, “The Board recognizes the critical role that nonprofit organizations play throughout the economy and is **evaluating a separate approach to meet their unique needs**”

WHAT SHOULD YOU DO?

1. If your organization is in need of short-term liquidity, talk to your bank about lines of credit or other lending products the bank may be offering.
2. Watch for updates on the “separate approach” for nonprofits





Paycheck Protection Program (PPP)

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

PPP - Certifications

- 4/23 Treasury FAQ #31 was added to remind borrowers of the certifications they made in applying for PPP loans:
 - “*Current economic uncertainty* makes this loan request necessary to support the ongoing operations of the Applicant.”
 - “The funds will be *used to retain workers and maintain payroll* or make mortgage interest payments, lease payments, and utility payments, as specified under the Paycheck Protection Program Rule; I understand that if the funds are knowingly used for unauthorized purposes, the federal government may hold me legally liable, such as for charges of fraud.”
- FAQ #31 also states that **“Borrowers must make this certification in good faith, taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business.”** and provided “Safe Harbor” for borrowers that return funds by 5/7 [then extended to 5/14 in FAQ #34 issued 5/5].



PPP - Certifications

WHAT MIGHT THIS MEAN FOR YOU?

Your organization may have secured PPP funds, but now you aren't sure if you are eligible to receive them based on the clarifications provided in FAQ #31.

WHAT SHOULD YOU DO?

- Review the language in the two certifications and determine if your organization still feels comfortable making those in good faith.
- Consider consulting with legal counsel if you aren't sure.
- If you decide to keep the PPP loan, document your thinking at the time you applied including:
 - What was the anticipated impact of Coronavirus on your staffing decisions?
 - What revenue and expense impacts did you anticipate?
 - What confirmed or likely changes to payments on pledges, potential gifts/grants, etc. were you aware of?
 - Was your area in a stay-at-home or shelter-in-place order and how did that impact your operations?
 - How long did you anticipate cash would last? [if you did forecasts at that time, save those in your files]



PPP Forgiveness - Allowable Uses

- Payroll Costs
 - Salaries, wages (includes PTO, sick pay, separation payments, severance costs, etc.) – limited to \$100,000 annualized
 - Group health care benefits
 - Retirement benefits
 - Employer portion of state/local payroll taxes



PPP Forgiveness - Allowable Uses

- Interest on mortgage obligations
- Rent
- Utilities
- Interest on other debt obligations*
- Contracts must be in place as of 2/15/2020
- All the above are considered non-payroll costs

* May not be considered for forgiveness



PPP Forgiveness - Documentation

- Payroll reports and payroll tax filings
- Third party invoices
- Underlying mortgage, debt and lease agreements (to document in place before 2/15/2020)
- Cancelled checks
- Bank statements (if you use separate account)

Forgiveness – Four Items to Consider

#1. Did the entity spend enough on allowable costs?

#2. Did the entity maintain FTEs? (includes re-hires thru 6/30)

#3. Did the entity maintain wages at least 75% of prior quarter? (excludes high earners)

#4. Was enough of that spending on payroll? (25% limit on non-payroll)





PPP Forgiveness Case Study

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

Open Questions on Forgiveness

- Order of the 4 tests isn't specified
- 75% payroll threshold – is this a binary test for forgiveness (if under, 0 forgiveness)
- Accrual –vs- cash –vs- hybrid for reporting costs
- FTE calculation
 - What is base for F/T vs P/T (we believe 30 hours)
 - Assessment frequency (pay period, monthly, annual avg)

Open Questions on Forgiveness

- Wage reduction mechanics
 - What if you don't rehire – 100% reduction or excluded from test?
 - What if someone leaves during 8 week period?
 - Is test really comparison of 8 weeks to 75% of last pre-loan full quarter
 - What about new employees?
- FAQ #40 did clarify; employees who decline a written offer to return do NOT count against you in the FTE calculation.

PPP Forgiveness – Case Study

Background: Save The Music (STM) is a 501c3 nonprofit organization dedicated to preserving music from the 1980s. Due to the recent economic impact of COVID-19, they have been unable to hold their annual fundraising concert which accounts for 85% of their annual revenue. As a result, they applied for the Paycheck Protection Program and were approved for a loan of \$435,417. They received their funding on May 1, 2020 and are now working to estimate their forgiveness so they can plan accordingly.

The Executive Director of STM is evaluating how different plans in staff reduction could impact their loan forgiveness. She is evaluating the following scenarios:

- Staff reduction without rehire
- Staff reduction with rehire before 6/30/19
- Across the board pay reduction of 25%

Scenario 1: Staff Reduction without Rehire

Reducing head count from 19 to 17.7

Reduction Test #1		Reduction Test #2		Reduction Test #3	
Did Entity Spend Enough on Allowable Costs?		Was Enough of that Spending on Payroll? (25% Limit on Non-Payroll)		Did Entity Maintain Wages at a Sufficient Level? (Excludes High Earners)	
Summary		Summary		Summary	
Result	Yes	Result	Yes	Result	Yes
Reduction	\$ -	Reduction	\$ -	Reduction	\$ -
Detailed Calculation		Detailed Calculation		Detailed Calculation	
Loan Proceeds	\$ 435,417	Payroll Costs (Not to Exceed Loan Proceeds)	\$ 326,565	Wage Reduction based on Prorated Quarter (Tab E, Cell M12)*****	\$ -
Allowable Costs	526,565	Divided by 75%	/ 75%		
Reduction	<u>\$ -</u>	Potential Forgiveness	\$ 435,420		
		Multiplied by 25%	x 25%		
		Limit for Non-Payroll Costs	\$ 108,855		
		Actual Non-Payroll Costs (Not to Exceed Loan Proceeds Less Payroll Costs)	108,852		
		Reduction	<u>\$ -</u>		

Scenario 1: Staff Reduction without Rehire

Reducing head count from 19 to 17.7

Reduction applies to
both payroll & non-
payroll costs

Reduction Test #4	
Did Entity Maintain or Increase FTEs? (Includes Re-Hires thru 6/30)	
Summary	
Result	No
Reduction	\$ 54,462
Detailed Calculation	
FTEs in Covered Period**	17.7
FTEs in Benchmark Period***	20.2
Reduction %	12.5%
Multiplied by Reduction %	
Payroll Costs from Test #2 (Less Reduction from Test #3)	\$ 40,847
Non-Payroll Costs from Test #2 (Less Reduction from Test #2)	13,615
Reduction	\$ 54,462

Scenario 2: Staff Reduction with Rehire

Rehire a ½ employee on 5/22 and a full time employee on 6/12

Reduction Test #1		Reduction Test #2		Reduction Test #3	
Did Entity Spend Enough on Allowable Costs?		Was Enough of that Spending on Payroll? (25% Limit on Non-Payroll)		Did Entity Maintain Wages at a Sufficient Level? (Excludes High Earners)	
Summary		Summary		Summary	
Result	Yes	Result	Yes	Result	Yes
Reduction	\$ -	Reduction	\$ -	Reduction	\$ -
Detailed Calculation		Detailed Calculation		Detailed Calculation	
Loan Proceeds	\$ 435,417	Payroll Costs (Not to Exceed Loan Proceeds)	\$ 327,681	Wage Reduction based on Prorated Quarter (Tab E, Cell M12)*****	\$ -
Allowable Costs	527,681	Divided by 75%	/ 75%		
Reduction	\$ -	Potential Forgiveness	\$ 436,908		
		Multiplied by 25%	x 25%		
		Limit for Non-Payroll Costs	\$ 109,227		
		Actual Non-Payroll Costs (Not to Exceed Loan Proceeds Less Payroll Costs)	107,736		
		Reduction	\$ -		

Scenario 3: Staff Reduction with Rehire

Rehire a ½ employee on 5/22 and a full time employee on 6/12

Reduction in
forgiveness of 9.2%
instead of 12.5%

Reduction Test #4		
Did Entity Maintain or Increase FTEs? (Includes Re-Hires thru 6/30)		
Summary		
Result	No	
Reduction	\$	40,086
Detailed Calculation		
FTEs in Covered Period**		18.3
FTEs in Benchmark Period***		20.2
Reduction %		9.2%
Multiplied by Reduction %		
Payroll Costs from Test #2 (Less Reduction from Test #3)	\$	30,167
Non-Payroll Costs from Test #2 (Less Reduction from Test #2)		9,919
Reduction	\$	40,086

Scenario 3: Across the board pay reduction

Cut all pay for all employees by 25%

Reduction Test #1	
Did Entity Spend Enough on Allowable Costs?	
Summary	
Result	Yes
Reduction	\$ -
Detailed Calculation	
Loan Proceeds	\$ 435,417
Allowable Costs	494,906
Reduction	<u>\$ -</u>

Reduction Test #4	
Did Entity Maintain or Increase FTEs? (Includes Re-Hires thru 6/30)	
Summary	
Result	Yes
Reduction	\$ -
Detailed Calculation	
FTEs in Covered Period**	20.3
FTEs in Benchmark Period***	20.2
Reduction %	0.0%
Multiplied by Reduction %	
Payroll Costs from Test #2 (Less Reduction from Test #3)	\$ -
Non-Payroll Costs from Test #2 (Less Reduction from Test #2)	-
Reduction	<u>\$ -</u>

Scenario 3: Across the board pay reduction

Cut all pay for all employees by 25%

Reduction Test #3	
Did Entity Maintain Wages at a Sufficient Level? (Excludes High Earners)	
Summary	
Result	No
Reduction	\$ 13,760
Detailed Calculation	
Wage Reduction based on Prorated Quarter (Tab E, Cell M12)*****	\$ 13,760

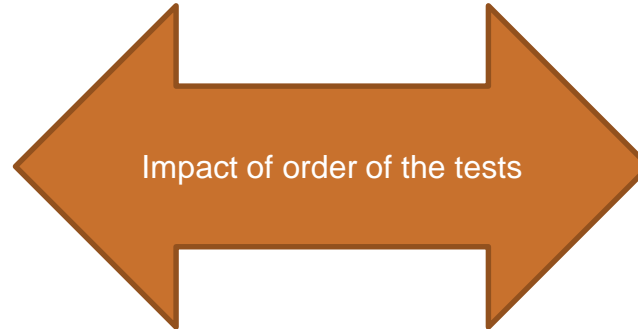
Impact of calculating based on full quarter vs. prorated quarter (point of uncertainty)

Reduction Test #3	
Did Entity Maintain Wages at a Sufficient Level?	
Summary	
Result	No
Reduction	\$ 116,686
Detailed Calculation	
Wage Reduction based on Full Quarter (Tab E, Cell J12)	\$ 116,686

Scenario 3: Across the board pay reduction

Cut all pay for all employees by 25%

Reduction Test #2	
Was Enough of that Spending on Payroll? (25% Limit on Non-Payroll)	
Summary	
Result	No
Reduction	\$ 42,208
Detailed Calculation	
Payroll Costs (Not to Exceed Loan Proceeds)	\$ 294,906
Divided by 75%	/ 75%
Potential Forgiveness	\$ 393,208
Multiplied by 25%	x 25%
Limit for Non-Payroll Costs	\$ 98,302
Actual Non-Payroll Costs (Not to Exceed Loan Proceeds Less Payroll Costs)	140,511
Reduction	\$ 42,208



Reduction Test #4	
Was Enough of that Spending on Payroll?	
Summary	
Result	No
Reduction	\$ 81,104
Detailed Calculation	
Payroll Costs (Less Reductions in Tests #2 and #3)	\$ 178,220
Divided by 75%	/ 75%
Potential Forgiveness	\$ 237,626
Multiplied by 25%	x 25%
Limit for Non-Payroll Costs	\$ 59,407
Actual Non-Payroll Costs (Less Reduction in Test #2)	140,511
Reduction	\$ 81,104



Open Q&A

Find answers to the most common questions from our April 22 CARES Act Webcast [HERE](#)!