



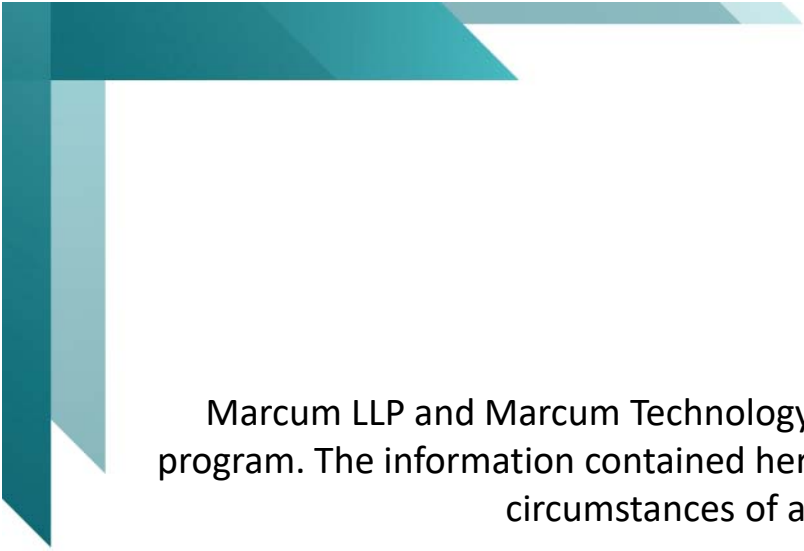
PPP AND NPOS: HOW TO PROPERLY USE THE LOAN AND REQUEST FOR FORGIVENESS

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ACCOUNTANTS ▲ ADVISORS

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INTRODUCTIONS



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LEARNING OBJECTIVES



After completing the session, participants will be able to...

- Understand the requirements to properly spend the PPP loan
- Understand the best functional areas to pay for payroll costs
- Understand what is required to request and obtain forgiveness of all or a part of the loan
- Understand some basic accounting of the PPP loan and forgiveness and the documents you will need to support it
- Understand what is still to be clarified by SBA

“Survival is the ability to swim in strange water.” – Frank Herbert

BREAKING NEWS...



PPP Loan Forgiveness Application is Out!

The Application from the SBA clarifies:

- Representations and certifications made by the borrower
- Documents that must be submitted with application
- Documents that must be maintained but not submitted
- The definition of Full-time Employee Equivalents (FTE's)
- The Safe Harbor for the FTEs and the Wage Reduction
- Paid AND Accrued language for 8-week period
- Maximum payroll for the 8-week period is \$15,385 (\$100,000/52 weeks=\$1,923 per week *8 Weeks)
- Self-insurance is includable as a payroll costs
- Optional demographic information

CERTIFICATION OF NEED...



Certification of Need to Obtain the Loan

In taking on this loan, entities must also certify, in good faith, that:

- The loan request is necessary to support the concern's ongoing operations due to the uncertain economic conditions;
- The funds will be used to retain workers and maintain payroll or make mortgage, lease, and utility payments;
- The entity does not have an application pending for another SBA loan for the same purpose; and
- Between February 15, 2020 and December 31, 2020, the entity has not already received (or will not receive) an SBA loan for the same purpose.

Certification of Need – Case by Case Basis

- On the PPP Application you were asked to certify that:
 - “Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.”
- NPO has an endowment
 - CARES Act suspends the ordinary requirement that borrowers must be unable to obtain credit elsewhere (as defined in section 3(h) of the Small Business Act).
 - While NPOs can often borrow against its endowments, the corpus must remain inviolate.
- **FAQ #31**
 - “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.”
- Considerations
 - Determine reserves, liquidity, security of future funding, etc.
 - Fund necessary for special projects, to support future years, to fund (un-projected) deficits, etc.
 - Document the rationale
 - Would you want it in the newspaper?

Certification of Need – Recent news!

FAQ Question #46 - May 13, 2020

Effectively limits the scope of FAQ No. 31, providing that borrowers with PPP loans of less than \$2 million (combined with the loans of affiliates) will be deemed to have made the borrower certification in good faith.

In addition some clarification of FAQ #31 –

- Over \$2 million still be subject to the SBA's additional certification requirements, and the "full audits" Treasury Secretary Mnuchin promised on April 28.
- However, the latest guidance clarifies that if those borrowers are found to have "lacked an adequate basis for the required certification concerning the necessity of the loan request", they will be required to repay the loan (and will not be eligible for loan forgiveness) but will not be referred for a government enforcement action.
- The SBA further clarified that its determination regarding the borrower certification will not affect its guarantee of the loan.

PROPERLY SPENDING YOUR LOAN...



To Do List Once the Loan is Received

- Re-read through promissory note and save with other key financial documents.
- If not already in place, create new accounts in your chart of accounts for PPP Loan Payable (Liability Account), Forgiveness of Debt (Revenue Account), and Interest Expense (Expense Account).
- Record the Cash when received and offset with Total Loan Amount as Liability on your Balance Sheet.
- Create a way to track the allowable expenses associated with the loan (e.g., off line register, coding to job function).
- Be concerned about continuing to track by program. While PPP is a source of revenue, it is not a program.
- Begin planning for any personnel adjustments to bring people back on payroll.

Allowable Loan Expenditures

- “Payroll Costs” – INCLUDE:
 - Gross Salaries and Wages (up to \$1,923 a week per employee)
 - Tips and Commissions
 - Paid Leave (see next slide)
 - Severance
 - Employer paid health benefits (includes medical, dental, vision; there is no indication that life insurance, ST and LT disability would be allowable)
 - Employer paid retirement benefits
 - Employer paid State and Local Payroll Taxes
- Rents (with arrangements in place by 2/15/20)
- Mortgage Interest and other LT debt interest (with arrangements in place by 2/15/20)
- Utilities (with arrangements in place 2/15/20)
 - Water, gas and electric
 - Phone and Internet
 - Transportation

Unallowable Loan Expenditures

- “Payroll Costs” – DON’T INCLUDE:
 - Any amounts in excess of \$100,000 per annum (\$1,923 per week per employee)
 - For employees permanently outside the USA
 - Employer portion of Federal Taxes and FICA
 - Workers’ Comp
 - FFCRA credits for Sick and Family Leave
 - Independent contractors payments (1099’s)
- Special considerations/open questions
 - Employees – same employees or new employees qualify
 - Bonuses – how best to handle?
 - Health savings accounts – allowable?
 - Self-insured health benefits – can it be included?
 - DBP or annual employer retirement contributions – accrued AND paid?
 - Health benefits to furloughed employees – OK?
 - Vacation payouts to resigned or terminated employees – for what period?
 - What kind of transportation is allowable?
 - Are reimbursements to staff for internet, telephone or home office use (rather than paying a vendor directly) allowable?

Best Place to Use Funds

- To use instead of other unrestricted funding
- To provide extra funds for underfunded programs whether funded by restricted grants or federal dollars
- New initiatives of the NPO
- To curtail indirect/overhead costs while considering the effect on NICRA (see next slide)
- To replace funds on restricted grants with permission of the donor

Note: There are consequences for spending this PPP loan on unallowable expenses including the need to return the funds used for unallowable expenses. If done knowingly you could be prosecuted under the False Claims Act

<https://www.marcumllp.com/insights/applying-for-a-loan-under-the-payment-protection-program>

Federal Funding

- Federal grants, cooperative agreements or contracts
 - NPO cannot claim to the federal government that it spent different federal funds on the same expenses.
 - OMB suggests AA's allow:
 - recipients to charge federal awards cost not "normally chargeable"
 - for no-cost extensions
 - Extension of single audit submissions
 - Extension of currently approved indirect cost rates
- PPP used for overhead costs such as indirect labor and rents
 - Will not be allowed to include in the indirect cost pool for your NICRA submission
 - Effect can be determine as follows:

| | | |
|----------------------------|--------------|---------------|
| Current indirect cost pool | \$ 1,000,000 | IDC RATE: 10% |
| Current direct cost base | \$10,000,000 | |

| | |
|--|-------------|
| PPP covers \$100,000 of indirect costs | IDC RATE 9% |
|--|-------------|

| |
|---|
| Federal portion of the direct cost above \$ 2,000,000 |
| Loss of Federal dollar cost recovery (1%) \$ 20,000 |

So to spend \$100,000 of PPP cost you \$20,000

The smaller the percentage of federal funding to your total expenditures, the less effect this PPP spend will have on your recovery of Federal indirect cost dollars

<https://www.marcumllp.com/insights/office-of-management-and-budget-provides-flexibility-under-covid-19>

Federal Funding

- The PPP loans made to nonprofits will not be subject to a single audit under the uniform guidance.
- As EIDL loans are considered a direct loan from the SBA, they are considered federal financial assistance and are subject to the single audit requirements under the uniform guidance.
- If you received money under the Education Stabilization Fund, CFDA #84.425B through CFDA #84.425M these funds are also subject to the single audit requirements under the uniform guidance.

<https://www.marcumllp.com/insights/are-stimulus-dollars-subject-to-the-uniform-guidance>

PROPERLY SPENDING for FORGIVENESS...



Forgiveness of the Loan

- Up to 100% of the loan you spend in the first 8 weeks following the loan disbursement can be forgiven under certain conditions
- 75% of the funds spent must have been spent on “payroll costs”
- BUT if you:
 1. Reduce the number of Full-time employee equivalentsOR
 2. Decrease salaries and wages of employees making less than \$100,000 annually by more than 25%

You will get a partial reduction in forgiveness.

What is a Full-Time Employee Equivalent (FTE)?

- The CARES Act did not define “full-time employee equivalents”. SBA just did on Friday as 40 hours
 - If an employee works more than 40 hours, count as ONE.
 - An employee working less than 40 hours is a fraction based on a 40 hour denominator rounded to the nearest tenth.
 - Borrowers can also elect to count all part-time employees as a half of a FTE.

1. Full-Time Equivalents

- Two Optional Base Measurement Periods
 - A. 2/15/2019 through 6/30/2019 OR
 - B. 1/01/2020 through 2/29/2020COMPARE THE LOWER OF A AND B TO THE 8 WEEK FORGIVENESS PERIOD
- Process for Calculating the FTE in the Measurement Periods
 1. Take the total FT EE's who work at least 40 hours per week
 2. Add them to the total FT Equivalents (FTE) for PT EEs who work less than 40 hours per week
 3. Divide them by 19 for option A and by 8 for option B (weekly average)
 4. Select the lower of the option A or B
- Process for Calculating the FTE in the 8-Week Base Period:
 1. Do as in number 1 and 2 above
 2. Add the number of employees who declined an offer of employment where offer and decline is documented
 3. Divide the total by 8

1. Full-Time Equivalents (cont'd)

- Process for Comparison of the Measurement and Forgiveness periods :
 - Select the lower of the option A or B
 - Take the FTE for 8-week forgiveness period over option A or B
 - If percentage is less, your loan will be reduced by the percentage reduction.

Example: Loan amount eligible for forgiveness = \$100,000

Option A = 10 FTEs

Option B = 12 FTEs

Average for 8 week forgiveness period is 7 FTEs.

$7/10 = 70\%$ less 100% = 30% reduction in FTEs

30% of \$100,000 = **\$30,000 reduction in loan forgiveness**

1. Exception to Full-Time Equivalents Adjustment

Important Safe Harbor (May 15):

- If your average FTE from 2/15/20 through 4/26/20 is less than your FTE on 2/15/20 (because you reduced your FTE during this period), and your 6/30/20 FTE is greater than or equal to your 2/15/20 FTE, you do not need to reduce your loan forgiveness for this calculation.
- If your average FTE from 2/15/20 – 4/26/20 is more than your FTE on 2/15/20, you cannot use (you do not need to use) this safe harbor.

2. Reductions in Pay

1. Track wages of each employee for each of the 8-week period
2. Reduce any amount during this period that when annualize is $> \$100,000$ and reduce it to $\$100,000$ or $\$15,384$ for the 8-week period ($\$100,000 \times 8/52$)
3. Annualize each employee's pay for the 8-week period
4. Annualized these same employee's pay from the first quarter of 2020
5. Divide #3 by #4 and if it is less than 75%
6. Subtract the amount that is less than 75% for 100% and multiply that amount by #3

The loan forgiveness is reduced by this amount

2. Reductions in Pay (cont'd)

EXAMPLE for Employee A

- | | |
|---|----------|
| 1. Paid for the 8-week period = | \$ 8,000 |
| <i>Made \$1,000 per week</i> | |
| 2. Annualized the 8-week period = | \$52,000 |
| 3. Annualized the 1 st quarter of 2020 = | \$72,000 |
| <i>Made \$1,500 per week</i> | |
| 4. #2/#3 = | 72.22% |
| 5. 100% less 72.22% = | 27.78% |
| 6. 27.78% times \$8,000 (#1) = | \$ 2,222 |

#6 is the adjustment to the forgiveness amount

2. Exception to Reductions in Pay Adjustment

Important Safe Harbor (May 15):

- If the employee's annualized wages from 2/15/20 – 4/26/20 is less than the annualized wages on 2/15/20 (because you reduced wages during this period), and your employee's 6/30/20 annualized wages is greater than or equal to the employee's 2/15/20 annualized wages, you do not need to reduce your loan forgiveness for this calculation.
- If the employee's annualized wages from 2/15/20 – 4/26/20 is more than the employee's annualized wages on 2/15/20, you cannot use (you do not need to use) this safe harbor.

SOME QUESTIONS, CONCERNS AND CAUTIONS...



Questions on Fixing FTE and Wage Reductions by June 30, 2020

- How long must staff stay on payroll after June 30, 2020?
- How will this grace period be managed if your 8-week period ends before June 30, 2020?
- Can you prorate if you restore positions and salaries for just some of the staff?
- What guidance will be put in place to prevent abuse (e.g., ensuring staff do meaningful work, random staff are not added to payroll, hiring a relative)?

Expenses to be Paid and Accrued

There was an open question about the timing of which allowable expenses made related to the 8-week period will be eligible for forgiveness as the SBA had said the expenses needed to be both PAID AND ACCRUED.

With the Loan Forgiveness Application issued on Friday:

- Payroll costs are considered incurred on the day that the employee's pay is earned.
- Payroll costs incurred during the 8-week period and paid on or before the next regular payroll date are eligible for forgiveness.
- Borrowers on bi-weekly or more frequent payroll period can elect an alternate 8-week period that starts with the first day of their first pay period that follows their loan disbursement date. (If less frequent than bi-weekly, it appears you cant make this election.)

As such, we continue to recommend that you employ the cash basis for the first week and the accrual basis for the last week.

Questions on 75% of Payroll

CARES Act makes no mentions of the 75% requirement. This “rule” was introduced with IFR1. Gating mechanism became the interpretation. Now in SBA PPP Loan Forgiveness Application.

- So what is **unclear**: Can a borrower obtain forgiveness for its permitted expenditures if it spends less than 75% of the entire amount of the original loan on payroll costs?
- Marcum **insight**: We do not believe the borrower will be punished if less of loan is spent so that 75% of the amount of permitted expenditures that is spent is for payroll costs.
- New SBA **update**: Borrowers can elect to exclude any amount of non-payroll costs as part of their loan forgiveness application.
- Marcum **observation**: The 8-week period is for loan forgiveness. Might you be able to spend a portion of the total loan amount in the 8-week period ensuring 75% or more is for payroll and ask for forgiveness for only the amount spent in that 8-week and then spend the rest of the loan on payroll, rent, utilities after the 8-week period to be paid back within the two-year payback period.

PPP Coordination with Other Available Programs

- You cannot include amounts covered by credits related to sick and paid leave from the FFCRA in your PPP Allowable Expenses
- The amount of the grant received under EIDL of up to \$10,000 will reduce the forgiveness amount of the PPP dollar for dollar
- If you received a PPP loan you are no longer eligible for the employee retention credit (*Section 2301 of the CARES Act*)
- Once your PPP loan is forgiven, you are no longer eligible to defer deposit and payment of FICA (employer's share of social security tax) (*Section 2302 of the CARES Act*)

How to Apply for Forgiveness

With likely more guidance is to come, on May 15, SBA issued the PPP Loan Forgiveness Application. Likely to be required:

- Gathering payroll information/registers, relevant IRS Forms 941's, and documentation backing up every expense you are looking to get forgiven.
- Certifications representing that the documentation is true and correct and that the amount of forgiveness requested was used for retaining employees, paying mortgage interest, rent and utilities during the covered period.
- Lender will have 60 days to return result.
- Secretary Mnuchin announced on 4/28 that loans above \$2M would be subject to an audit. More details to come. Under \$2 million is Safe Harbor.

Basic Accounting

- PPP proceeds are initially recorded as a liability

| | | |
|---------------------------------|----------|----------|
| Cash (SoFP account) | \$50,000 | |
| PPP Loan Payable (SoFP account) | | \$50,000 |

Question: Do you need to establish a separate bank account?

- Once all or a portion of the loan is forgiven

| | | |
|--|----------|----------|
| PPP Loan Payable (SoFP account) | \$50,000 | |
| Revenue: Forgiveness of Debt (SoA account) | | \$50,000 |

**Questions: Will the loan or forgiveness trigger a subsequent event on your audit?
Should a gain contingency be recorded for the possibility of forgiveness?**

- Recording the use of the loan

| | | |
|--------------------------|---------|----------|
| Utility expense* | \$ 750 | |
| Rent* | \$3,000 | |
| Payroll* | \$8,000 | |
| Cash or accounts payable | | \$11,750 |

*While the source is the PPP Loan, the PPP Loan is NOT a program and the PPP Loan forgiveness is NOT a grant and so such costs should be coded to programs, G&A or fundraising depending on where such expenses would normally be charged. In this way, your statements of activities and functional expenses will be accurate.

RELATED NP ENTITIES...



501(c)(3) with a Related c-4 or c-6 Entity

- Organizations with related nonprofit entities, e.g., 501(c)(4)s and (c)(6)s, should keep in mind that these types of organizations are not eligible for PPP funding. Therefore, PPP loan proceeds should not be used to pay for expenses tied to those organizations.
- If you have shared employees and resources between a c-3 and the c-4 and/or c-6 (and a service or sharing agreement), we can give you two options:
 - Staff members whose payroll is being covered by the PPP cannot work for the c-4 during the 8-week period.
 - Continue to track payroll expenses the c-4 owes to the c-3 during the 8-week period and transfer funds from the c-4 to covers such costs.
- Be certain not to commingle and to keep clear records.

MARCUM RESOURCES...



MARCUM Resources

- A certification report from MARCUM to SBA to support your loan forgiveness, based on
 - Documents we request from you (PBC)
 - Our assistance with/preparation of the calculations
 - Our review of the supporting documentation
- A detailed program that assists with the calculation for the loan forgiveness (used for the certification)
- Work with ADP (and other PR Services) for CARES Custom Reports to provide for downloads to our loan forgiveness software program
- A resource center on our website that keeps you up to date:



QUESTIONS – *We have recorded the questions and depending on quantity and nature of questions, we will determine if best to respond individually or schedule another webinar. All attendees will be notified.*



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