

# COVID-19: Navigating the CARES Act

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# Agenda

- CARES Act Highlights for Nonprofits
- Deeper Dive – PPP (Payroll Protection Program)
- Deeper Dive – EIDL (Economic Injury Disaster Loan)
- Important (Unanswered) Questions
- Resource and Scenario Planning: The CFOs Seat
- Call to Action
- Question and Answer

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# CARES Act- Nonprofit Highlights

- Signed into law on Friday, March 27<sup>th</sup>
- \$2.2T Federal Stimulus
- PPP for (c)(3) and (c)(19) with 500 or fewer employees
- EIDL for “private nonprofits”
- 50% reimbursement of unemployment costs for self-funded nonprofits
- Payroll tax credit (cannot double dip w/ PPP)
- Stabilization fund loans for nonprofits >500 employees

# EIDL v. PPP

## EIDL

- \$2 million
- Interest at 3.75% For-Profit, 2.75% Non-Profit
- Up to 30 year term
- 12 month deferral (interest accrues)
- Eligibility – Private nonprofit organizations
- Uses-Fixed Debts, payroll and related benefits, AP, and other expenses (cannot cover same expenses if also receiving PPP financing)
- Collateral on loans greater than \$25k
- Emergency grant up to \$10k
- Administered directly by the SBA

## PPP

- Lesser of \$10 million or 2.5x avg. monthly payroll
- Interest at 1%
- 2 year term
- 6 month deferral (interest accrues)
- Eligibility – 501(c)(3) and 501(c)(19) (veterans), fewer than 500 employees
- Uses - Payroll and related benefits, interest on mortgage and other debts, rents, and utilities
- No collateral
- Potential forgiveness of part or all of loan
- Administered by banks certified with the SBA

# CARES Act - PPP Features

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# Nonprofit Eligibility - PPP

- Eligibility Provisions – Employee limit
  - 501(c)(3) and 501(c)(19) organizations with 500 or fewer employees
    - ◇ Average monthly headcount, not FTE
- SBA Affiliation Rules
  - Requires aggregation of average monthly headcount of affiliated organizations
  - Religious exemption – relationship of faith-based organization is not considered an affiliation with the other organization if the relationship is based on a religious teaching or belief

# Calculation of PPP Loan Amount - Church

## Housing Allowances

- Currently, no official stance taken by SBA or Treasury
- CLA's stance – qualifies as payroll costs under Wages, Salaries, Commissions, and similar compensation
- Should be combined with other Wages/Salaries and reduced if total amount is greater than \$100k.
- TALK TO YOUR BANK



# Calculation of PPP Loan Amount

- Avg monthly “Payroll Cost” for preceding 12 months, times 2.5.  
Payroll cost defined as:
  - Wages, Salaries, Commissions, and similar compensation
  - Paid Leave (vacation, parental, family, medical, sick)
  - Severance payments
  - Health insurance premiums
  - Retirement benefits
  - State or Local employment taxes
    - ◇ Lender may look at 2019 costs vs. preceding 12 months
- Specific exclusion from payroll costs
  - Wages, Salaries, Commissions, and similar compensation in excess of \$100k per employee per year.
- Compensation to employees whose principal residence is outside of the United States
- Qualified sick and family leave for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act

# PPP Calculation of Loan Forgiveness

- Calculated based on 8 week period following first loan payment
  - **“Covered period”**
- Eligible Costs include:
  - Payroll Costs – 75% of loan must be used for payroll
  - Interest on mortgages (entered into prior to Feb 15<sup>th</sup>)
  - Interest on other debt obligations (entered into prior to Feb 15<sup>th</sup>)
  - Rent Payments (leases in place prior to Feb 15<sup>th</sup>)
  - Utilities (service originating prior to Feb 15<sup>th</sup>)
- **Employee or salary reductions in covered period reduce loan forgiveness**
  - Opportunity to rehire to maximize forgiveness

# What can you do to execute

1. Call your bank!
2. Gather information:
  - Calculation of loan amount
  - 2019 – 940/941's and state income and unemployment tax filings
  - Copies of final payroll report for 2019
    - ◇ *Calculate qualified monthly salaries (adjustments for salaries in excess of \$100,000)*
  - Documentation of health insurance premiums paid by company under health plan
  - Documentation of all retirement plan funding for 2019

# Economic Injury Disaster Loan (EIDL)

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## EIDL Features

- Up to \$2,000,000
- Qualified Small Business or Nonprofit
  - Small business Sizing Standards found on SBA site
- Interest rate 3.75% for small businesses; 2.75% for nonprofit organizations
- 30 year maturity
- 12 month deferral period

## EIDL Features (continued)

### Collateral requirements:

- Loans over \$25,000 require collateral.
- SBA takes real estate as collateral, when available.
- SBA will not decline a loan for lack of collateral, but requires borrowers to pledge what is available.
- Personal guarantees less than \$200K are waived

## EIDL Features (continued)

- There is no cost to apply
- There is no obligation to take the loan if offered
- The maximum unsecured loan amount is \$25,000
- Applicants can have an existing SBA Disaster Loan and still qualify for an EIDL for this disaster, but the loans cannot be consolidated
- **Opportunity for up to \$10,000 emergency grant based on application for EIDL**

# What can you do to execute

- Apply directly through SBA website
  - <https://covid19relief.sba.gov/#/>
  - Step 1: Information to have available:
    - ◇ Most recent tax return most recent financial statements
    - ◇ Information for each owner > 20%
      - (SSN, DOB, Home address, place of birth)
  - Step 2: SBA will reach out with next steps



# Important [Unanswered] Questions

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## Common Questions Being Asked

- Will forgiven PPP funds be included in the calculation for single audit requirements?
- How will PPP funds be reflected on year-end financials if loan is not yet forgiven by year-end?
- Federal fund draw-down and avoiding “double dipping” when payroll costs covered by other funding
- How outsourced functions are/aren’t included in calculations
- How will unemployment reimbursement work?

# Resource and Scenario Planning: The CFO's Seat

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# Our Current Context

## Financial leadership in midst of crisis

- The entire economy is disrupted
- Program stoppages and closures
- Sudden drop off in funding
- Uncertain timeframe



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## Cash Management and Cash Modeling

- **Unflinching analysis** of your current fiscal state
- Willingness to **seek and share solutions** across your whole organization
- Let **commitment to your mission** guide thoughtful and effective choices
- Consider all the options – **adapt, create, innovate**

# Contingency Plan Considerations

- Reductions or delays in spending
- Hiring delays
- Reduce or eliminate discretionary benefits
- Across the board (ATB) temporary Compensation Reductions
  - Consider temporary across the board pay cuts rather than layoffs (may also net PPP loan forgiveness; but watch depth of cuts)
- Workforce reductions – if pay cuts aren't enough, consider layoffs
- Rent and debt payment deferrals
- COVID expenses – operational transition and ramping back up
- Working capital considerations

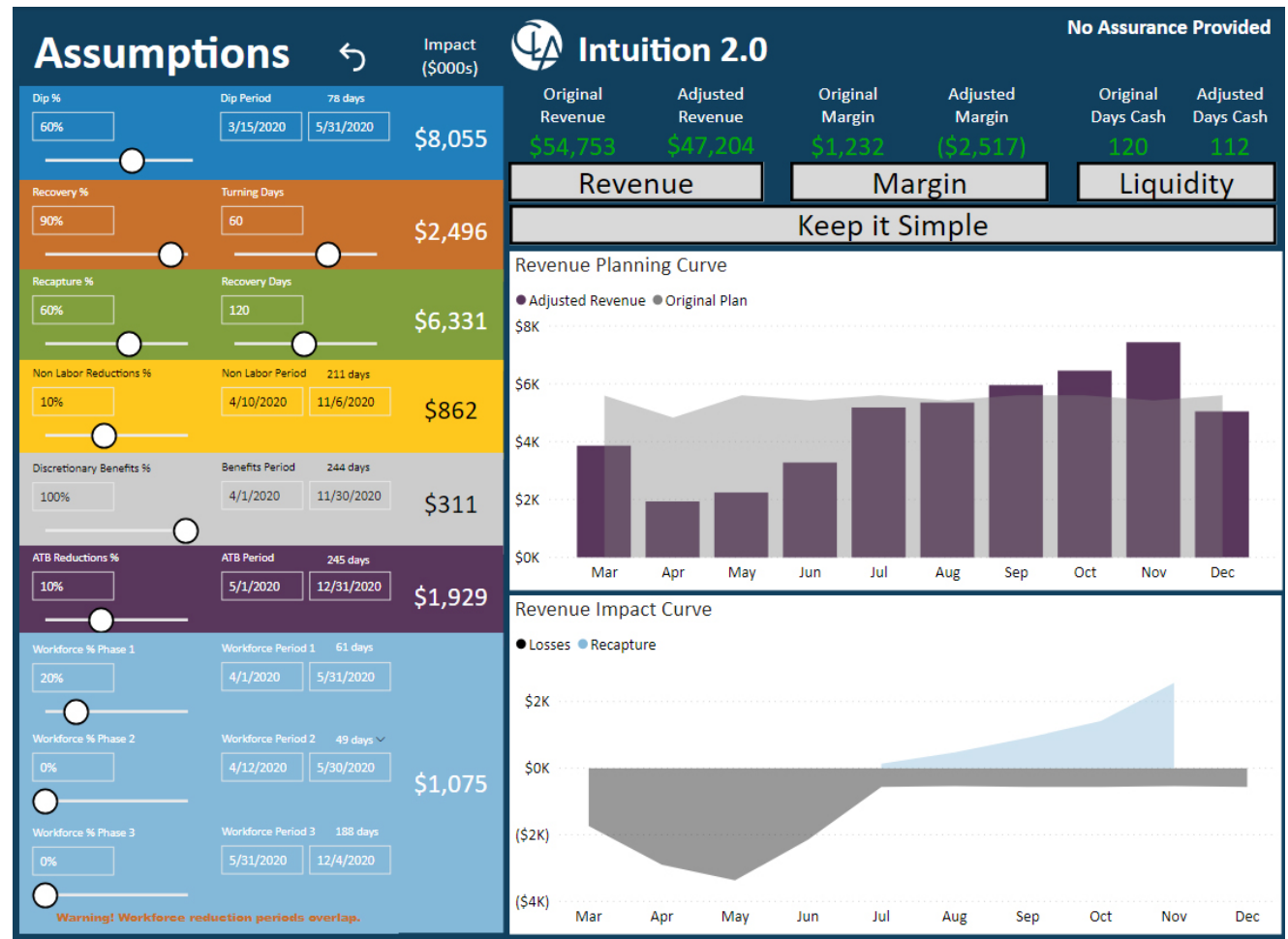
## Financial Modeling Can Help Inform

How Much?

When?

How Long?

Scenario planning allows you to model multiple options



# Call To Action

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# Call To Action – Quick Summary

1. **Team:** Who is your team to help you navigate? [staff, banker, attorney, CPA, etc.]
2. **Apply:** If you haven't already; apply for PPP and EIDL loans. You can determine plan while waiting for approval.
3. **Cash Flow:** Evaluate cash flow spend/needs over next 3 to 6 months
4. **Deferral:** Reach out to landlord and banking institution to discuss deferment of payments. (Ensure there isn't a balloon payment owed at day 91)
5. **Back-Burner Projects:** Use this opportunity to evaluate systems and other operational/administrative task you have been putting off and get them done.
6. **Future Planning:** Prepare for re-opening (what changes will your constituents expect/demand)?



# Stay Connected with CLA!

## Responding to COVID-19



Unforeseen disruptions — from the coronavirus (COVID-19) to natural disasters — can create many uncertainties. These resources can help you lay out a strategy to put your organization on its toes versus its heels.



Operational  
Support



Regulatory and Tax  
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Leadership Tips



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Disaster Relief



Accounting and  
Financial Statement  
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Guidance



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# Question and Answers

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