COVID-19: Navigating the CARES Act
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Agenda

• CARES Act Highlights for Nonprofits
• Deeper Dive – PPP
• Deeper Dive – EIDL
• 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 27th
- $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
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 loan origination date
  - “Covered period”
- Eligible Costs include:
  - Payroll Costs – 75% of loan must be used for payroll
  - Interest on mortgages (entered into prior to Feb 15th)
  - Interest on other debt obligations (entered into prior to Feb 15th)
  - Rent Payments (leases in place prior to Feb 15th)
  - Utilities (service originating prior to Feb 15th)
- 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)
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
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
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

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**
The trajectory of a downturn and eventual recovery

**Dip**
- How deep will the losses be?
- How long will operations be disrupted?

**Turn**
- How long will it take to climb out?
- What resources can be maintained?

**Recapture**
- Can you salvage anything lost?
- What will your new normal look like?
Strategic decisions in a time of uncertainty

1. Evaluate Financial Possibilities
2. Establish Sizing, Timing and Dimensions of Operating Responses (Contingency Plans)
Analysis based on broader inputs

- Current Liquidity
- Baseline Revenue & Expenses
- Expected Effects of Downturn
- Non-Labor Expenditures
- Personnel Expenditures
- Anticipated Timelines
Approach to Planning

- Evaluate “at Risk” Programs and Services
  - Simple = Assume ALL your revenue is at risk
  - Identify your individual specific risks (not all revenues have all the same risks)
  - Potential impacts of the COVID Surge (different markets may open at different times)

- Gather Necessary Data
  - 12 Months Historical and Planned income statements (1/2019 – current)
  - Current planned capital spending by month
  - Most current balance sheet (along with Accounts Receivable)
  - Annual and (if available) monthly historical and planned revenues for at risk programs/services

- Budget
  - If you have never built a budget before now is a good time to predict the next 3 to 6 months of spending
  - We are happy to help
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
Scenario planning allows you to model multiple options
Identify your organizational goals

Where you land becomes Where you launch

- Determine the current baseline
- Determine the likely outcomes without any intervention
- Decide what you want the future to look like for your organization
- Decide the scale of the interventions necessary to get you there
- Develop strategies appropriate to the scale of the needed interventions
Financial strategies based on your mission and values

There are many paths to get you to your goal

- What are your revenue generating strategies?
- Are there non-labor cost savings measures at the necessary scale?
- If personnel strategies are necessary, how do you uphold your values?
- Does your path provide for mission integrity and program effectiveness?
The importance of a good modeling tool

- Helps you create and communicate a path from your current situation to your future
- Identifying your desired endpoint focuses your choices
- Allows you to determine the necessary scale of interventions
- You can test various strategies against your assumptions
Call To Action
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)?
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