



Nonprofits: Help in Weathering a Pandemic

Presented by Anna Lovegren, CPA, Stacy Shaw, CPA, MBA, Barb Sawdy, CPA, CGMA & Tiffany Shermak, CPA

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Stacy Shaw, CPA, MBA



Partner

Education

- Bachelor of Accounting, University of MN – Carlson School of Management
- MBA, Accounting – Metropolitan State University

Accreditation

- Certified Public Accountant

Professional Memberships

- American Institute of Certified Public Accountants (AICPA)
- MN Society of Certified Public Accountants (MNCPA)
- Association of Women Contractors (AWC)
- MN Chamber of Commerce

Stacy joined Boyum Barencheer directly from college and has continually grown within the firm. As a catalyst in BB's Business Advisory Services area, she works directly with clients in all aspects of their businesses. She enjoys the direct client contact and is involved in consulting and tax planning. Within the firm, Stacy is an ardent leader in training and mentoring fellow accountants. Her favorite part about working at BB is the people and this is evident as she is all about sharing her knowledge and experience.

Stacy is a founder and board member of Project Paper, Pens & Pencils. She is also an active member of the MN Society of CPAs and works on various committees at her church.

Her leisure time is spent with family and friends drag racing (yes, she does race herself), camping, hiking, biking and skiing.

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Anna Lovegren, CPA



Audit Partner

Education

- B.A., University of MN-Duluth

Accreditation

- Certified Public Accountant

Professional Memberships

- American Institute of Certified Public Accountants (AICPA)
- MN Society of Certified Public Accountants (MNCPA)
- Non-Profit Financial Group
- MN Council of Nonprofits (MCN)
- AICPA Not-For-Profit Section
- AICPA governmental Audit Quality Center
- Northwest Metro Referral Group

Anna started her career at Boyum Baren Scheer over 20 years ago. During this time she has become the firm's nonprofit specialist, spending much of her time in the audit and accounting area. In addition to nonprofit work, Anna leads the real estate audit area for the firm. Liking diversity on the job, she assists clients in a variety of industries and services in addition to her audit work. Anna also serves as the firm's Quality Control Partner and as the Director of Continuing Professional Education. She is personally involved with a number of local nonprofit organizations including sitting on finance committees of two organizations.

Playing soccer and traveling are activities Anna enjoys, but spending time with her 12-year old daughter is her favorite investment of time.

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Tiffany Shermak, CPA



Senior Manager

Education

- B.S., Accounting, Arizona State University - Tempe

Accreditation

- Certified Public Accountant
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Professional Memberships

- American Institute of Certified Public Accountants (AICPA)
- MN Society of Certified Public Accountants (MNCPA)
- MN Multi Housing Association (MMHA)

Tiffany joined Boyum Barendscheer in 2014 bringing with her over 8 years of public accounting experience. After starting her career with a Big Four global firm, Tiffany served a local non-profit as Controller. She re-joined the ranks of public accounting after spending time at home with her young children. Her primary focus is servicing a large number of real estate and nonprofit clients.

As a volunteer, Tiffany serves the Bloomington School District in a variety of roles, one of which is serving on the District's Community Financial Advisory Committee. She is also a board member of the Education Foundation of Bloomington, a past Treasurer for the Bloomington Fastpitch Association and is involved with her church.

She enjoys traveling with her family and spending time at her children's activities. Tiffany and her husband Bill live in Bloomington with their three children.

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Barb Sawdy, CPA, CGMA



Business Advisory Services Partner

Education

Bachelor of Business Administration, University of WI – Oshkosh

Accreditation

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Professional Memberships

American Institute of Certified Public Accountants (AICPA)

MN Society of Certified Public Accountants (MNCPA)

Treasurer, Women of Today – Burnsville Chapter

Barb Sawdy came to Boyum Baren Scheer over 10 years ago with 15+ years of business, controller, and accounting experience. She has evolved into the firm's leader in complex sales tax, payroll, and accounting software issues. She also plays a vital role in the firm's Business Advisory Services department with training and assisting our accountants as they begin their careers. She likes being part of the widely-varied, experienced BB team working with clients and the diversity of businesses they represent. She said working at BB feels like family.

When not quilting or reading, Barb is spending her extra time with family activities. She loves to travel and while she is an experienced traveler, she hopes to someday take a more extensive European vacation.

Barb and her husband, Bob are the parents of two children and live in Burnsville, Minnesota.

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Agenda

- Housekeeping Items
- Tax Filing Deadlines for Nonprofits
- Nonprofits and COVID-19:
 - PPP
 - Certifications & Forgiveness
 - Payroll and employment-related relief
 - Payroll tax credits and paid leaves
 - Accounting for the relief
 - Regulatory compliance considerations
- Other IRS Topics
- Tools for Success
 - Big picture playbook
 - Deferment of payments
 - Financial best practices
- Q & A

Tax Filing Deadlines for Nonprofits

- IRS – Exempt Organizations Returns
 - Automatic extension until July 15, 2020
 - Forms 990, 990EZ, 990N, 990PF, 990T
 - Includes those already extended, i.e. June 30, 2019 year-ends that would be coming to their final due date on May 15, 2020
- MN Attorney General – Charitable Organization Annual Report
 - Automatic 4-month extension, which follows their normal extension timeline
 - Does NOT include those already extended, i.e. 6/30/19 year-ends under extension are still due May 15, 2020
 - Does NOT apply to charitable trust filings

EIDL

ECONOMIC INJURY DISASTER LOAN

- Nonprofits - including 501(c)(4) & 501(c)(6), religious and faith-based
- \$2 million max, \$10K advance
- Up to 30 years, 2.75% (NFP rate)
- Use for things other than PPP uses.
- No personal guarantee < \$200K
- No forgiveness except on advance.
- Funding has slowed. As of 4/15, SBA stopped accepting app. On 4/27, Congress approved funding for \$60B more to the EIDL program (\$50B EIDL loans; \$10B EIDL Emergency Advances). SBA is currently only accepting apps from agriculture businesses.

PPP

PAYCHECK PROTECTION PROGRAM

- Nonprofits - 501(c)(3) & 501(c)(19), religious and faith-based
- 2.5 x average TTM payroll costs, \$10M max
- 2 years, 1% interest rate
- Payroll, interest on mortgage, rent and utilities (25% cap for non-payroll)
- No guarantee or collateral
- Yes on forgiveness, as defined
- Applications began April 3, 2020. Currently on round 2 of funding and banks are accepting applications.

PPP OVERVIEW

- March 27, 2020 - CARES Act signed into law, approving \$349B for the PPP
- April 3, 2020 - banks began accepting employer applications
- April 10, 2020 - first date for self-employed and independent contractors to apply
- April 16, 2020 - round 1 of PPP funding (\$349B) exhausted :
 - Average loan = \$206K. 74% of loans \leq \$150K
- April 24, 2020 Congress approved round 2 of PPP funding for \$250B
- April 27, 2020 SBA started processing apps again
 - As of May 3, 2020-Treasury reported average loan = \$79K. 71% of loans \leq \$50K
- May 11, 2020 – a month and a half into the program

PPP Eligibility

CARES Act Section 1102

- Organizations less than 500 employees. SBA affiliation rules apply.
- Non-profit -
 - 501(c)(3) tax exempt organizations
 - 501(c)(19) vet organizations
- Tribal business concerns
- Self-employed and independent contractors
- New businesses operating by February 15, 2020, with employees or self-employed
- Certifications have significantly expanded over the past month with the release of Treasury FAQs

PPP Eligibility - Certifications

April 23, 2020 Treasury FAQ #31 reminds borrowers of certifications made in applying for PPP:

- “*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 goes on to say:

- "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.**"
- Safe harbor provided for borrowers having received PPP loan funding prior to April 23 – to return proceeds by May 7, 2020, still allowing borrower to have made certifications in good faith.

PPP Eligibility - Certifications

April 28, 2020 Treasury FAQ #37 clarifies that FAQ #31 does not just apply to large publicly-held companies, but also to private companies, including nonprofits.

April 29, 2020 Treasury FAQ #39 announces that loans > \$2M, and others as appropriate, will be subject to SBA audit

May 5, 2020 Treasury FAQ #43 – extends the deadline to return PPP proceeds by May 14, 2020

What does this mean for me?

Create an Impact Statement

- Document your organization's situation at the time you applied for PPP, to demonstrate the need for a PPP loan.
- Documentation should include both quantitative and qualitative aspects and seeks to tell your story.
- Consider consulting with legal counsel if you are unsure.
- Examples of factors to consider in your impact statement:
 - Are you impacted by any stay-at-home or shelter-in-place orders?
 - Have you needed to adjust your workforce (furloughs, lay-offs, etc)?
 - Quantify current and anticipated changes in revenues and expenses.
 - Update budgets and cash forecasts and include with the narrative.
 - Assess your access to cash or other liquidity. How long will it last based on current business activity? Based on anticipated business activity?
 - Are assets' use restricted by donor restrictions or other purposes?

PPP Forgiveness-Allowable Uses

CARES Act Section 1106

- Payroll costs, same as defined when you applied for the loan:
 - Salaries, wages, commissions, tips, (includes housing allowance, vacation, sick leave, severance, etc) (limited to \$100K/employee, annualized)
 - Group health care benefits, including insurance premiums
 - Retirement benefits
 - State & local payroll taxes
- Nonpayroll costs (provide evidence of existence prior to 2/15/20):
 - Interest on mortgages
 - Rent – real and personal property leasing arrangements
 - Utilities
 - Interest on other debt incurred prior to 2-15-2020 (allowable use, but not forgivable)

PPP FORGIVENESS - DOCUMENTATION

- Payroll reports and payroll tax filings (941)
- Calculations of employer's share of health and retirement benefits, if not obvious in payroll reports
- Third party invoices
- Mortgage, lease and debt agreements (executed prior to 2/15/20)
- Cancelled checks
- Bank statements (if separate bank account is used)

PPP Forgiveness - Limitations

4 limitations come into play that interact with each other, but are also measured independent of each other:

1. Did you spend enough on allowable uses during the 8 week covered period?
2. Did you use $\geq 75\%$ of the allowable costs (forgivable portion) on payroll? *

* SBA regs indicate a limit of no more than 25% of *forgivable portion* to be used for nonpayroll costs. SBA regs also indicate 75% of *loan proceeds* to be used for payroll costs.

PPP Forgiveness - Limitations

3. Did you reduce full-time equivalents (FTEs) during the 8-week period as compared to a base period? If yes, reduction will decrease forgiveness. **

- For example if 90% headcount is achieved, then at most 90% of amount spent on allowable uses can be forgiven.

4. Did you reduce salaries or wages more than 25% for employees making less than \$100,00? If yes, forgiveness is reduced dollar for dollar by the amount of reduction > 25%. **

**An exception applies to the limits in #3 and #4. If you have a headcount and/or wage reduction between February 15, 2020 and April 26, 2020 and you restore your FTE and/or wage levels by June 30, 2020, the related reductions resulting from #3 and/or #4 are eliminated.

PPP Open Questions

Awaiting further SBA guidance for the following:

- *"Costs incurred and payments made during the covered period"*
- When calculating forgiveness, order of applying the 25:75 limitation is uncertain.
- FTEs:
 - No method to calculate FTEs is specified by rules and regs. Conventional wisdom suggests 30 hour week. (Reg Sec 54.4980H-2(c))
 - How do non COVID-19 related employee terminations impact the restoration of FTEs? Does the borrower still need to rehire?
 - **May 3, 2020 Treasury FAQ #40 – employees who decline a written offer to return will NOT count against borrower in the FTE calculation.**

PPP Scenario

NFP XYZ has 9 employees: 7 FT, 2 PT (.5 each) - total of 8 FTEs. PPP loan was funded for \$100K on 5/1/20.

1. As a result of COVID-19 the organization's revenues experienced immediate decreases, but it had just enough excess cash to fully employ its workforce until its PPP loan was funded. Based on payroll costs consistent with the prior year, the organization spent \$73,333 for the 8 week covered period on payroll costs (as compared to \$75,000 for a 2-month period in 2019). Non payroll costs were \$25,000, but limited since they exceeded 25% of forgivable costs.

Total spent - \$98,333

Maximum forgiveness due to amount spent on payroll - \$97,777

Loan amount to be repaid - \$2,223

Same organization, assume they cut hours and wages in half for 4 FT employees. Cuts effective through 5/31. Hours and wages fully restored on 6/1.

PPP Scenario Continued

2. NFP XYZ spent \$65,000 for the 8 week covered period on payroll costs. Non payroll costs were \$25,000, but limited since they exceeded 25% of forgivable costs. No reductions due to FTE or wage limits since both were restored by June 30.

Total spent - \$90,000

Maximum forgiveness due to amount spent on payroll - \$86,000

Loan amount to be repaid - \$14,000

Same organization, assume they furloughed 1 FTE and cut hours and wages in half for 2 FT employees. The 1 FTE's hours and wages were restored on 6/1; but NFP XYZ just didn't have enough work for the 2 FT employees, now with ½ the hours and wages – so they were not restored by June 30.

3. NFP XYZ spent \$60,000 for the 8 week covered period on payroll costs. Non payroll costs were \$25,000, but limited since they exceeded 25% of forgivable costs. There are FTE and wage reductions neither which are restored by June 30 for the 2 FT employees whose hours and wages were cut in half.

Total spent - \$85,000

Maximum forgiveness due to FTE & wage reductions and due to portion spent on payroll - \$63,000

Loan amount to be repaid - \$37,000

What Should I Do Next?

- If you have applied for the PPP and continue to be comfortable with the certifications, create an impact statement and carefully track your use of PPP funds.
- If you have applied and aren't sure you're comfortable with the certifications – reach out to others: consult with your finance committee, Board, attorney, CPA, bankers, other similar NFPs. Creating an impact statement can facilitate the decision-making process.
- If you have not applied and want to - prepare your application and create your impact statement. Find a lender who is still processing PPP applications.
- EIDL – if you applied prior to 4/15, gather the necessary docs for the full application process and be ready for when the SBA starts to process applications again
- If you have not yet applied and this seems to meet the org's needs, watch [sba.gov](https://www.sba.gov) for apps to open up again
- Main Street Lending program - Federal Reserve. Currently not for nonprofits. The Fed is evaluating a separate approach to meet the needs of nonprofits.
- Is there anything else available?

Employee Retention Credit

- Not available to employers taking the SBA PPP loans
 - Refundable credit against applicable employment taxes for each calendar quarter up to 50% of qualified wages paid to each employee
 - Qualified wages (including allocable qualified health plan expenses) to any employee for the 2020 year not to exceed \$10,000 (\$5,000 maximum credit per employee)
 - Payroll deposits can be adjusted based on reasonably expected credit allowance
 - Form 7200 can be completed for advance payment of the credit
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Eligible Employer

- Employers, including nonprofits, that carry on a trade or business during calendar year 2020 that either:
 - Fully or partially suspend operations during any calendar quarter in 2020 due to government order limiting commerce, travel or group meetings due to COVID-19; or
 - Experience a significant decline in gross receipts during the calendar quarter
- Employers with more than 100 full-time employees in 2019:
 - only for qualified wages for the time the employee is not providing services
- Employers with less than 100 full-time employees in 2019:
 - Any wages during the period of economic hardship
- Applies to qualified wages paid after March 12, 2020 and before Jan 1, 2021

- Significant decline in gross receipts qualifier for nonprofits is awaiting further guidance from the IRS.
- For other businesses, the gross receipts must be less than 50% of the gross receipts from the same calendar quarter from 2019 and continues until gross receipts are more than 80% compare to the comparable prior year quarter (effective the 1st day of the calendar quarter after 80%)

Unemployment for self-insured employers

- MN awaiting instructions on how the federal government financial relief will work
- CARES Act allowed for 50% federal reimbursement for unemployment costs
- UIDL 18-20 requires employers to pay their bill in full before reimbursement can be processed
- National Council of Nonprofits and others are seeking to change that due to cash flow burden it would impose on nonprofits

Employer payroll tax deferral

- Applies only to the employer portion of social security taxes (6.2%)
- Deferral period is from March 27, 2020 through December 31, 2020
- Repayment due dates 50% on 12/31/2021 and 50% on 12/31/22
- Employers that receive a PPP loan may not defer the payment of the payroll taxes after loan forgiveness
- Payroll taxes deferred up until loan forgiveness follow the due dates as listed above

Families First Safe & Sick Leave (FFCRA)

- Expands FMLA to employers with less than 500 employees (versus 50 or more employees)
- Expands qualifying event to include:
 - Unable to work (or telework) due to need to care for child(ren) if school or day care is closed due to a public health emergency
 - Identifies COVID-19 as a public health emergency
 - Exempts small businesses with less than 50 employees when the requirements would jeopardize the viability of the business as a going concern

Effective April 1, 2020 ending December 31, 2020

Emergency Paid Sick Leave Act

- Up to 80 hours paid sick leave available for immediate use that is applied against payroll taxes and refundable to the employers
- Not to exceed \$511 per day, \$5,110 total for the following:
 - Employee is under quarantine or isolation order related to COVID-19
 - Employee is advised by a health care provider to self-quarantine due to concerns related to COVID-19
 - Employee is experiencing symptoms of COVID-19 and is seeking a medical diagnosis

Emergency Paid Sick Leave Act Part 2

- Not to exceed \$200 per day, \$2,000 total per employee for the following:
 - Employee is caring for a family member due to quarantine or isolation order or recommendation from a health care professional
 - Employee is caring for a child if the school or daycare is closed or unavailable
 - Employee is experiencing substantially similar condition specified by the Secretary of Health & Human Services
- Computation is the lesser of 67% of the employee wages or \$200

Expanded family & medical leave

- Up to an additional 10 weeks but only if employee is caring for a child if the school or daycare is closed or unavailable due to COVID-19 related reasons
- Not to exceed \$200 per day, \$2,000 total per employee for the following:
- Computation is the lesser of 67% of the employee wages or \$200
- If employer was subject to FMLA, leave taken under the expanded requirements are included in the 12 week in 12 months limitation.

Documentation

- Name of employee requesting leave
 - Date(s) that leave is requested
 - Reason for leave; and
 - Statement from employee that he or she is unable to work because of the reason
 - If under advice of health care provider, the name of the provider
 - If due to school or daycare closure
 - Name of child being cared for
 - Name of school or provider that has closed or become unavailable; and
 - Statement from the employee that no other suitable person is available to care for the child
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Accounting for Payroll Tax Credits

Record payroll expenses as usual

Create new accounts (contra accounts) to record credits

- Wage credits (ERC and FFCRA)

- Payroll tax credits

- Employer health insurance

Accounting for Loans & Loan Forgiveness

- Loan proceeds – record as debt
 - Deposit or transfer to a separate bank account (highly suggested)
- PPP eligible expenses – record as normal
 - Track closely and separately through your general ledger or a spreadsheet
 - Make transfers from your PPP bank account to your operating account as you spend it
- Forgiveness – record as revenue once it's forgiven (easiest way)
 - What about for June 30, 2020 year-ends? Loans likely not forgiven yet
 - For GAAP, non-profits follow ASU 2018-08 (considered conditional grants)
 - Anticipating further guidance soon which could give some options

Loans: Regulatory Compliance

- Single audit requirements under OMB Uniform Guidance
 - Recently received guidance from SBA on the various relief programs
 - PPP loans – will NOT be considered federal funds for single audit purposes
 - EIDL loans – WILL be considered federal funds for single audit purposes
 - Single audit required when total federal funds exceed \$750,000 for the fiscal year
- Grant funds vs PPP funds for PPP eligible expenses
 - Expenses can only count towards one or the other (unless permitted by grantor)
 - Consider applying for a PPP loan to cover payroll costs not covered by grants
 - Consider giving back part of your PPP proceeds if needed
 - Communicate with your granting agencies – are there options?

Other IRS Topics

- CARES Act – taxpayer provisions that help charitable organizations
 - New \$300 above the line tax deduction for charitable contributions
 - Should help incentivize donating for taxpayers who don't itemize deductions
 - Cash donations only (not stock, household items, etc.)
 - Contributions to a donor advised fund or private foundation do not count
 - Increased thresholds on charitable donation limitations for individuals
 - Taxpayers were previously limited to deduct charitable contributions up to 60% of their adjusted gross income. The limitation has changed to 100% of AGI, for qualified contributions.

Other IRS Topics

- IRS Exempt Organizations Division Update
 - Remote workforce – minimal live assistance, work is piling-up – especially on anything mailed to them (1023 applications, responses to notices, manual 990 filings, etc.), also they are emailing with organizations for the first time
 - No new liens or levies as of 3/25/20 (People First Initiative)
- Parking lot tax is gone (it was new with 2017 tax laws, but repealed for tax exempt organizations in late 2019)
 - For tax exempt organizations that paid UBIT (Unrelated Business Income Tax) for this, they can amend 990T's to get it refunded

Other IRS Topics

- Charitable donation acknowledgements – through a 3rd party (donor-advised fund, GiveMN, etc.)
 - When a 3rd party takes responsibility for receiving donations and providing the IRS required acknowledgements, the end user charity doesn't also need to provide an acknowledgement
 - However, the charity might want to also send a thank you (not the official IRS required acknowledgement), but should make it clear the donation was received through named 3rd party
 - The risk is that these could inadvertently be double counted by taxpayers if receiving multiple acknowledgements letters which could be in different tax years

Big Picture Playbook

- Weekly update cash flow forecasts (considering immediate changes to events, fundraising plans, and program services). We recommend a 13-week template
- Apply for SBA loans that are appropriate
- Talk with your banker about establishing or expanding a line of credit
- Review unemployment, retention credits and related provisions
- Assess workforce strategy and possible changes
- Continue to fundraise and market your story
- Communication is key with your team, donors, grantors, vendors, banks, bonding and other partners
- Plan for bad and hope for good

Deferment and Other Cash Flow Ideas

- Contact your lenders, credit card companies, landlords, insurance provider and other vendors
 - Request an alternative payment schedule to better align with cash receipts timing
 - Will they allow for payment deferrals? Ask for policy in writing.
- Other sources of cash:
 - Openly communicate with donors and grantors, pursue collecting A/R and/or pledges receivable
 - Assess whether donors would be open to releasing previously restricted assets
 - Watch discretionary spending

Financial Best Practices

Daily, or every few days, monitor cash flow and be ready to adjust operations accordingly

Monthly – all comparative

- Balance sheets
- Income Statements (including budget comparisons)
- Cash Flows

Update your current year budget. If nearing the end of your fiscal year, update the next year's budget

Links to valuable resources

- EIDL Advance online application: <https://covid19relief.sba.gov/#/>
- Where to find PPP FAQs:
<https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>
- BB COVID-19 Resource Center – you will find blog posts, recorded webinars, 13 week cash flow template and PPP Loan & Forgiveness Calculator.
 - <https://myboyum.com/covid-19-resource-center/>

Q&A

Disclaimer – we will get through as many questions as we can in the half hour allotted and will be posting the slides and video recording within 24 hours of this webinar on our website. Thank you again for joining.



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