CARES Act: Payroll Protection Program

Best Practices for Maximizing Your Chances for Loan Forgiveness through Accountability and Documentation

Session 1

Presented by

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Key Provisions

- Review your liquidity/unrestricted cash and document the unrestricted reserves and RETURN PPP Loan proceeds if you do not qualify.
- 75% minimum to be spent on payroll and benefits as defined by the program.
- 25% on occupancy/utilities expenses (limited to ceiling based on payroll cost).
- Beginning on the day the funds are deposited into your account, you have 8 weeks to spend the allowable costs to stay within the forgiveness period. The rule to follow is that the costs must be incurred and paid in the 8-week period.
Where do we go from here

- Future ZOOM calls
- **DOCUMENTATION**  **DOCUMENTATION**  **DOCUMENTATION**
- Pay attention to the rules—they can change through interpretation
- Be prepared to file the application for forgiveness when it is released by SBA
- Watch the conference website Mississippi-umc.org
Step 1 - Document Your Current Economic Uncertainty -- Facts and Figures

♦ Certification:
  – Current economic uncertainty makes this loan request necessary to support the ongoing operation of the Applicant.

♦ You must be prepared to make a case for the context in which your board decided to apply for this loan based on this certification
  – Factual uncertainty (fears) of the day and how we as the church continue our mission and ministry in the community where we serve
  – Dollars - how much do we have? Of that amount, how much can we use; if it runs out, do we have access to more dollars?
Describe the current context of the day (March 31, 2020) and how does it look for the coming 8 weeks and the balance of the year

- No in person worship, offering plummeting,
- cash in the bank,
- bills coming in,
- payroll to be met,
- losing employees,
- church workers not covered by unemployment,
- fear of being infected,
- Federal, state, county, city, and conference/district guidance,
- Easter in 2 weeks

Write this down, make it clear, concise and compelling
Part B-Document Your Current Economic Figures & Future Budget Adjustments

♦ Review your current liquidity/unrestricted cash.
  – Document the unrestricted reserves and access to funds from the outside (loans, line of credit).
  – Current is not defined so I would suggest the next 8 weeks is the first category and the balance of the year.

♦ The access to outside funds as alternate sources of liquidity must meet the standard “in a manner that is not significantly detrimental to the business” (the church).
  – Return of the donor base
  – Ongoing expenses
  – Cost of ministry and what will have to stop
• Prepare a balance sheet as of March 31, 2020-different than normal
  – List all cash in all locations that the church has control and access to:
  – Determine what is restricted by donor (endowments etc)
  – Determine any amount that is board restricted that can be changed by the board action (this is really unrestricted)
  – Determine all liabilities as of that day-accounts payable, notes payable, etc
  – Include a rainy-day fund line of future payables which will be for the two periods stated separately. Include minimum but necessary funds.
    • Next 8 weeks
    • Through 12-31-2020 after the 8 weeks
Now that you have completed step 1, make a decision on this good faith certification

♦️ Certification:
  
  – **NOW**: 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.
  
  – **Originally**: Current economic uncertainty makes this loan request necessary to support the ongoing operation of the Applicant.
  
  – If you cannot certify the “now”, return the funds.

♦️ If you can certify the **NOW**, then the loan is necessary, and you are ready to move to step 2.
Step 2: Applying for Loan Forgiveness

- Must apply—it is not automatic
- Apply after the 8-week time for spending—application is not out yet

- Know your dates
  - Period begins on the day of deposit of your loan proceeds
  - Ends on the 56th day
  - Mark your calendar
Part A: Applying for Loan Forgiveness Compensation and expenses

- **Clergy Compensation Budget form Line D**
  - Does not include reimbursable expenses—they are expenses of the church
  - Does include housing and benefits paid to pastor

- **Benefits Documentation-Employer Provided**
  - Clergy direct invoice is includable—but not at 100% of the billing. The part that is includable is based on the clergy status and does not include death and disability-CPP.
  - Laity includable cost is the employer’s share of the payments made to providers for their pension or health benefits—but no death and disability benefits.

- **Gross salary for laity—does not include FICA/MC match**
Part A (Continued) Prepare FTE Schedule (Full Time Equivalents)

- Determine monthly the average number of FTE (full time equivalents) by using both of the following time periods. Then, you may apply whichever is best for you. If you are a seasonal employee (day care, after school care, etc), another period can apply.
  - February 15, 2019 - June 30, 2019 OR
  - January 1, 2020 – February 29, 2020

- Begin and Maintain a monthly spreadsheet to document your FTE for the 8-week period on a monthly basis of spending
- The numerator is the current year and the denominator is the method above that you selected.
Part B: Documentation

- Prepare schedules to account for
  - Payroll and costs
  - Occupancy Expenses
- Keep copies of all bills, checks, and any other proof you deem necessary
- Be consistent with archiving items
- Make it easy to follow - drop a lot of breadcrumbs
What could cause you to have less than 100% of your loan forgiven

♦ Spending less than 75% of the loan on payroll costs
♦ Headcount reduction factor
♦ Salary and wage reduction amount
♦ EIDL advance
♦ Wages paid for Expanded Family Leave Act for which you receive the allowable credit
Best Practices

- If you do not use a separate bank account, customize your accounting for easy reconciliation and documentation of your expenditures.
- Remember, this is a loan. Account for it in notes payable.
- Use your regular chart of accounts and use contra-accounts to move from loan to proposed grants.
- Separate bank account (not required).
- If you use a separate bank account, set up a process of transferring funds from the separate account, documenting those expenditures for each transfer.
Other thoughts as we wait on further guidance

- If you rent/lease your copier, it is an occupancy cost
- If you have Pitney Bowes equipment, it is normally rented/leased and is an occupancy cost
- Electricity, gas, water are utilities-solid waste and phone may be added in later interpretations
- Costs must be incurred and paid in the 8-week period-cash basis is the way to think on this (final payroll before the 8-week time frame ends)
- If the funds are in a separate account, only spend out of them what is an allowable payment.
Let us resource you!

♦ Many great resources and seminars are out there. These are some of my favorites that I used to prepare myself:
  – Horizons Stewardship (horizons.net)
  – CapinCrouse, CPA (capincruse.com)
  – Wespath (wespathg.org)
  – GCFA (gcfa.org)
  – Church Law and Tax (churchlawandtax.com) (Christianity Today-Richard Hammar)
  – Evangelical Council for Financial Accountability (ECFA.org)
  – BKD CPAs & Advisors (bkd.com)
Let us resource you!

♦ Mississippi-umc.org
  – (Offices>Administry/Resources for COVID-19 Cares Act)
♦ Call us and we will try our best to help you.

♦ This is the first session. More will be scheduled as information is available.

♦ Future Zoom Calls will be announced by email