FINANCES AMID COVID-19
ASHWINI VASUDEVA & SANDHYA MUKKAMALA, CPA
April 29, 2020 1 p.m. – 2.00 p.m. PST

Moderated by:
Marianne Ellis
Co-Founder
AGENDA

1. Update on CARES Act – Round 2 *(Guidelines are changing daily)*
2. Get prepared for PPP loan forgiveness
3. Build optimal Processes and Policies
4. Identify Fraud and Mitigate Risks
5. Q&A

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# Key comparisons - PPP VS EIDL

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<th>PPP</th>
<th>EIDL</th>
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<tbody>
<tr>
<td><strong>Limit</strong></td>
<td>Max loan up to $10 M through banks, other Financial Institutions</td>
<td>Max loan up to $2 M through SBA</td>
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<td><strong>Forgivable</strong></td>
<td>Yes. 100% with approval.</td>
<td>Only an advance <strong>up to</strong> $10K. Advance will be based on the number of pre-disaster (i.e., as of January 31, 2020) employees. $1,000 per employee up to a maximum of $10,000.</td>
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<td>▪ At least 75% must be used for paying payroll costs</td>
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<td>▪ Remaining 25% used for paying rent, mortgage interest, utilities (can't exceed 25%)</td>
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<td><strong>Loan Terms</strong></td>
<td>1% interest, 2-yr payback. 6-months deferral on your first payment</td>
<td>3.75% for-profit and 2.75% for non-profit interest, 30-yr payback, 12-months deferral on your first payment</td>
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<tr>
<td><strong>Timing</strong></td>
<td>First come first served. Starts April 3 (April 10 for independent contractors) and open until June 30, 2020.</td>
<td>Anytime</td>
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<td><strong>Usage</strong></td>
<td>Permitted costs only such as payroll costs, continued health care benefits, interests on mortgage &amp; other debts and rents and utilities. (doesn't include employers FICA taxes)</td>
<td>May be used for paying fixed costs, payroll, accounts payable and other operating expenses that can’t be paid because of the disaster’s impact.</td>
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Maximize PPP Loan Forgiveness

Most banks are not ready with the processes/systems in place to address the loan forgiveness verification requirements. However businesses those who have received funding must prepare for the forgiveness.

Use project codes to track all PPP related forgivable expenses in your general ledger so that you can have internal controls segregating those expenses.

**Eligible costs**

PPP loans offer a potential for the entire loan to be forgiven, tax-free. To be eligible for forgiveness, the loan proceeds must be used for:

- Payroll costs (At least 75%)
- Payments of interest on any mortgage obligation that was incurred after February 15, 2020
- Any payment of rent under a leasing agreement in force after February 15, 2020
- Any utility payment for which service began before February 15, 2020

Payment specifically excluded from forgiveness includes the following:

- Cash compensation in excess of $100,000 for an individual employee or self-employment income of a partner in a partnership
- Compensation to an employee with a principal residence out of the United States
- Qualified sick or family leave wages under the Families First Coronavirus Response Act
- Prepayment for expenses
Loan forgiveness additional tests

After an employer calculates its spending over the eight-week period, there are two more tests which may reduce the amount of loan forgiveness.

1. Compare the average full-time equivalent employees (FTEs) during the eight-week period to the average FTEs from February 15, 2019 through June 30, 2019, OR January 1, 2020 through February 29, 2020, whichever is lower.

2. Whether there has been a more than 25 percent reduction in salary for any individual employee from the eight-week covered period in comparison to pay during the first quarter of 2020.

Finally, based on the CARES Act, there is a provision for rehiring before June 30, 2020 which may negate the impact of the above 2 tests and qualify 100% loan forgiveness.
5 pitfalls and risks associated with PPP Loans

- Reduction in full-time equivalents (FTE)
- Incomplete documentation for usage of PPP loan
- Inaccurate calculation of qualified expenses on forgiveness application
- Nasty pay-back period
- Delay in applying for loan forgiveness
PPP loan forgivable checklist – Initial Draft

Must apply through your lender for forgiveness of the loan. Maintain all documents substantiating the usage of loans on permitted costs during an 8-week period (covered period) after the origination date of the loan.

The documentation checklist below may be requested to verify the loan usage. Note that additional documentation (not listed below) may be requested and will vary from lender to lender.

- Documentation verifying
  - Number of full-time employees and pay rates
  - Payroll registers and ACH transfers to the payroll company each week during the 8-week covered period.
  - Payroll reports such as IRS tax Form 941 for Q1/Q2/Q3 of 2020.
  - State payroll reports for Q1/Q2/Q3 of 2020.
  - Proof of Payments, such as cancelled checks, online payment confirmations etc. on covered mortgage obligations, lease obligations, and utilities.
  - Proof of Payments for health insurance benefits for 8-week period.

- May also request
  - Completed financials (P&L and B/S sheet) for the covered months/quarters/6 months of 2020 and Financials for 2019.
  - 2019 Income tax returns along with prior returns

## PPP, EIDL and Other Federal Grants

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<th>Programs</th>
<th>Details</th>
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<td>Paycheck Protection Program (PPP) Loan</td>
<td>- PPP will get an additional $310 billion in government funds for new loans, taking it from $349 billion to $659 billion in total.</td>
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<td>- $250 billion is unrestricted.</td>
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<td>EIDL program</td>
<td>Additional $60 billion in funding through the SBA.</td>
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<td>Employee Retention Credit</td>
<td>- Fully refundable payroll tax credit designed to help eligible employers to keep employees on payroll.</td>
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<td>- Upto $5k credit per employee.</td>
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<td>- Cannot take credit if received assistance through PPP.</td>
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<td>Social Security Tax Deferral</td>
<td>- All employers can defer 50% post March 12, 2020</td>
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<td>- 6.2% FICA Taxes until December 31, 2021, with the other 50% due December 31, 2022.</td>
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<td>- CANNOT defer if received assistance through PPP.</td>
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<td>Families First Corona Response Act (FFCRA)</td>
<td>- Provides refundable tax credits that reimburse employer cost (100%) of providing paid Sick and Family Paid Leave wages.</td>
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<td>- Has to be COVID-19 related</td>
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<td>- Max- 2 weeks sick leave OR $10K for family leave.</td>
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<td>- No credit if received PPP.</td>
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<td>SBA Debt Relief</td>
<td>SBA will automatically pay the principal, interest and fees of current 7(a), 504 and Microloans for a period of six months, including new loans issued.</td>
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<tr>
<td>Additional Debt Relief</td>
<td>If your disaster loan was in &quot;regular servicing&quot; status on March 1, 2020, The SBA is providing automatic deferments through December 31, 2020</td>
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Top 7 action items to deal with and adapt during the downturn

1. **SBA OFFERS LOANS:** Take advantage of the SBA offered loans to support the operational costs. Before doing so, evaluate your business needs and see if this fits in your business plan. Talk to your lender.

2. **R&D TAX CREDITS:** Inventors and innovators are brilliant people. However, to become a successful entrepreneur, know the various benefits offered by the Government. Ensure that all the updates to R&D tax credit incentives are incorporated in the calculations and maximize your tax benefits.

3. **PROTECT YOUR INTELLECTUAL PROPERTY RIGHTS:** Utilize this time to know your Licensing agreements and uncover any gaps in the contract. As you notice your organic revenue decreases, strategize to recover some of the lost revenues through Licensing / Royalty audits. REMEMBER, not only in these times, but in future every dollar is important to ensure business continuity and increase the bottom line of your P&L.

4. **BEST PRACTICES:** Take this time to look inwardly. Let’s clean up our “Business Houses”. Let’s look into our financial and operational practices, and benchmark them to best industry practices.

5. **FRAUDULENT ACTIVITIES:** As you are aware, fraudsters are always around to take undue advantage of sensitive times. Tighten your processes and controls, inspect the transactions and do not fear to address any suspicious activity or Whistleblowers. Identify ways to recover monies through Accounts Payable, Time & Expense and Vendor audits.

6. **CONSULT WITH THE EXPERTS:** Talk to your Accountants, CFOs (outsourced or in-house) and Business Advisors to identify ways to make adjustments to revenue recognition for changes probability of customer payments. BRING in changes through adoption of proper Technical Accounting treatments.

7. **STRATEGIZE AND NEGOTIATE:** Review your existing vendor contracts. TAKE ACTION to reach out to your vendors, negotiate lower pricing and better payment terms. Transparency will build trust and a stronger relationship.
Build Optimal Processes and Policies, Identify Fraud and Mitigate Risks

- Take this time to look inwardly. Clean up your “Business Houses”. Look into your financial and operational practices, and benchmark them to best industry practices.
- Having strong Internal control system adds value and help management improve its operations especially during economic downturn.
- Tighten your processes and controls, inspect the transactions and do not fear to address any suspicious activity or Whistleblowers. As businesses scramble to assess working capital needs and secure short-term liquidity, the topic of fraud is likely one of the last items on a laundry list of critical concerns. Unfortunately, history has proven that in times of economic downturn, the risk of fraud is increased.

**Strong internal controls provide:**
- Compliance with organizational policies
- Compliance with laws and regulations
- Protection against waste, fraud, and inefficiency
- Reduced organizational risk
- Reporting accuracy and consistency across business units and departments
- Documented evidence of compliance or non-compliance for internal audit
- Management controls
What Astute Offers

ACCURATE FINANCIAL REPORTING / INTERNAL AUDIT / COMPLIANCE

Innovation & Invention
R&D Cost
Licensing Revenue
IP/License Compliance

R&D Credit Study
Revenue Recognition
Royalty Audit
Common Questions

- Which is better EIDL or PPP from the CARES Act? Can you apply for both?
- Can PPP or EIDL loans used for paying dividends/distributions to owners?
- Will these programs (EIDL and PPP) be misused? How will Government and SBA ensure that businesses who really need these loans are using them for the right purposes and not misusing?
- I received both PPP loan and EIDL grant of $10k, Are these both forgivable?
- How are Full Time Equivalents (FTE's) defined?
- What are some Corporates looking for selecting suppliers?
Q&A

HOW CAN WE HELP?
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