



# CASH IS KING

You've Decided to Keep Your PPP Funds, Now What?

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## Where Do We Go From Here?



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- » John Kissinger, President & CEO, GRAEF-USA Inc. [2]
- » Austin Ramirez, President & CEO, Husco International [3]
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# 13 Week Cash Flow

	1	2	3	4	5	6	7	8	9	10	11	12	13
	<u>5/11/2020</u>	<u>5/18/2020</u>	<u>5/25/2020</u>	<u>6/1/2020</u>	<u>6/8/2020</u>	<u>6/15/2020</u>	<u>6/22/2020</u>	<u>6/29/2020</u>	<u>7/6/2020</u>	<u>7/13/2020</u>	<u>7/20/2020</u>	<u>7/27/2020</u>	<u>8/3/2020</u>
<b>Sources</b>													
Accts Rec	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Cash sales	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Other	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
	111,000	111,000	111,000	111,000	111,000	111,000	111,000	111,000	111,000	111,000	111,000	111,000	111,000
<b>Uses</b>													
Material	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Payroll	-	50,000	-	50,000	-	50,000	-	50,000	-	50,000	-	50,000	-
Health Insurance	-	-	-	20,000	-	-	-	-	20,000	-	-	-	20,000
Rent	-	-	20,000	-	-	-	-	20,000	-	-	-	20,000	-
Other	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
	70,000	120,000	90,000	140,000	70,000	120,000	70,000	140,000	90,000	120,000	70,000	140,000	90,000
Cash Generated (used)	41,000	(9,000)	21,000	(29,000)	41,000	(9,000)	41,000	(29,000)	21,000	(9,000)	41,000	(29,000)	21,000
Payments on Debt	(35,000)	-	-	-	(35,000)	-	-	-	-	(35,000)	-	-	-
Tax Distributions	-	-	-	-	-	-	-	-	-	(50,000)	-	-	-
Interest on LOC	-	(5,000)	-	-	-	(5,000)	-	-	-	(5,000)	-	-	-
Beginning Cash	<u>20,000</u>	<u>26,000</u>	<u>12,000</u>	<u>33,000</u>	<u>4,000</u>	<u>10,000</u>	<u>(4,000)</u>	<u>37,000</u>	<u>8,000</u>	<u>29,000</u>	<u>(70,000)</u>	<u>(29,000)</u>	<u>(58,000)</u>
Ending Cash	26,000	12,000	33,000	4,000	10,000	(4,000)	37,000	8,000	29,000	(70,000)	(29,000)	(58,000)	(37,000)

# Income Statement Projection

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
	January	February	March	April	May	June	July	August	September	October	November	December
Revenues	150,000	162,500	176,042	190,712	206,604	223,821	242,473	262,679	284,569	308,283	333,974	361,805
Cost of Goods Sold - Materials	30,000	32,500	35,208	38,142	41,321	44,764	48,495	52,536	56,914	61,657	66,795	72,361
COGS Employee Wages (Employee Tab)	75,833	75,833	75,833	75,833	75,833	75,833	98,333	98,333	98,333	98,333	98,858	98,858
COGS Payroll expenses	18,958	18,958	18,958	18,958	18,958	18,958	24,583	24,583	24,583	24,583	24,715	24,715
Depreciation (CapEx Tab)	5,952	6,131	6,250	6,429	6,845	7,024	7,143	7,321	7,738	7,917	7,917	8,214
Repairs & Maintenance	3,000	3,250	3,521	3,814	4,132	4,476	4,849	5,254	5,691	6,166	6,679	7,236
Supplies	4,500	4,875	5,281	5,721	6,198	6,715	7,274	7,880	8,537	9,249	10,019	10,854
Cost of Goods Sold	138,244	141,548	145,052	148,898	153,288	157,771	190,678	195,908	201,797	207,904	214,983	222,238
<b>Gross Profit</b>	<b>11,756</b>	<b>20,952</b>	<b>30,990</b>	<b>41,814</b>	<b>53,316</b>	<b>66,051</b>	<b>51,795</b>	<b>66,771</b>	<b>82,772</b>	<b>100,379</b>	<b>118,991</b>	<b>139,566</b>
SG&A Employee Wages (Employee Tab)	52,083	52,083	52,083	52,083	52,083	52,083	52,083	52,083	52,083	52,083	58,171	58,171
SG&A Payroll expenses	13,021	13,021	13,021	13,021	13,021	13,021	13,021	13,021	13,021	13,021	14,543	14,543
Accounting & legal	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167
Travel and entertainment	1,500	1,625	1,760	1,907	2,066	2,238	2,425	2,627	2,846	3,083	3,340	3,618
Insurance	3,000	3,250	3,521	3,814	4,132	4,476	4,849	5,254	5,691	6,166	6,679	7,236
Office expense	4,500	4,875	5,281	5,721	6,198	6,715	7,274	7,880	8,537	9,249	10,019	10,854
Rent	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Utilities	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167
Property Tax	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Other Misc. State and Local Taxes	750	813	880	954	1,033	1,119	1,212	1,313	1,423	1,541	1,670	1,809
Miscellaneous (Bank fee, postage, etc.)	1,500	1,625	1,760	1,907	2,066	2,238	2,425	2,627	2,846	3,083	3,340	3,618
Interest Expense (Loan Tab)	1,667	2,392	3,213	3,611	3,999	4,497	4,813	5,182	5,528	5,867	6,110	6,268
SG&A Expense	97,854	99,517	101,353	102,852	104,432	106,222	107,936	109,821	111,808	113,925	123,705	125,950
<b>Operating Income</b>	<b>(86,098)</b>	<b>(78,565)</b>	<b>(70,364)</b>	<b>(61,039)</b>	<b>(51,115)</b>	<b>(40,171)</b>	<b>(56,140)</b>	<b>(43,049)</b>	<b>(29,036)</b>	<b>(13,546)</b>	<b>(4,715)</b>	<b>13,616</b>



# Balance Sheet Projection

	Month 1 January	Month 2 February	Month 3 March	Month 4 April	Month 5 May	Month 6 June	Month 7 July	Month 8 August	Month 9 September	Month 10 October	Month 11 November	Month 12 December
<b>ASSETS</b>												
Current assets:												
Cash	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Accounts receivable	150,000	237,500	257,292	278,733	301,960	327,124	354,384	383,916	415,909	450,568	488,115	528,792
Prepaid expenses	-	-	-	-	-	-	-	-	-	-	-	-
Inventory	-	30,000	32,500	35,208	38,142	41,321	44,764	48,495	52,536	56,914	61,657	66,795
Total current assets	200,000	317,500	339,792	363,941	390,103	418,445	449,148	482,411	518,445	557,482	599,772	645,587
Property and equipment, net	488,095	496,964	500,714	509,286	552,440	560,417	563,274	570,952	588,214	595,298	587,381	604,167
Total assets	688,095	814,464	840,506	873,227	942,543	978,861	1,012,422	1,053,363	1,106,659	1,152,780	1,187,153	1,249,753
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>												
Liabilities												
Current liabilities:												
Accounts payable	-	8,125	8,802	9,536	10,330	11,191	12,124	13,134	14,228	15,414	16,699	18,090
Accrued Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Line of Credit - Operating	180,075	382,791	484,450	583,431	709,049	790,683	885,481	974,517	1,061,836	1,126,423	1,170,358	1,029,107
Current maturities of LTD (Loan Tab)	72,222	72,222	72,222	72,222	72,222	72,222	72,222	72,222	72,222	72,222	72,222	112,542
Total current liabilities	252,297	463,138	565,474	665,189	791,601	874,096	969,827	1,059,873	1,148,286	1,214,059	1,259,279	1,159,740
Loan Payable - Shareholder	-	-	-	-	-	-	-	-	-	-	-	-
Long-term debt, net of current maturities (Loan Tab)	321,896	315,990	310,059	304,103	298,123	292,117	286,087	280,031	273,951	267,844	261,713	410,236
Total liabilities	574,193	779,128	875,533	969,292	1,089,724	1,166,213	1,255,914	1,339,905	1,422,237	1,481,903	1,520,991	1,569,975
Shareholder's liability												
Retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
Net income	(86,098)	(164,663)	(235,027)	(296,066)	(347,181)	(387,352)	(443,492)	(486,541)	(515,578)	(529,124)	(533,838)	(520,222)
Distributions	-	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Total equity	113,902	35,337	(35,027)	(96,066)	(147,181)	(187,352)	(243,492)	(286,541)	(315,578)	(329,124)	(333,838)	(320,222)
Total liabilities and shareholder's equity	688,095	814,464	840,506	873,227	942,543	978,861	1,012,422	1,053,363	1,106,659	1,152,780	1,187,153	1,249,753

## Step 1: Computation of Loan Amount

- Lesser of \$10 million or 2.5 times monthly average payroll costs
- Payroll costs include:
  - Wages, not to exceed annual rate of \$100,000 per employee
  - Self-employed earnings not to exceed an annual rate of \$100,000
  - Cash tips or equivalents
  - Vacation, parental, family, medical or sick leave
  - Severance, separation pay, and any retirement benefit
  - Group health care benefit pay including insurance premiums
  - State or local tax on the compensation of employees



## Step 2: Loan Forgiveness Amount

- Forgiveness period is an 8-week period that starts on the date of the first disbursement of loan proceeds
- Allowable expenses:
  - Amount of gross salary, wages, and tips, up to \$15,385 per individual (\$100,000 annualized);
  - Covered benefits for employees including health care, retirement, and state taxes imposed on employee payroll paid by the employer (not subject to the \$100,000 limitation);
  - Owner compensation replacement, calculated based on the net profit from the 2019 Form 1040 Schedule C, up to a maximum of 8/52 of the 2019 net profit;
  - Rent, utilities, and interest on mortgage and debt obligations relating to agreements dated before February 15, 2020.
- Forgiveness must consist of at least 75% payroll costs (including self-employment income and benefits) and a maximum of 25% non-payroll costs
- Forgiveness of “costs incurred and payments made” during covered period
  - Accrual vs. cash basis?
  - Must both apply?

## Step 2: Loan Forgiveness Amount

	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Total
Gross payroll									-
Less: Employee Pro-Rated Over \$100,000									-
Employee benefits - Health									-
Employee benefits - Retirement									-
State and local taxes paid by employer based on employee compensation									-
Rent									-
Less - adjustment for above market rent									-
Electricity									-
Gas									-
Water									-
Transportation									-
Telephone									-
Internet									-
Mortgage interest									-
Interest - other debt obligations									-
	-	-	-	-	-	-	-	-	\$ -

## Step 3: Reduction in Loan Forgiveness

- Reduction in headcount:
  - Multiply the forgivable portion of the loan by the following ratio. If the ratio is greater than or equal to one, the forgiveness is not limited.
    - Numerator: The average number of full-time equivalent (FTE) employees of the borrower during the eight-week forgiveness period
    - Denominator: The lower of
      - The average number of FTE per month from February 15, 2019 through June 30, 2019; or
      - The average number of FTE per month from January 1, 2020 through February 29, 2020.

## Step 3: Reduction in Loan Forgiveness

- Reduction in wages:
  - Potential reduction to forgiveness if the salary or wages of an employee earning less than \$100,000 is reduced by greater than 25 percent of what the employee was earning in the most recent quarter before the loan was disbursed.
  - This limitation results in a dollar for dollar reduction in the amount of loan forgiveness.
  - To calculate the reduction, compare 75 percent of the amount of wages the employee would have received for the eight-week period based on the pay rate in the most recent quarter before the loan was disbursed to the amount the employee actually received during the eight-week period.

## Step 3: Reduction in Loan Forgiveness

	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Total
Gross payroll									-
Less: Employee Pro-Rated Over \$100,000									-
Employee benefits - Health									-
Employee benefits - Retirement									-
State and local taxes paid by employer based on employee compensation									-
Rent									-
Less - adjustment for above market rent									-
Electricity									-
Gas									-
Water									-
Transportation									-
Telephone									-
Internet									-
Mortgage interest									-
Interest - other debt obligations									-
	-	-	-	-	-	-	-	-	\$ -
Less: amount attributable to workforce reduction									-
Less: amount attributable to salary and wage reductions									-
Less: amount of non-payroll costs in excess of 25% of total costs									-
Estimated loan forgiveness amount									\$ -





## Step 4: Restoration of Forgiveness

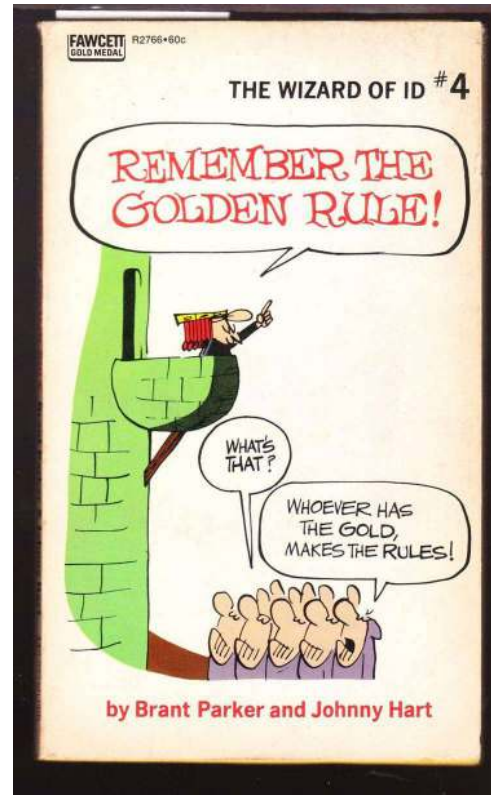
- If an employer replaces any full-time employees or restores any substantially reduced wages that occurred during the period from February 15, 2020 until 30 days after the passage of the Cares Act, when compared to February 15, 2020, the full forgiveness is again allowed.
- De minimus exemptions from requirements may be forthcoming – no stated timetable
- In general – guidance and regulations implementing forgiveness were due April 26, 2020

## Step 5: Application for Forgiveness

- Decision to be made by lender within 60 days of receipt of application
- Periods covered:
  - The covered period (8-week period)
  - February 15, 2019-June 30, 2019
  - January 1, 2020-February 29, 2020
  - February 15, 2019 (or March 1, 2019)-June 30, 2019 (seasonal employer)
  - May 1, 2019-September 15, 2019 (any consecutive 12-week period) (alternate for seasonal employer)
  - February 15, 2020 through 30 days after the enactment of the Cares Act
- Documents needed:
  - Payroll tax filings reported to the IRS
  - State income, payroll and unemployment insurance filings
  - Cancelled checks, payment receipts, transcripts of accounts, or other documents verifying amounts
  - Certifications from a representative of the eligible recipient
    - Documentation is true and correct & loan used to retain employees, make interest, rent or utility payments
  - Any other documentation Administrator determines necessary

# Remember the Golden Rule

- The Wizard of Id (May 1965)
  - Brant Parker and Johnny Hart



## Limited Safe Harbor to Return PPP Funds by May 14

- Applies to businesses with adequate sources of liquidity
  - owned by large companies
  - owned by private companies
  - all borrowers
- Promptly repay loan by May 14 and be deemed to have made certification in good faith
  - Additional guidance due before May 14 concerning how SBA will review the required good faith certification to help borrowers evaluate whether they've misunderstood or misapplied standard
- If keep PPP funds - good faith certification requires:
  - Current economic uncertainty makes loan request
  - Necessary to support the ongoing operations of applicant
  - Taking into account current business activity
  - And ability to access other sources of liquidity
  - Sufficient to support their ongoing operations
  - In an amount that is not significantly detrimental to business

# Wild Cards

- Audit
  - Loans in excess of \$2MM
  - Other loans as appropriate
  - Following lender's submission of borrower's forgiveness application
- Sliding-Scale of Forgiveness
  - Senator Ron Johnson (*Wall Street Journal* Editorial, April 22, 2020) proposal
  - For-profits: Compare 2019 and 2020 taxable income
    - 10% forgiveness if 2020 gross receipts are 90% or higher than 2019
    - 30% forgiveness if 2020 gross receipts are 80% - 90% of 2019
    - 50% forgiveness if 2020 gross receipts are 70% - 80% of 2019
    - 75% forgiveness if 2020 gross receipts are 60% - 70% of 2019
    - In no case would forgiveness exceed the loan amount less after-tax income.
  - Tax exempt non-profits: Compare 2019 and 2020 annual revenues loss
    - Apply same percentages as for-profits



## Wild Cards – cont'd

- Whistleblower complaints
- Qui Tam lawsuits under False Claims Act
  - Short for “he who brings an action for the king as well as for himself”
  - Confidential – filed under seal to give government time to investigate
  - 15-20% of amounts collected if government intervenes
  - 25-30% if government declines to intervene and plaintiff successfully pursues
  - Why? Genuine concern & interest in preventing abuses, personal greed or vendetta against borrower
- May 6, 2020 letter to Pelosi, McConnell, McCarthy, Schumer by 25 state attorney general
  - Limit access to those that need funding, fair access, ensuring fair distribution
  - Better communication with small business
  - More flexibility, more transparency
  - Improved technical support, lender guidance
  - Assisting the unbanked and ensuring accessible lender alternatives

## Calculating FTEs

- Initial Reminder – Eligibility for Loan Calculation is Different than Loan Forgiveness Calculation
- No Official Guidance on this Yet – OF COURSE!
- Best Method
  - Full Time Employees – 30 hours worked per week, on average
  - Full Time Equivalent Employees – add hours of part-time worked in a month and divide by 120
- Remember – Staff AND Payroll levels must be maintained
  - Furloughed employees will not count
- If you need to ramp back up to get to proper levels, be cognizant of discrimination concerns
  - Potential for claims based on who you bring back, and why
- Communication is Key
  - Involve your managers in your PPP discussions
  - ALL employment decisions must be analyzed in light of these considerations
  - Managers going rogue and firing employees would be bad.....

# Return to Work

- What if.....
  - Scenario 1 – Employee Refuses Rehire
  - Scenario 2 – Employee Returns, then Quits
  - Scenario 3 – Employee Returns, but Must Be Terminated
- What can we do? Are we stuck?
- Have Answer (ish?) on 1 of 3
- Scenario 1 – FAQs make clear you need to:
  - Document offer
  - Document refusal
  - If refusal is verbal, try your best to have more than one witness
- Scenarios 2 and 3 – awaiting an Interim Rule
  - DOCUMENT, DOCUMENT, DOCUMENT
  - Unclear whether “same role, different person” will work

## What Compensation Counts?

- Question – I usually pay bonuses at end of year. Can I pay them now, instead?
  - YES – all cash compensation counts, up to \$100k limit
  - What if the employee accepts the bonus, then quits?
    - Risk you run
- WATCH FOR DISCRIMINATORY PATTERNS
- Question – Can I require employees to use PTO, vacation, etc., during forgiveness period?
  - YES – is cash compensation.
  - Can be effective way to balance workload levels while maintaining payroll/staffing levels
  - Review internal policies; may need temporary changes put in place
  - Warning – does NOT apply to FFCRA sick/family leave payments for which you are seeking tax credit

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## Questions?



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