

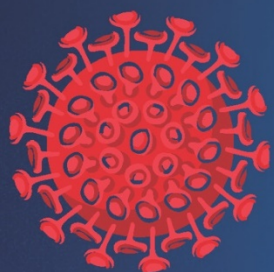
WEEKLY WEBINAR SERIES

CORONAVIRUS

& its impact on people, process & profits

SESSION TWELVE

June 5, 2020 | 11:00 A.M. EST



➤ Housekeeping Items

- The webinar will be recorded and shared as soon as it is available via email
- All materials were emailed to you this morning – also available on RKL’s Coronavirus Resource Center at rklcpa.com
- All lines are muted
- NASBA CPE requirements – in order to receive CPE for this webinar:
 - Participants must be connected to the session (both audio and presentation) for its entirety
 - Participants must answer three questions/elements of engagement
 - One (1) hour of CPE in the field of business law will be granted if you meet these requirements

DISCLAIMER: The presenters, Eric Wenger, Bethany Novis and Robert Pozesky, and RKL LLP and its subsidiaries/affiliates are not held responsible for information that has changed or will change and makes no representation or warranty as to the ongoing accuracy of the information presented orally or in writing. Attendees should consult with legal, accounting and other advisors.

➤ Meet Your Team for Today's Presentation

PA Reopening Status and Legislative Update



ERIC WENGER, CPA, MST | *Partner, Tax Services Group*

Eric serves as Managing Partner of the Lancaster Office and as Chairman of the RKL Board of Directors. Throughout his more than two decades in public accounting, Eric has enjoyed the ongoing challenge of applying evolving tax and financial regulations for the benefit of his clients. As Partner in RKL's Tax Services Group, he primarily advises closely held and family owned companies regarding tax and general business matters, including succession planning.

PPP and Workforce FAQs



BETHANY A. NOVIS, CPA/ABV, CVA, CFE | *Partner/Leader, Business Consulting Services Group*

Bethany is Partner and Leader of RKL's Business Consulting Services Group. A Certified Fraud Examiner, Bethany has more than two decades of experience delivering forensic accounting services such as employee theft investigations, reconstruction of financial records and damage calculations for litigation purposes. She is also a highly credentialed business valuator, specializing in valuation of stock for gifting, buyouts and wealth planning.

Recovery Planning



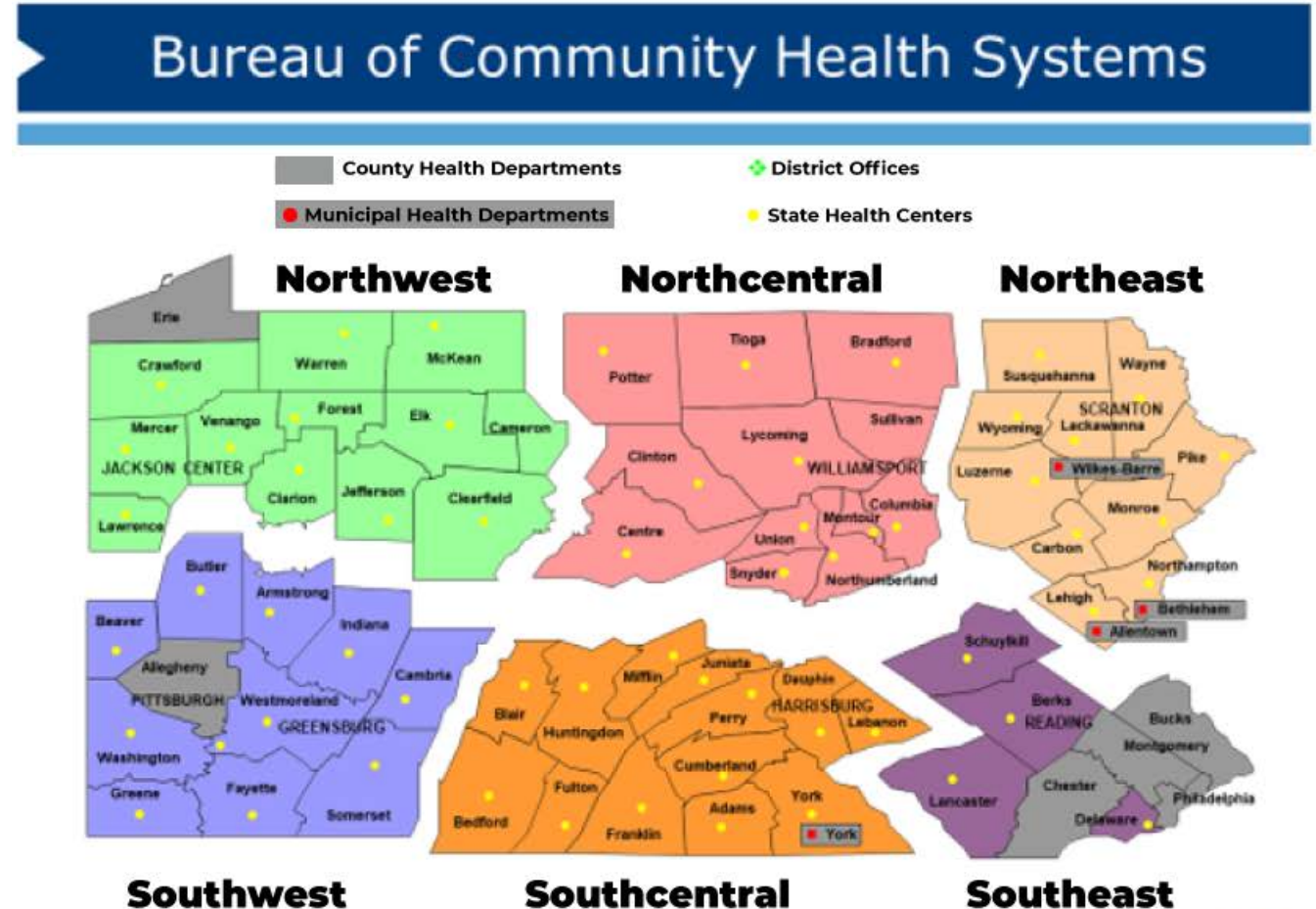
ROBERT POZESKY | *Leader, Operations Consulting Practice*

Bob leads RKL's Operations Consulting Practice. He helps clients ranging from small family businesses to Fortune 100 companies accelerate business transformation and growth through improved execution. With deep expertise in operational leadership and performance improvement, Bob is a highly respected consultant for projects related to business expansion, new product development, ERP integration, inventory control and more.

PA REOPENING STATUS

➤ Process to Reopen Pennsylvania

- Data-driven “phased” approach
- Target goal < 50 new confirmed cases per 100,000 population in previous 14 days
- Other
 - Sufficient testing
 - Robust case investigation and contact tracing
 - Safeguards at high-risk institutions
- Regional reopening
- Industry considerations (risk profiles and telework abilities)
- Personal protective equipment (PPE) availability and hospital stockpiles
- Limited outdoor activities resuming



➤ Carnegie Mellon Decision Support Tool

- Pennsylvania is relying on a data-driven support tool to guide reopening decisions



Risk-Based Approach

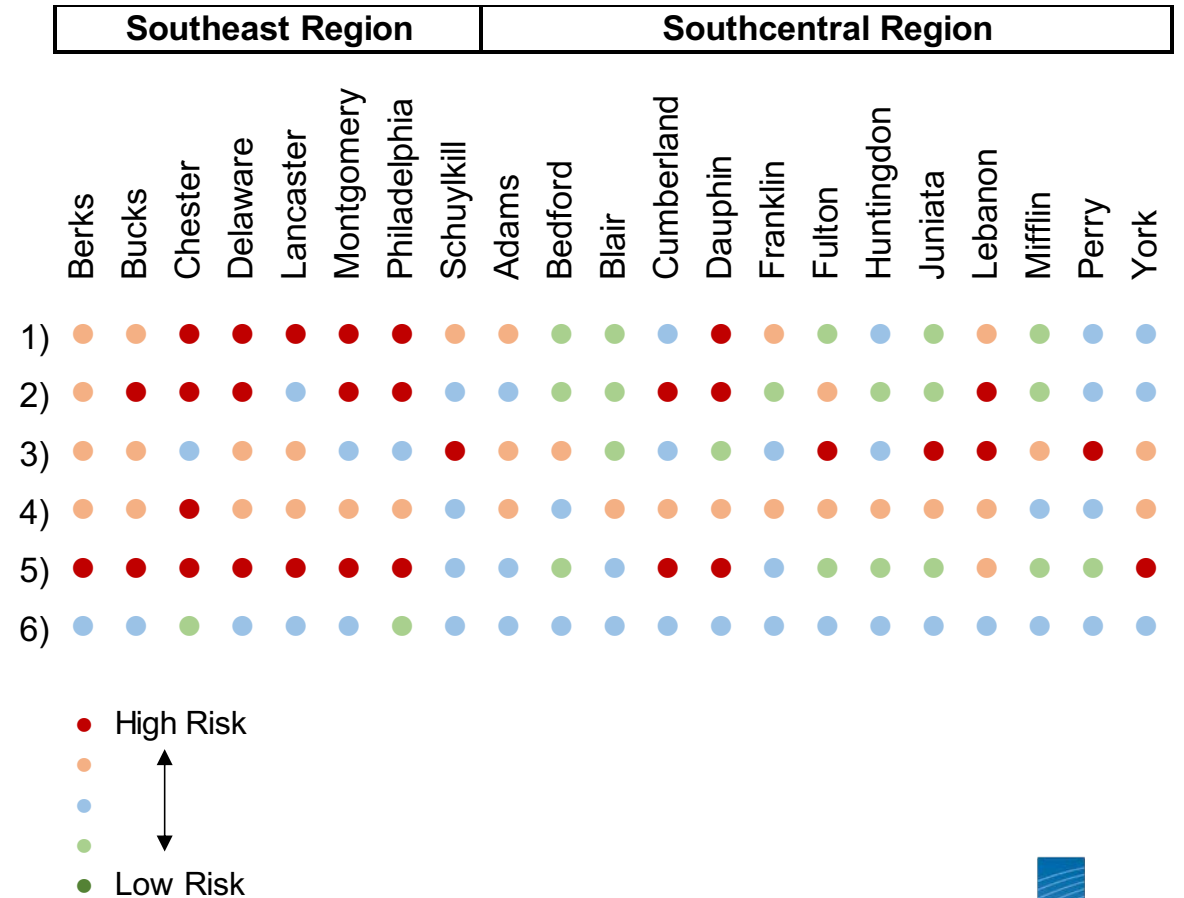
We take a wide variety of risks associated with re-opening a set of industries in a county or region. In addition to what we show in this presentation using public data, we are exploring and developing additional ones including:

- Face-to-Face Contact Risk (in workplaces)
- Nursing Home Spread Risk
- Customer Contact risk
- Supply Chain Risk
- Business Resilience risk
- Unemployment Risk
- Social Service Benefits Risk
- Equity Risk

[Risk-Based Decision Support Tools](#)

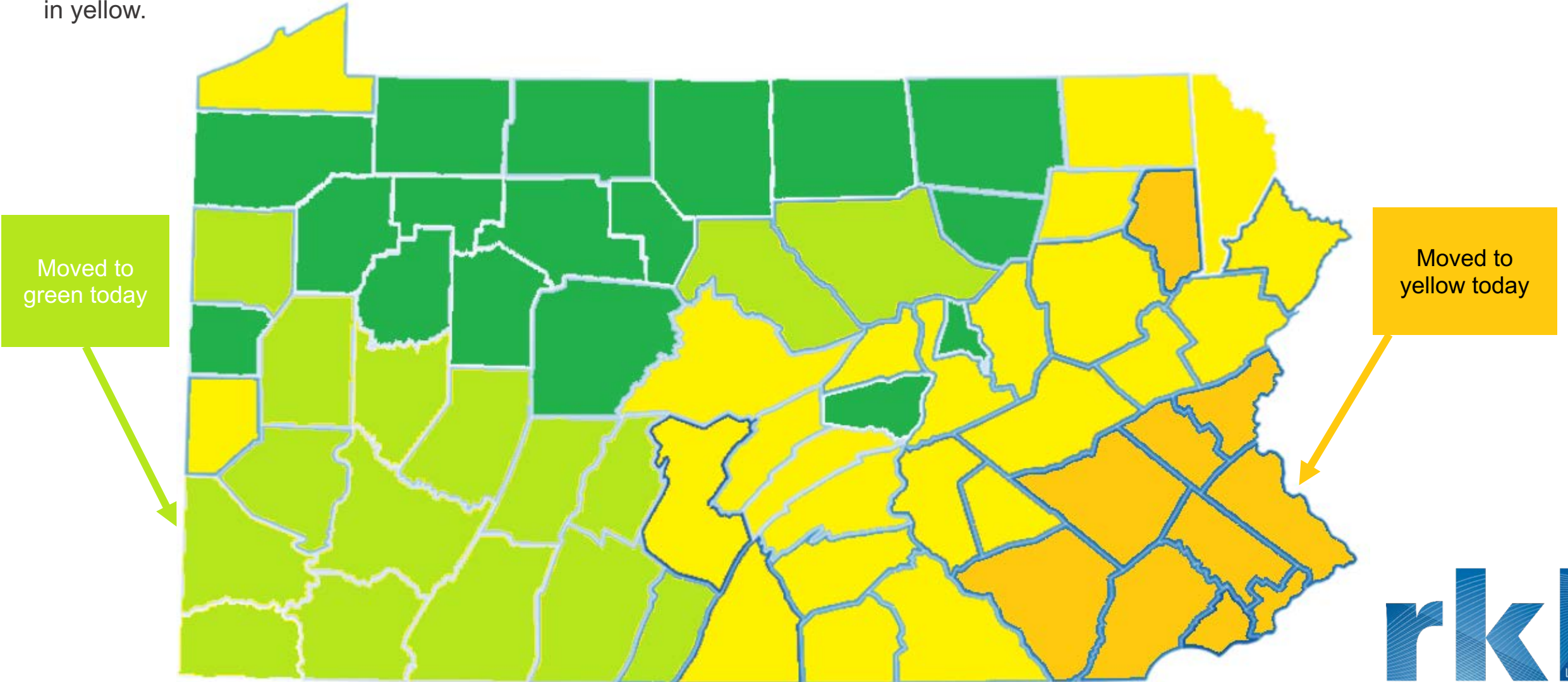
➤ Risk Indices in Carnegie Mellon Analysis

- 1) **COVID Case Risk:** # of reported COVID-19 cases / population of area
- 2) **Commute Risk:** Additional # of infected workers commuting from neighboring counties / Total # of workers in the county
- 3) **ICU Capacity Risk:** # of 60+ year olds in area / # of unoccupied ICU beds
- 4) **Population Density Risk:** Population of region / area of region
- 5) **Population Age Risk:** % of population in area > 60 year old
- 6) **Re-Opening Contact Risk:** % of workers in an area employed in currently “physically closed” industry sectors



➤ Pennsylvania Status by County

Last 10 counties moving from red to yellow today, with 16 additional counties moving to green. In order to move to green, counties must demonstrate stability for 14 days after moving to yellow. As of June 5, 2020, there are now 34 counties in green and 33 counties in yellow.



> Phased Approach

Monitor for increased risk for 14 days



	Red Phase	Yellow Phase	Green Phase
Work and congregate setting restrictions	<ul style="list-style-type: none"> Life-sustaining businesses only Congregate care and prison restrictions in place Schools (for in-person instruction) and most child care facilities closed 	<ul style="list-style-type: none"> Telework must continue where feasible Businesses with in-person operations must follow business and building safety orders Child care open complying with guidance Congregate care and prison restrictions in place Schools may provide in-person instruction only in accordance with DOE guidance NEW 	<ul style="list-style-type: none"> Continued telework strongly encouraged Businesses with in-person operations must follow updated business and building safety requirements All businesses operating at 50% occupancy in the Yellow Phase may increase to 75% occupancy Child care may open complying with guidance Congregate care restrictions in place Prison and hospital restrictions determined by individual facilities Schools subject to CDC and Commonwealth guidance
Social restrictions	<ul style="list-style-type: none"> Stay at Home orders in place Large gatherings prohibited Restaurants and bars limited to carry-out and delivery only Only travel for life-sustaining purposes encouraged 	<ul style="list-style-type: none"> Stay at Home order lifted for aggressive mitigation Large gatherings of >25 prohibited In-person retail allowable, curbside and delivery preferable Indoor recreation, health and wellness facilities and personal care services (such as gyms, spas and hair/nail salons), and all entertainment (such as casinos, theaters) remain closed Restaurants and bars may open outdoor dining, in addition to carry-out and delivery NEW 	<ul style="list-style-type: none"> Large gatherings of >250 restricted Restaurants and bars open at 50% occupancy Personal care services (including hair salons and barbershops) open at 50% occupancy and by appointment only Indoor recreation, health and wellness facilities and personal care services (such as gyms and spas) open at 50% occupancy with appointments strongly encouraged All entertainment (such as casinos, theaters and shopping malls) open at 50% occupancy Construction activity may return to full capacity with continued implementation of protocols
Other notes	<ul style="list-style-type: none"> Reiterate and reinforce safety guidance for businesses, workers, individuals, facilities; update if necessary Monitor public health indicators, adjust orders and restrictions as necessary 	<ul style="list-style-type: none"> All businesses must follow CDC and PA Dept. of Health guidance for social distancing and cleaning Monitor public health indicators, adjust orders and restrictions as necessary 	<ul style="list-style-type: none"> All businesses must follow CDC and DOH guidance for social distancing and cleaning Monitor public health indicators, adjust orders and restrictions as necessary

POLLING QUESTION

To be eligible for CPE, 3 polling questions must be answered.

LEGISLATIVE UPDATE

➤ PPP Loan Statistics

Loan Size	Loan Count	Net Dollars	% of Count	% of Amount
\$50K and Under	2,892,911	\$53,601,900,856	64.6%	10.5%
>\$50K - \$100K	651,424	\$46,401,384,379	14.6%	9.1%
>\$100K - \$150K	283,506	\$34,711,114,170	6.3%	6.8%
>\$150K - \$350K	368,714	\$82,859,930,321	8.2%	16.2%
>\$350K - \$1M	196,770	\$111,974,156,942	4.4%	21.9%
>\$1M - \$2M	52,577	\$72,839,574,524	1.2%	14.3%
>\$2M - \$5M	24,857	\$73,888,784,828	0.6%	14.5%
>\$5M	4,840	\$33,957,652,904	0.1%	6.7%

Totals **4,475,599** **\$ 510,234,498,924**

*** Overall average loan size is: \$114K.**

Total PPP appropriation **\$ 660,000,000,000**

Source: Small Business Administration, data as of 5/30/2020

➤ PPP Flexibility Act (HR 7010) – *(Awaiting President’s Signature)*

- Status of HR 7010
 - Passed House by vote of 417-1 on May 28
 - Passed Senate by unanimous consent June 3
 - Headed to president’s desk for expected signature
- Most significant update since the launch of PPP with major impact:
 - Eases rules around forgiveness and use of funds
 - Allows more time for non-forgiven loan to be repaid
- Context
 - Original eight-week period drawing to a close for many companies
 - Outlook and projections in mid-March vs. current June reality
 - Shuttering of businesses, unemployment levels, employers “competing” with \$600/week pandemic supplement, changing SBA rules, varying impacts by industry
 - Timeline to date: 1) Help business; 2) Restrict access & prevent abuse; 3) Help business

➤ PPP Flexibility Act (HR 7010)

- Key features:
 - Extends forgiveness period from **eight weeks** to earlier of:
 - **24 weeks** after loan issuance
 - OR**
 - December 31, 2020*
 - Also extends rehire period to **December 31, 2020***
 - Reduces 75% requirement of loan proceeds to be used on payroll related costs. New requirement is 60% **BUT** this is 60% of the loan amount.
 - “Cliff effect” – if 60% of loan amount is not spent on payroll-related costs, then **none** of the loan is forgiven

**This may be subsequently amended to be on some date between June 30 and December 31, 2020.*

➤ PPP Flexibility Act (HR 7010)

- Key features (*continued*):
 - Exemption for FTE restoration if unable to rehire workers employed as of February 15, 2020 or unable to find similar qualified workers by year's end
 - Permits borrowers to elect to retain the original eight-week covered period instead of the allowable 24-week period, if desired
 - New PPP loans will receive five-year maturity. Existing loans will remain at a two-year maturity (may be negotiable with bank).
 - **Allows deferral of employer portion of payroll taxes with 50% due 12/31/21 and 50% due 12/31/22**
- Letter signed by four senators and two representatives attached to the bill to certify that SBA cannot make additional loans after 6/30/20 (which assumes funds would be available).

➤ Potential PPP Extension: Unknowns

- Will there be a “happy medium” covered period between eight weeks and 24 weeks?
- If headcount is re-measured at 12/31/20, consider December holidays and related hiring impacts/headcounts (may impact seasonal and non-seasonal businesses).
- Will the new FTE restoration exemption (“inability to find similar qualified workers by the end of the year”) practically mean that fewer companies will receive FTE haircut?
- Is \$46,154 ($24/52 \times \$100K$) now the new \$15,385 for the \$100K per employee limit?
 - Same consideration for self-employed: Does $24 \div 52$ replace $8 \div 52$?

➤ Potential PPP Extension: Unknowns

- Will Congress enact a legislative fix to ensure expenses remain deductible when paid with funds that are ultimately forgiven? If so, when?
- If costs can be incurred until 12/31/20, then forgiveness cannot be determined until 2021.
 - How will GAAP and tax report the loan, related qualified expenses and potential future debt forgiveness for 2020 versus 2021?
 - Amended tax return potential?
- Will non-payroll expenses become irrelevant for many forgiveness applicants if payroll records support that the company spent more than their loan balance on payroll costs during the extended covered period?
- How will the potential 60 percent “cliff vesting” on forgiveness impact companies? [Sen. Collins is working on a technical correction bill for this.]

➤ Potential PPP Extension: Unknowns

- Will debt covenants be violated if PPP debt remains unforgiven at 12/31/20 for calendar year reporters? (Potential need for more bank waivers.)
- If there were to be a resurgence of COVID cases this winter, how might this impact PPP forgiveness, headcount, operational matters?
- How will PPP forgiveness uncertainty or delay impact business valuations (i.e., M&A transactions, shareholders coming/going, estates, divorce, etc.?)
- When will companies have certainty of exact amount of forgiveness and no further potential inquiry/audit by SBA?

➤ Future Legislative Outlook – PPP related

- PPP Technical Corrections in process (Senators Collins & Rubio)
 - 60% cliff issue
 - Broaden qualified costs to include PPE (masks and protective gear)
- Small Business Expense Protection Bill (S. 3612) – Senator Cornyn
 - Would clarify that receipt and forgiveness of a PPP loan does not affect the tax treatment of ordinary business expenses
 - “No deduction shall be denied or reduced, no tax attribute shall be reduced, and no basis increase shall be denied, by reason of the exclusion from gross income provided in paragraph (1).”
- Transparency: Bipartisan Senate support requesting SBA to publish PPP data
 - Name, address, business type, lender name, loan amount, congressional district, # jobs supported

➤ Future Legislative Outlook – Stimulus 4.0?

- House Democratic Proposal
 - HEROES Act which passed House in May [\$3.5 trillion cost]
- Potential proposals from White House:
 - Liability protection for employers related to COVID risks
 - Incentives for economic activity and growth
 - Tourism tax deduction or credit for vacationing in US during next 3-6 months
 - Incentives for companies to onshore jobs/operations
 - Shift from increased UC payments to “return to work” incentives
 - Open to additional aid for state budget shortfalls
 - Continue to push for payroll tax holiday (nonstarter on Capitol Hill)
- Ultimate size, scope and timing may depend on success of state reopenings

POLLING QUESTION

To be eligible for CPE, 3 polling questions must be answered.

PPP & WORKFORCE FAQS

➤ Option to End PPP Covered Period Early

Q: I understand that there is now an option for me to extend my PPP Covered Period to 24 weeks. But can I end my covered period early – for example at the end of 10 weeks? I just need one more pay period!

A: The PPP Flexibility Act currently only provides the option to extend the Covered Period to 24 weeks. Options for early filing have not been specifically provided for in the Act.

➤ Selecting the Covered Period: Eight or 24 weeks

Q: Is it better for me to stay with the eight-week Covered Period or extend my Covered Period to 24 weeks? What are the pros and cons?

A: If you have been able to plan and use your PPP funds within the eight-week period, filing your application for loan forgiveness based upon this original Covered Period is still an option. However, consider switching to the 24-week Covered Period if:

1. You have not met the required 60% payroll test.
2. You have not spent all of the loan proceeds on qualified items (both payroll and non-payroll) but you would be able to if you extend the Covered Period to 24 weeks.
3. Some of the expenses you are counting in your loan forgiveness are not clearly defined in the guidance and you have a concern that either the lender or SBA could challenge them.
4. You need extra time to restore FTE headcount or salary/wages.
5. You prefer to file for forgiveness based on payroll alone to cut down the administrative burden associated with tracking and supporting the non-payroll items.

➤ Inability to Restore FTEs due to Business Restrictions

Q: My business is in the hospitality industry. I am currently restricted from operating at 100% due to the guidelines in place. I am not sure when I will be back at 100%. How does this provide any relief to me regarding FTEs and PPP forgiveness?

A: Yes. If you are able to document an inability to return to the same level of business activity as compared to before February 15, 2020, due to compliance with requirements established or guidance issued by the HHS, CDC or OSHA during the period March 1, 2020 through December 31, 2020, you will be exempt from the FTE reduction in forgiveness.

Examples of compliance requirements include maintenance of standards for sanitation, social distancing or any other worker or customer safety requirement related to COVID-19.

➤ Employee PTO Use

Q: With the COVID concerns and schedule changes, many of my employees are cancelling their summer vacations. I am concerned that we may have a significant portion of our workforce using up their vacation time as we get into late November and December. Can I require employees to use a certain percentage of their vacation time by end of summer?

A: As an employer, you want to encourage your employees to make use of their vacation time to refresh and recharge. In that regard, it is appropriate to introduce guidelines encouraging your workforce to utilize their earned vacation time. Review prior year usage trends and compare them to the current year. If usage is trailing historical averages, you can encourage employees to utilize a percentage of earned time by a specific date (for instance, 50 percent by end of August).

If you believe your employees are nervous about taking time off, leaders in the company should lead by example and share their own plans to take time off to unplug and recharge.

Remind team members of your specific policies for vacation time approval and usage. Finally, make sure your policies are up to date and support your message.

➤ PPP Funds and Required Use of PTO

Q: I received PPP funds and called my employees back. However, my business is not in full swing yet. Can I require my employees to take PTO if they are not busy?

A: If you received PPP funds, it is within the spirit of the Act that they should be used to pay the employees you called back even if you don't have work for them to do.

The intent of the PPP loan is to keep people employed and reduce the strain on the unemployment system.

Employees should not be required to take PTO as that would be viewed as punitive. However, you can encourage use of PTO banked by certain deadlines as outlined in the previous FAQ.

➤ Termination for Cause and PPP Funds

Q: I furloughed a large portion of my workforce at the beginning of the pandemic. While I have brought a portion of my team back, there are several employees that I would prefer not to rehire. Is it possible for me to terminate them for cause and would this impact my PPP forgiveness calculation?

A: Employees that are terminated for cause can be excluded from your PPP loan forgiveness FTE count and do not impact your forgiveness calculation.

Termination criteria should be documented and applied consistently across your workforce.

Document your selection process by tenure, seniority, performance and skills. Additionally, as you develop your recall plan you can use criteria ranking for the options listed above and rank employees further by evaluating additional criteria such as their attendance, work quality, experience level, skills, etc. in order to have substantial documentation that illustrates your decision-making process for not recalling all employees.

➤ PPP Forgiveness Application: Required Documentation

Q: What documentation is required to support the non-payroll allowable expenses (mortgage interest, rent, utilities) on the PPP application?

A: Mortgage interest: Copy of lender amortization schedules and receipts or cancelled checks; or lender account statements from February 2020 and the months of the Covered Period though one month after the end of the Covered Period verifying interest amounts and eligible payments.

Rent/Lease payments: Copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from February 2020 and from the Covered Period through one month after the end of the Covered period verifying eligible payments.

Utility payments: Copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks or account statements verifying those eligible payments.

➤ PPP Forgiveness Application: Maintained Documentation

Q: What documentation is the borrower required to maintain but NOT submit?

A: Each borrower should maintain a completed PPP Schedule A Worksheet or its equivalent and the following:

1. Documentation supporting each individual employee in Table 1 and Table 2, including support for the “Salary/Hourly Wage Reduction” calculation.
2. Documentation regarding any employee job offers and refusals, firing for cause, voluntary resignations and written requests by any employee for reduction in work schedule.
3. Documentation supporting the PPP Schedule A Worksheet “FTE Reduction Safe Harbor.”
4. You must also maintain your PPP Loan Application, documentation supporting your certifications as to the necessity of the loan request and eligibility for PPP loan.

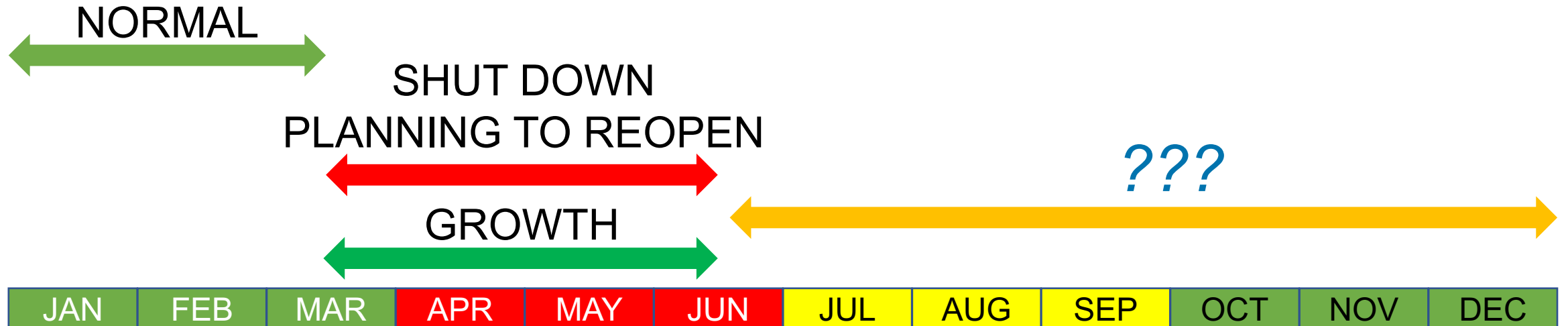
All must be maintained in your files for **six years** after the date the loan is forgiven or repaid in full.

POLLING QUESTION

To be eligible for CPE, 3 polling questions must be answered.

RECOVERY PLANNING

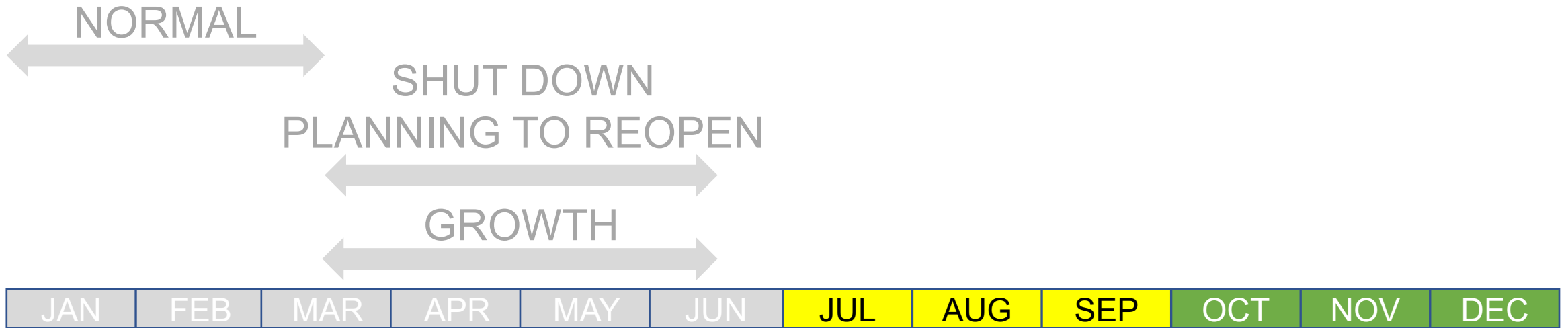
> 2020 YTD



- Expense Control
- Workforce Reductions
- Cash Flow and Debt Management
- Government Programs
- Cancelled and Delayed Investments

- Supply Chain Shortages
- Transportation Availability and Costs
- Workforce Shortages

➤ The Initial Recovery Planning Horizon



- Expense Control
- Workforce Reductions
- Cash Flow and Debt Management
- Government Programs
- Cancelled and Delayed Investments

- Supply Chain Shortages
- Transportation Availability and Costs
- Workforce Shortages

➤ The Need for a Recovery Plan

- A well thought out and communicated direction provides a level of comfort and sense of stability for your team.
- “Failing to plan is planning to fail.” A plan helps mitigate risk.
- Stakeholders (including key customers) may require a plan.
- A plan gives context for decisions rather than your team coming up with their own playbooks on the fly.
- More consistent decisions can be made across an organization if we set priorities and the direction we want to go.
- Having an active plan in place allows you to benefit from the overall recovery and avoid missing opportunities like many companies in the years after the Great Recession.
- Effectively executing a plan to profitably get back to work is the only way some companies will survive.

> Challenges

Prepare your organization to overcome these common challenges before beginning a plan:

- Time and focus
- Unknowns
- Not knowing where to start
- Expertise
- Cost
- Execution

➤ How to View a Recovery Plan

- Accept that the plan will not be perfect or complete.
- Target to have a plan ready within a few weeks.
- Keep a focus on overall business performance while identifying short- and medium-term tactical actions.
- People will be willing to commit time to developing a plan that builds on the work done initially responding to the pandemic shutdown.

➤ The Recovery Plan

- Identify ways in which practices put in place the past few weeks be expanded or modified
- Headcount and capacity modeling
- Perform deeper cash flow analysis by doing scenario planning on your customer base and markets to identify weaknesses and opportunities
- Take a fresh, critical look at the supply chain
- Consider adopting zero-based budgeting
- Align strategic, financial and operational goals
- Significant efficiency gains through process improvements, technology and equipment investments
- Develop marketing messages and sales plans that support the plan
- Employee engagement

➤ Executing

- Communicate and discuss the plan.
- Continue to communicate progress and updates over the upcoming months.
- Set expectations and hold people accountable to executing the plan.
- Establish regular check points to ensure forward progress and maintain momentum.
- Treat the plan as a live document and use feedback on progress and the fluid situation to make adjustments as necessary.
- Don't forget to celebrate milestones and successes. It's been a difficult time and everyone can use some wins.

**LET'S MOVE
FORWARD TOGETHER**

➤ Let's Move Forward Together

- What **WILL** change:
 - Increased focus on content to support your organization's recovery and competitiveness going forward
 - Less frequent PPP-specific updates (but we will still keep you posted on important changes as they happen)
 - Renaming and rebranding of webinar series
- What **WON'T** change:
 - **Multi-disciplinary perspective** – Coverage on topics spanning accounting, economics, finance, human resources, law, management, marketing, operations, tax
 - **Cutting-edge content** – Relevant, practical, action-oriented content that cuts through the noise and wades into uncertain waters where guidance may be conflicting or absent
 - **Focused on you** – These webinars are for YOU! Our goal is to address your needs and concerns, and we highly value your feedback as we aim for continuous improvement.

THANK YOU FOR PARTICIPATING

Questions?

- Contact your RKL advisor.
- Visit RKL's [Coronavirus Resource Center](#) for more updates and guidance.

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