

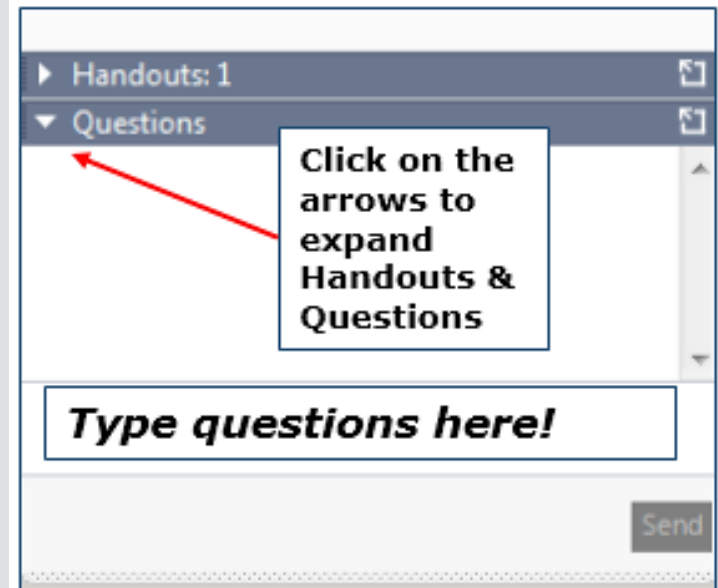
# Welcome to the Webinar! Before we Begin...

If you can't get the audio through your speakers or by VOIP, try dialing in using your phone.

All attendees are muted to ensure the best audio quality.

To ask a question, type it into the Questions box (pictured to the right) at any time.

**This webinar is being recorded.**  
The slides and full recording will be provided to attendees via email after the session.



# A Guide to Nonprofit Debt in the Age of Covid-19

Presented by

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Advisory Services

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April 10<sup>th</sup> 2020



# Agenda

## **Introduction to NFF and Its COVID-19 Response**

### **Introduction to Debt for Nonprofits**

Why nonprofits borrow money and who offers nonprofits financing?

How to know if debt is the right decision for nonprofits

Overview of financing available to nonprofits in light of COVID-19

The process for apply for a loan and how lenders make financing decisions

Considerations for Nonprofits Once a Loan has Been Secured

### **Appendix- Overview of Government Response to COVID-19**

Families First Act

Cares Act

Payroll Protection Program

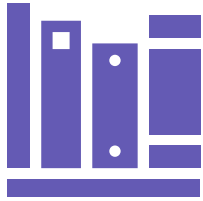
Economic Injury Disaster Loan

# About NFF: Linking Money to Mission for 40 Years

- **Tailored Investments:** With NFF's financing, nonprofits grow, manage uneven cash flow, purchase, expand or renovate facilities, and more. We also help other funders and impact investors strategically place their capital.
- **Strategic Advice:** NFF is a financial educator and trusted advisor to nonprofits and funders. We meet nonprofits where they are, whether they're entering a period of growth, trying to make ends meet, or strengthening or adapting their business model.
- **Accessible Insights:** We surface and communicate trends that emerge from serving thousands of organizations. Our goal is to cut through complexity and share practical solutions for common or systemic problems.

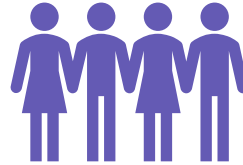


# COVID-19 Resources



## Self-guided resources

- Website-based
- Blog and downloadable tools



## Group programs

- Webinars
- Small-group coaching sessions
- Cohort / custom group programs\* (arts, health, etc.)



## Individualized help

- FAQ bank  
<https://nff.org/ask-nff>
- ‘Ask NFF’ email service: (launching week of 4/13)
- Individual coaching sessions\*

\*to inquire about these services please contact [consulting@nff.org](mailto:consulting@nff.org)

# Responding to COVID-19

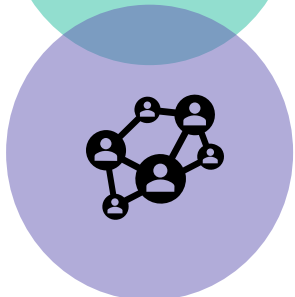
As the sector seeks to react to the current pandemic, nonprofits will have three ***overlapping*** needs:



**Response:** Immediate actions to sustain the organization and ensure provision of needed community services during the crisis.



**Recovery:** Emerging from crisis and finding a new operating normal. This may or may not look similar to the reality before the crisis.



**Resiliency:** Developing financial strength and adaptability for future uncertainties.

# Debt for Nonprofits



# Poll:

1. Is your organization considering taking on debt for the first time?
2. Has your organization already applied for a loan in response to COVID-19?





# Why Nonprofits Borrow Money

## Operating Support:

- Seasonal Needs
- Cash Timing Gaps Related to Funding
- Day-To-Day Operating Cash Needs



## Organization is Planning Growth or Expansion:

- Growth Capital

## Financing an Asset:

- Facility Acquisition, Construction, Renovations
- Equipment Purchases
- Temporary Support



# Types of Loans:



## Working Capital:

### Lines of Credit (Revolving)

- Used to manage short to medium term cash needs
- Secured by A/R or other assets

### Bridge Loans

- Used to “bridge” the time between when an organization must spend money and when it receives money from a funder
- Secured by pledge or award.

### Loans for Growth and Expansion

- Used to cover temporary deficits necessary for growth/ change.
- Secured by assets.

# Types of Loans:

## Asset Loans:

### Acquisition/Permanent

- Long term loans to buy assets
- Collateralized by underlying asset

### Construction/Renovation/Leasehold Improvements/Pre-Development

- Often secured by property

### Equipment Loans

- Used to purchase equipment.
- Secured by underlying asset.



# Who Offers Debt to Nonprofits?

## Community Development Financial Institutions (CDFIs)

- CDFI's (like NFF) are mission driven lenders that provide financing to nonprofits, small businesses, and individuals.

## Foundations

- Foundations offer nonprofits loans through program related investments and mission related investments. These investments are often low interest or 0% interest and may be forgiven.

## Commercial Financial Institutions

- Banks, B-Corps, and other for-profit financial institutions

## Governments

- Government bodies can offer loans and upfront payments for contracts.

# How to Know if Debt is Right for a Nonprofit

## When Debt is a Good Idea

- A nonprofit is reasonably certain how it will generate the revenue necessary to cover BOTH normal operating costs and required debt service
- The need for cash is a matter of timing or delay (e.g. government contract that is secured by slow to pay)

## When Debt is Not the Answer

- When a nonprofit has a significant gap in its budget (e.g. an event has been cancelled) and it has no plan for how it will repay the debt while still meeting its operating needs

## On Loan Forgiveness

- Some current programs offer loan forgiveness under certain conditions. Before obtaining financing that may be forgiven, nonprofits should be sure they understand the requirements of the forgiveness and document expenses accordingly.
- Nonprofits should also consider contingency plans to repay some or all the loan should they unexpectedly need to pay it back.

# Current Sources of Debt in Response to COVID-19

## Government Loan Programs\*

- **Paycheck Protection Program:** For organizations with less than 500 employees. May be forgiven under certain conditions
- **Emergency Economic Injury Disaster Loans:** Not forgiven. May receive advance of \$10K within 10 days

## Foundations

- Foundations around the country are pooling resources for interest free loan funds for nonprofits (e.g. NYC COVID Response and Impact Fund).
- Some foundations may serve as a guarantor on a commercial loan.
- Talk to your current funders about your current situation and needs.

## Commercial Financial Institutions

- Banks and other lenders have access to historic amounts of funds to be distributed as loans at record low interest rates.
- While barriers to entry are higher, many nonprofits can qualify. Start with institutions you may already have a relationship with.

\*additional information on government resources can be found at the end of this presentation

# What Lenders Look For

## Financial Strength

- Consistent surpluses
- Reliable revenue sources,
- Sufficient cash flow for operations and debt
- Positive year to year cash balance



## Management and Governance

- Strong/Stable/Experienced management with program and financial expertise
- An engaged board with relevant expertise
- Well-developed infrastructure

# What Lenders Look For

## Planning and Reporting

- Timely and accurate reporting, analysis, audits, and financial statements
- Consistent accounting practice
- Business plan including analysis of program and financial strategies, multi-year projections, and adjustments as needed
- A plan for growth/ change if applicable



## Repayment Sources

- Consistent unrestricted operating surpluses sufficient for operations and debt
- Repayment sources committed or confirmed
- Repayment sources available and budgeted by funder



# What Lenders Ask For

## Financial Information

- Audited Financial Statements
- Budgets
- Year-to-date financial statements
- Existing debt and borrowing history
- If repayment through fundraising, then a fundraising plan

## Organizational Information

- Strategy and business plan
- Annual report/ brochure
- List and bios of board and key staff
- List of major funders



# What Lenders Ask For

## Project Information

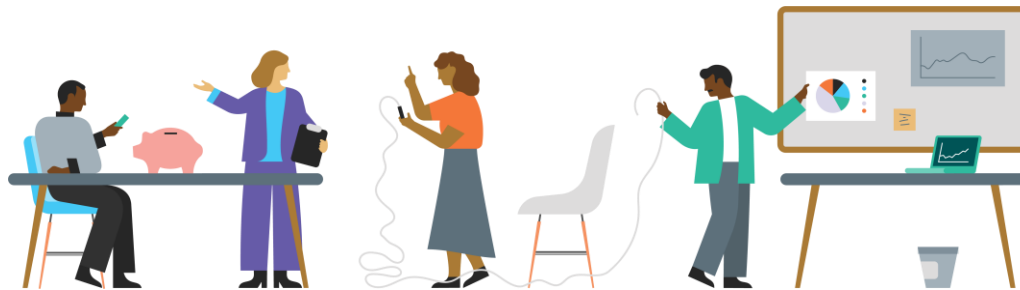
- Working Capital
  - Copies of major executed contracts
  - Monthly cash flow analysis
- Facilities
  - Project description, scope of work
  - Project budget
  - Operating Proforma
  - Copies of lease, contract of sale, construction and architect's agreements



# Considerations Once a Loan is Secured

## Compliance

- Most issues in loans come from agreeing to something that an organization cannot realistically achieve.
- Know the commitments in the covenants and regularly monitor for compliance.
  - e.g. some loans require a certain level of surplus
  - Consider developing a compliance dashboard.
- Update workplans to ensure compliance documents are developed and reviewed **BEFORE** reporting to a lender.
  - e.g. update cashflows regularly, ensure audits are conducted on time
  - Note: Staff capacity to develop compliance documents can be a hidden cost of a loan
- Consider compliance when making any strategic decisions that affect your ability to comply with the terms of a loan.



# Debt's Effect on the Balance Sheet

**Social Enterprise of Wonderland**  
**Statement of Financial Position**  
 June 30, 2018 and 2017

*Accrual Basis*

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 104,281	\$ 116,140
Grants and pledges receivable	800,038	914,476
Other current assets	93,300	49,189
Property and equipment, net	117,704	108,774
<b>Total assets</b>	<b>\$ 1,115,323</b>	<b>\$ 1,188,579</b>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ -	\$ 32,880
Accrued expenses	179,131	156,000
Deferred revenue	105,229	77,148
Short-term debt (incl current portion of LT debt)	91,933	191,933
Long-term debt	11,742	19,634
<b>Total liabilities</b>	<b>\$ 388,034</b>	<b>\$ 477,595</b>
Without donor restrictions	\$ 570,649	\$ 547,300
With donor restrictions	156,639	163,684
<b>Total net assets</b>	<b>\$ 727,288</b>	<b>\$ 710,984</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,115,323</b>	<b>\$ 1,188,579</b>

Assets increase when debt is taken on (ex. cash infusion from loan)

Liabilities increase with debt (ex. amount now owed to the bank)

Net Assets do not change due to debt

Organizations must be able to explain how they are managing short- and long-term debt as well as its effects on short- and long-term liquidity

As the organization paid off debt between FYE17 and FYE18 net assets increased even as total assets decreased.

# Considerations Once a Loan is Secured

## Repayment Considerations

### Loans Based on Timing (e.g. line of credit, bridge loan)

- Continuously monitor your cash position to know when would be a good time to repay the loan. This may mean paying off part of the loan or the entire loan principle.
- Anticipate any changes needed to the repayment schedule including payment dates and payment amounts.
- Monitor changes to payment sources (e.g. a grant timeline) that may affect the repayment timeline.

### Loans Payed According to a Schedule

- Use agile budgeting practices (e.g. flexible, scenario based, regular reforecasting) so that adjustments can be made throughout the year to make payments on time.
- Regularly monitor cash position for ability to meet both operating expenses and loan repayments.



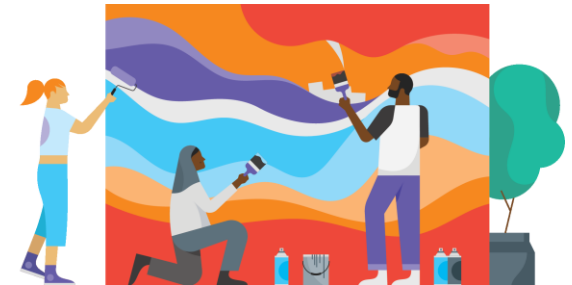
# Considerations Once a Loan is Secured

## Maintaining Your Relationship with Your Lender

- Keep lenders excited about your mission: send them regular mailers, share impact updates, invite them for site visits.
- Be in regular contact with your lender, especially if you have any concerns around repayment. Transparency is key to maintaining a positive and flexible relationship with a lender.
- Acknowledge that if the debt is not working under the current terms, it may need to be restructured.
  - e.g. changing a line of credit to a fixed term loan with scheduled payments

## Role of the Board

- As the ones with primary fiduciary responsibility for nonprofits, boards should be involved in any decisions around pursuing debt and should understand the role of debt in the long-term financial health of the organization.



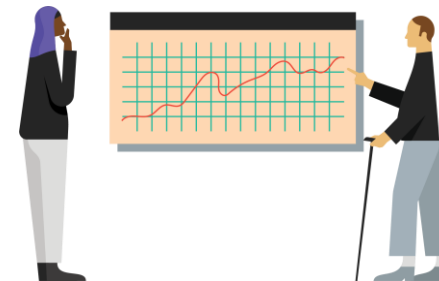
# Key Takeaways

In this unprecedented time, many nonprofits are exploring ways to manage uncertainty and entering into debt for the first time.



Debt can be a powerful tool to weather the current storm, but it is not always the right tool. Know why you are choosing to pursue financing and how it can fit into a larger plan to respond to this moment.

Financing requires consistent and accurate monitoring, reporting, and communication. Be prepared to meet the terms of a loan before deciding to enter into any agreement.



# Thank You!

[nff.org](https://nff.org)

[investinresults.org](https://investinresults.org)

[webinars@nff.org](mailto:webinars@nff.org)

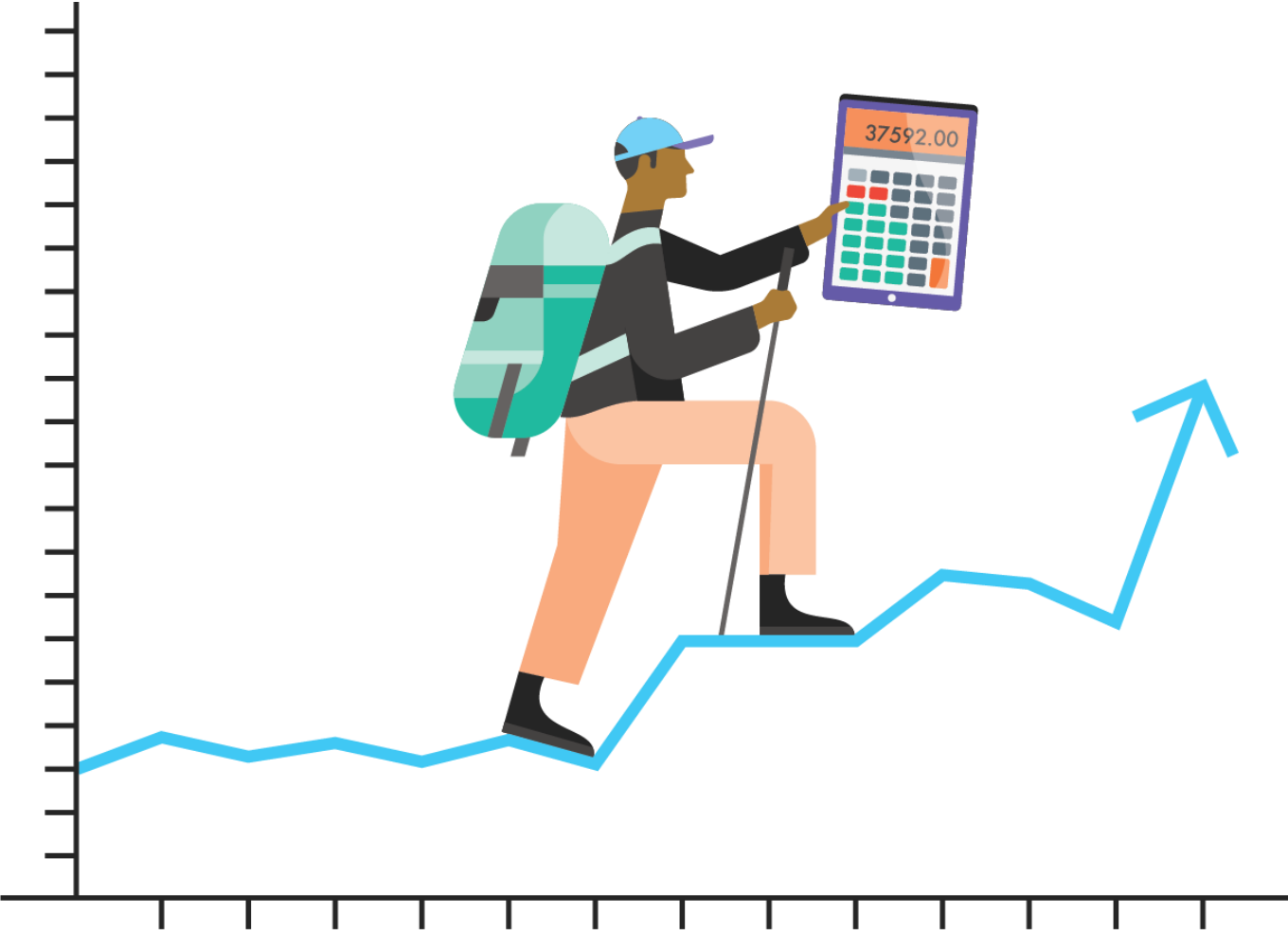
[@nff\\_news](https://twitter.com/nff_news)







# Appendix- Overview of Government Actions in Response to Covid-19



# Families First Act

## Three *major* provisions worth noting

**Two weeks of emergency paid sick leave** – requires employers with fewer than 500 employees to pay two weeks of sick leave at the employee's regular rate (max \$511/ day) if quarantined (self or otherwise), seek a diagnosis or for preventive care for COVID-19. Also includes requirement to pay 2/3 of daily rate if employee is caring for a family member who is sick or to care for a child whose school has closed/ childcare is closed due to COVID-19.

**Twelve weeks of emergency family and medical leave** – expands the eligibility of workers who can take up to 12 weeks of job-protected leave. After the two weeks of emergency paid sick leave (above) employees would receive 2/3 usual pay, up to \$200/ day. Certain exceptions for organizations <25 employees.

**Reimbursable payroll tax credits available** – Employers paying for mandated leave are entitled to receive a refundable tax credit. Specifically, the credit is against the employer portion of the payroll taxes and any paid leave costs that exceed the amount of payroll taxes will be refundable to the employer at the end of each quarter, depending on what the employee is doing (paid sick leave or emergency family leave)

National Council of Nonprofit Info Sheet <https://www.councilofnonprofits.org/trends-policy-issues/what-the-families-first-coronavirus-response-act-means-nonprofits>

# Families First Act

## Considerations for nonprofits

Provisions require organizations to pay employees for leave require that organizations be in a cash position to do so.

Quarterly tax credits and/ or reimbursements may not be sufficient to meet payroll obligations.

HOWEVER, if your workplace is closed and work can't be done remotely, these provisions no longer apply in the same way. The best source of information for specific questions is the Department of Labor website:

<https://www.dol.gov/agencies/whd/pandemic/ffcra-questions>

<https://www.dol.gov/agencies/whd/pandemic>

National Council of Nonprofit Info Sheet <https://www.councilofnonprofits.org/trends-policy-issues/what-the-families-first-coronavirus-response-act-means-nonprofits>

# CARES Act

## Four major elements

1. Small Business Administration (SBA) Loans and Loan forgiveness
2. Emergency Economic Injury Disaster (EIDL) Grants
3. Employee Retention Credit
4. Deferral of Payroll Taxes

# Paycheck Protection Program

## What is it?

The Small Business Association (SBA) is providing forgivable loans to small businesses and nonprofits with 500 or fewer employees.

In order to have the loan forgiven the organization must keep employees on the payroll for eight weeks after the origination of the loan and the money must be used for payroll (75%), mortgage interest, rent, or utilities.

Disqualified expenses will be converted to a 2-year loan with 1% annual interest.

The maximum amount of the loan is based on a specific calculation: 2.5x average monthly payroll, up to \$10 million, whichever is less.

# Paycheck Protection Program

## What do I need to do?

- Assemble documents
- Find a lender (ideally your bank)
- Have your board issue a resolution
- Calculate your average monthly payroll
- Apply

### Trusted References and Resources

[NFF COVID-19 Tools and Resources for Nonprofits](#)

[National Council of Nonprofits](#)

[Grantspace COVID-19 Emergency Financial Resources](#)

[Independent Sector COVID-19 Information](#)

[Fiscal Management Associates Toolkit](#)

# Paycheck Protection Program

## Assemble Documents

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### Need

- ❑ SBA Application
- ❑ Detailed payroll data listing Loan each employee w compensation, benefits and taxes w backup such as:
  - Payroll tax reports filed w IRS
  - Payroll reports
  - Health insurance premium payment reports
  - Retirement plan reports/ remittances

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### Probably need

- ❑ Board resolution authorizing application
- ❑ IRS Form 990 (3-5 years)
- ❑ Financial statements; including financial information for the past 12 months
- ❑ Organization documents
  - IRS determination letter
  - Articles of incorporation
  - By-laws



# Paycheck Protection Program

## Find a lender

The program is administered by banks and lenders that are SBA 7(a) certified.

Ideally, your bank is a participating lender and, if so, find out their application requirements and process

- This program is rolling-out in real time and has not been without challenges.
- Some banks are choosing to only work with existing customers; some are requiring that customers have specific types of accounts in order to apply.

If your bank is not participating or your organization does not meet their requirements, reach out to qualified lenders.

- Local and community banks first
- Don't be afraid to ask board members and supporters for help identifying banking contacts

# Paycheck Protection Program

## Board resolution authorizing a loan

Ensure that your organization's by-laws and procedures are followed for approving a resolution.

NFF will provide a sample resolution (too long to include here!)

[Sample Board Resolution to Apply for PPP](#)

# Payroll Protection Program

## Calculate Average Monthly Payroll

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### Payroll

- Salary, wages, commissions, tips
- PTO; vacation, sick, parental, family, medical pay
- Severance pay
- Benefits including health insurance premiums and retirement benefits
- State and local taxes

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### Not Payroll (for this program)

- FICA taxes and Federal Income taxes from 2/15/20-6/30/20
- Compensation to employees whose primary residence is outside of the US
- Qualified payments under the Families First Act
- 1099 independent contractors
- Excess compensation for salaries over \$100K\*

\*There is a lot of confusion and guidance is still emerging about what is included in this calculation, specifically if it is just salary or salary and benefit; check with your lender on what should be included.

# Paycheck Protection Program

## Calculate Average Monthly Payroll

### Good news!

There are numerous FREE calculators available to help you calculate average monthly payroll!

- Jewish Federations Calculator: <https://bit.ly/2xLRFdT>
- Fiscal Management Associates: <https://bit.ly/3aR30YY>
- AICPA (especially good for orgs w seasonal employees): <https://bit.ly/2xTykax>
- ADP Customers!!! ADP released an FAQ page specifically addressing Payroll Reports and the PPP
- <https://www.adp.com/contact-us/customer-service/paycheck-protection-program/run-ppp-report-faq.aspx>

# Paycheck Protection Program

## Apply

- SBA Application form can be found here:  
<https://www.sba.gov/document/sba-form--paycheck-protection-program-borrower-application-form>
- SBA is organized to process applications and lend to for-profit businesses. The application reflects this.

# Paycheck Protection Program

## Application suggestions

Field	Suggestion (General guidance: make sure your answers match formal records and other documentation)
Business Legal Name	Use what is on your Articles of Incorporation/ IRS Form 990
DBA Trade Name	Only if you use a DBA in other filings
Business Address	What is used on your IRS 990
Business TIN (EIN, SSN)	EIN from your IRS determination letter

Note on Ownership: As nonprofits do not have owners, applicants are struggling to answer the question about ownership on the application. The SBA has not released formal guidance. Below is our suggestion as of 4/6/2020

Field	Suggestion
Owner first name	N/A
Owner last name	501c3 nonprofit organization
Title	n/a or none
Ownership	0 or 100 (NFF received reports of online forms not accepting 0 as a valid answer)
DOB	Your organization's incorporation date

# Paycheck Protection Program

## Final Considerations

- Rollout has been bumpy! Expect more glitches. Be persistent.
- Program is first come, first served—so act quickly; there is no obligation to accept if you are approved and there is no fee to apply.
- Funding is not guaranteed, so plan as if you will not receive funding.
  - Continue to monitor cash flow, develop scenarios and connect with funders, board, staff, donors, audiences and the community about your position.

For more information:

- National Council of Nonprofits  
<https://www.councilofnonprofits.org/nonprofits-and-coronavirus-covid-19>

# Economic Injury Disaster Loan (EIDL)

What's the difference between the PPP and the EIDL?

## Paycheck Protection Program

- Loans are 2.5x your previous 12 months' payroll up to a maximum of \$10M.
- Any dollars from this loan used to cover qualifying expenses will be forgiven, subject to certain criteria.

## Economic Injury Disaster Loans

- Max out at \$2M, but collateral is generally required for loans above \$25K. Final loan amounts are determined by an SBA loss verifier, who will estimate what your working capital needs are.
- This loan is **not forgivable**, but it comes with an opportunity to receive a loan advance of up to \$10K. Organizations do not have to pay back the advance if it is used to cover eligible expenses, even if they are ultimately not approved for a loan.

4/9/2020 - Emerging reports state that the EIDL program is not rolling out as anticipated; NFF is unable to provide solid guidance at this time until further details are confirmed.

