

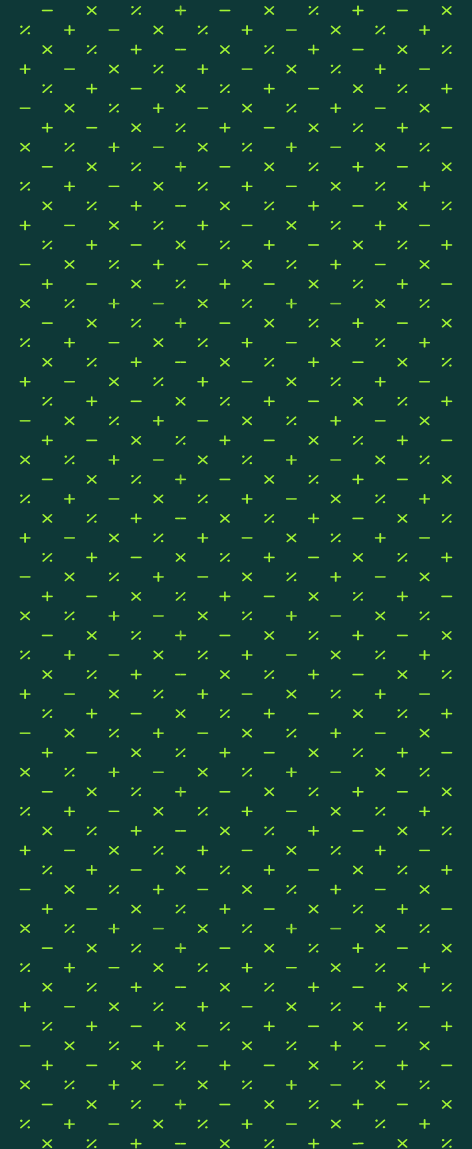


MOSSADAMS

Colorado Association for Viticulture & Enology

PPP Loans, Forgiveness & Business Interruption

Derek Groff, Valuation Services Director
Kirk Faris, Tax Senior Manager



The material appearing in this presentation is for informational purposes only and should not be construed as advice of any kind, including, without limitation, legal, accounting, or investment advice. This information is not intended to create, and receipt does not constitute, a legal relationship, including, but not limited to, an accountant-client relationship. Although this information may have been prepared by professionals, it should not be used as a substitute for professional services. If legal, accounting, investment, or other professional advice is required, the services of a professional should be sought.

Assurance, tax, and consulting offered through Moss Adams LLP. Investment advisory offered through Moss Adams Wealth Advisors LLC. Investment banking offered through Moss Adams Capital LLC.



Presenters

Derek Groff, ASA, CFE



Derek has been providing financial advisory services since 2001. He assists companies with valuation services for tax compliance, financial reporting, mergers and acquisitions, strategic planning, and litigation support. Derek works with clients in a wide array of industries, including wineries, breweries, and distributors.

Kirk Faris, CPA



Kirk has been in public accounting since 2006. He serves clients in a broad range of industries, but he specializes in working with wine, beer and spirits entrepreneurs. Kirk provides tax planning and compliance services in addition to assisting clients with cash-flow optimization and transaction planning.





Today's Topics

About Moss Adams

Business Interruption Claims

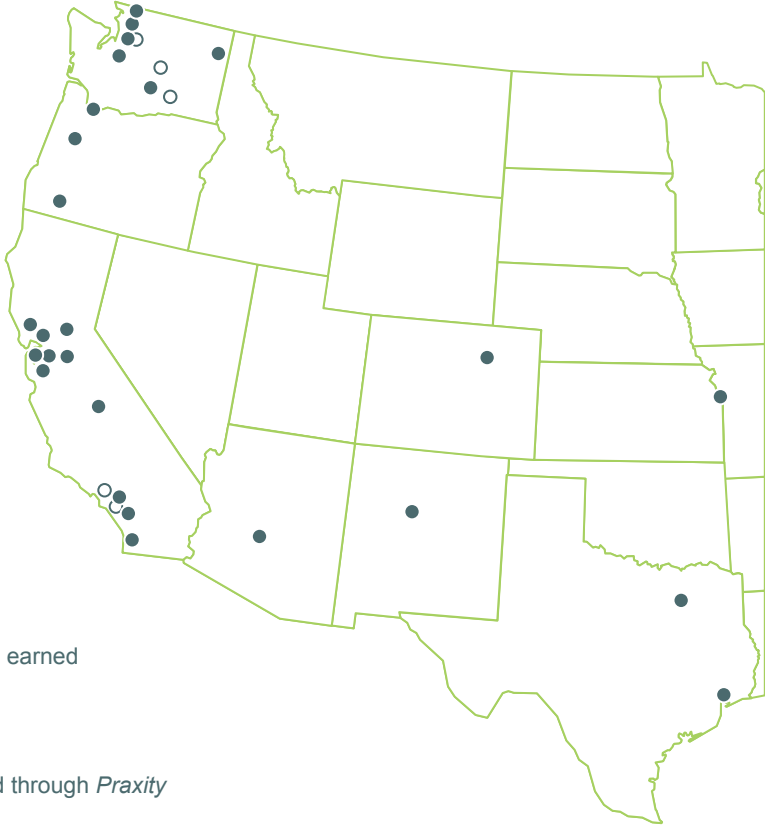
Paycheck Protection Program
(PPP) Loan Forgiveness

Open Q&A



About Moss Adams

Moss Adams is a fully integrated professional services firm dedicated to personally assisting clients with growing, managing, and protecting prosperity. With more than 3,400 staff across more than 25 locations in the market capitals of the West and beyond, we work with the world's most innovative, dynamic, and promising clients and markets. Through a full spectrum of accounting, consulting, and wealth management services, we bring the deep industry specialization and inspired thinking our mid-market clients seek.



▶ 107 years in business

▶ 25+ locations west of the Mississippi

▶ 3,400+ professionals

▶ \$768M in revenue earned

▶ 30+ industries served

▶ 110+ countries served through *Praxity*



Industry Focus

Here you'll discover the advantage of industrial grade expertise. Beyond technical acumen, our professionals are steeped in the market sectors they serve. Our keen understanding of industry trends and challenges permits us to anticipate and respond to opportunities for our clients that might otherwise go untapped.

Aerospace & Defense	Agribusiness	Apparel	Automotive & Dealer Services	Communications & Media
Construction	Financial Services	Food & Beverage	Forest Products	Government Services
Health Care	Higher Education	Hospitality	Life Sciences	Manufacturing & Consumer Products
Natural Resources	Not-for-Profit	Oil & Gas	Power & Utilities	Private Clients
Private Equity	Professional Services	Real Estate	Renewable Energy	Restaurants
Retail	Technology	Transportation & Logistics	Tribal & Gaming	Wine, Beer, & Spirits

- ▷ **300+** CLIENTS NATIONWIDE
- ▷ **60,000** HOURS SPENT SERVING WINE/BEER/SPIRITS CLIENTS IN 2019
- ▷ **20+** SENIOR INDUSTRY PROFESSIONALS



Full-Service Capabilities

Accounting

ASSURANCE

Financial Statement Audits
Employee Benefit Plans
Public Company & SEC
Internal Audit
SOC Audits
Contract Compliance
Sustainability Audits

ADVISORY

IPO Solutions
Outsourced Finance & Accounting
Technical Accounting

TAX

Accounting for Income Taxes (ASC 740)
Accounting Methods
Compensation & Benefits
Controversy & Dispute Resolution
Credits & Incentives
Information Reporting & Withholding
International
Personal
State & Local
Tax Structuring
Tax Reform Resources

Consulting

IT

Compliance
Cybersecurity
Assessment & Planning
Development & Integration
Enterprise Systems

STRATEGY & OPERATIONS

Data Analytics
Organizational Planning
Performance Audits
Succession Planning

TRANSACTIONS

Investment Banking
Due Diligence
M&A Tax
Post-merger Integrations
Restructuring
Valuations

SPECIALTY

China Practice 中国业务
Financial Services
Health Care
Telecommunications

Wealth Management

INDIVIDUAL

Tax
Financial Planning
Investments
Family Office

INSTITUTIONAL

Investments
Insurance



Business Interruption Claims Services



Business Interruption Claims

Overview

There have been considerable impacts across every industry as a result of COVID-19, Business Interruption (“BI”) insurance will play an important role in funding the recovery from the pandemic

Business interruption typically describes the disruption of normal operations as a result of a definable event beyond the entity’s control, while in legal context it represents the financial impact of the disruption over time. Some commercial insurance policies may include BI coverage for lost profits

Our team can assist in the calculation of the financial impact of the BI loss

Facts

- **Force majeure clauses** are a contractual provision within a legal agreement which essentially excuses one or both parties’ performance obligations when circumstances arise which are beyond the parties’ control and make performance of the contract impractical or impossible (e.g. acts of god, war, labor strikes)
- Companies should consult their legal counsel if they have questions about their insurance policy and force majeure clauses
- In certain states, insurance companies are required to investigate all business interruption claims caused by COVID-19
- Some states have introduced bills to retroactively expand business interruption losses from COVID-19
- Some policies specifically state pandemics are not covered

How can we help?

- Perform the BI loss analysis primarily focused on a lost profits calculation where we compare a business’ typical cash flows prior to and in absence of a business interruption (e.g. cash flows prior to COVID vs no COVID)
- We most likely cannot provide this service for existing audit clients, just tax and other consulting clients. However, we can always help provide guidance or answer client questions



Business Interruption Claims

$$BI = T \times Q \times V$$

where:

BI = business interruption

T = the number of time units
(hours, days) operations are shut
down

Q = the quantity of goods normally
produced, or sold, per unit of time
used in T

V = the value of each unit of
production, usually expressed in
¹⁰profit

Calculating Business Interruption Loss

Step 1: Lost revenue

- Determine the “but-for revenue.” The amount the business would have earned if the event had not occurred
- Measure the actual revenue, which represents the revenue between the loss date and the date the business resumes “normal operations”
- *Lost revenue = Actual revenue – “but-for revenue”*

Step 2: Lost Profits

- Determine the avoided costs, which are the incremental costs that are deducted from lost revenues to determine profits
- Avoided costs would have incurred in connection with generating profit
 - **Direct Costs:** Cost of Goods Sold
 - **Variable (or “Saved”) Expenses:** Costs that would incur but does not have to incur and therefore “saves” as a result of the loss event
- Once avoided expenses have been calculated they are subtracted from lost revenue to determine the lost profit
- *Lost profits = Lost revenue – avoided expenses*

Step 3: BI Losses

- The last step, identify any extra expenses incurred during the period of restoration. These expenses help avoid or minimize the suspension of the business
- *BI Losses = Lost profits + extra expenses*



Business Interruption Claims

Why file a claim now?

- Insurance companies often refuse to pay claims when insured policyholders are late in giving notice. Companies should consider giving notice ASAP, even if there are doubts about whether it will be covered.
- Filing now establishes your company's rights to contest the claim as the legal landscape evolves.

Key Considerations

- Many insurance companies note that business interruption policies provide coverage when a policyholder suffers a loss of income as a result of a physical loss or damage to a covered property. Meaning, COVID-19 wouldn't qualify as a physical loss.
- Attorneys and lawmakers are currently battling this issue, asserting that the Coronavirus can attach itself to physical surfaces and therefore, can cause physical loss.
- Companies should thoroughly review their policy and consult with legal council to understand the covered perils, coverage limits, and exclusions.
- **Key Contacts:** whomever is the most familiar with the company's insurance policy (CFO, Controller, General counsel, Outside Council) needs to understand the key policies related to covered causes of loss, civil authority coverage requirement and limits, exclusions such as bacteria, virus, pandemic, or communicable disease, endorsements or riders extending coverage such as communicable disease, event cancellation, supply chain, and loss of attraction, and extra expense and payroll coverage



Paycheck Protection Program Loan Forgiveness

—



PPP Sources of Guidance

Coronavirus Aid, Relief, and Economic Security (CARES) Act (H.R. 748)–
Enacted March 27, 2020

Paycheck Protection Program and Health Care Enhancement (PPP HCE) Act
(H.R. 266)– Enacted April 24, 2020

SBA Existing Loan Regulations (Title 13 of the Code of Federal Regulations)

SBA PPP “Frequently Asked Questions” (FAQ’s)

SBA PPP “Interim Final Rules” (IFR’s)



Where We Came From

\$350B distributed pursuant to CARES Act

- Forgivable loans up to \$10M for businesses with <500 employees
- Maximum loan based upon 2.5 months of payroll
- 75% to be used for on-going payroll, 25% for mortgage, rent, utilities
- Limitations on forgiveness based on employee headcount, wage cuts, etc.
- Unforgiven portion repaid in 2-years at 1% interest rate

\$310B added to program in PPP HCE Act



Good Faith “Need” Certification

SBA FAQ #46 provided comfort to borrowers:

“...all borrowers must certify in good faith that “[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.”

“Any borrower that, together with its affiliates, received PPP loans with an original principal amount of less than \$2 million will be deemed to have made the required certification concerning the necessity of the loan request in good faith.”

“...borrowers with loans greater than \$2 million that do not satisfy this safe harbor may still have an adequate basis for making the required good-faith certification, based on their individual circumstances in light of the language of the certification and SBA guidance.”



Forgiveness Part 1 – Spend the Money

75%+ of Forgiven Amount must be spent on Payroll Costs

- Employee Compensation
 - Up to \$15,385 (\$100,000 annualized) per employee
- Owner Compensation
 - Up to lesser of \$15,385 or 8/52 of 2019 actual compensation per owner (**NEW**)
 - Sch C Owners – based solely on 2019 Sch C net income
 - Includes compensation paid to “general partners” (**NEW**)
 - What about LLC member-managers or guaranteed payments for service?
- Group health care benefits
 - Employer portion only
- Retirement Benefits
- State and Local Employer taxes on compensation



Spend the Money (cont.)

NEW “Alternative Payroll Covered Period”

- **By Election**
 - Borrowers may choose to start their 8-week covered period (solely with respect to payroll costs) on the date of their first payroll occurring after PPP loan receipt
 - Non-payroll costs still use standard 8-week covered period



Spend the Money (cont.)

25% of Forgiven Amount may be spent on Non-Payroll Costs

- Interest on real or personal business property
 - In force before 2/15/20
- Rent on real or personal business property
 - In force before 2/15/20
- Utilities
 - Electricity
 - Water
 - “Transportation”
 - Telephone
 - Internet Access



Spend the Money (cont.)

NEW Guidance on “Paid and Incurred” Language in CARES Act

- Payroll Costs
 - Amounts paid during 8-week covered period (or alternative payroll covered period if elected) count towards forgiveness
 - Paid = Date paychecks are cut or deposited via ACH
 - Amounts incurred also count, if paid during first payroll after covered period ends
 - Incurred = Date employees earn pay
- Non-Payroll Costs
 - Amounts paid during 8-week covered period count towards forgiveness
 - No pre-payments of future obligations
 - Amounts incurred also count, if paid timely on first invoice/bill received after covered period ends



Forgiveness Part 2 – Retain Headcount

Forgiveness will be reduced pro-rata for reductions in headcount as compared to ‘reference period’

- **NEW** Definition of an FTE (40-hour workweek)
- **NEW** Simplified FTE calculation election (<40 hours = ½ of an employee)
- **NEW** Options for Seasonal Employers to select alternate reference periods for pre-COVID Headcount
- **NEW** Favorable rules regarding:
 - Employees who refused an offer for rehire
 - Employees fired for cause
 - Employees who voluntarily resigned
 - Employees who voluntarily requested and received a reduction of hours
- **CLARIFIES** Safe Harbor for rehiring employees to restore forgiveness
 - FTE’s as of 6/30/2020 must be equal to or greater than headcount at 2/15/2020



Forgiveness Part 3 – Limits on Paycuts

Salary/Hourly Wage Reductions >25% reduce forgiveness

- **NEW** Reduction is based upon changes to pay rates only (not triggered by reduction in worked hours)
 - As compared to average pay rates in 1/1/20 – 3/31/20 period
- **NEW** Guidance for estimating forgiveness reduction when hourly workers receive a pay rate cut >25%
- **NEW** Safe Harbor to restore forgiveness if employee pay rates restored by June 30th



Documentation – Prepare Now

Loans > \$2M will receive an SBA “Audit”
(Loans < \$2M may receive one as well)

- File and retain quarterly payroll tax reports (Form 941)
- Retain receipts/cancelled checks/account statements for employer contributions to group health or retirement benefits
- Track FTE’s for ‘reference period’, covered period (or Alternative), and as of 6/30/2020
- Retained receipts/cancelled checks/account statements for interest, rent, and utility payments
 - **Pay attention to invoices issued after covered period which cover costs incurred during covered period**
- **NEW** SBA is authorized to review documentation for 6 years from date of forgiveness/payoff of loan



Reminder – Limits on Tax Deductions

IRS Notice 2020-32

Expenses related to PPP forgiveness will not be deductible (to extent of amount forgiven)

Back-door = PPP forgiveness essentially becomes taxable!

NOTE – Multiple members of Congress have stated intention to fix this in next COVID-19 legislation package



Pondering the Unknowns

Will there be any more changes to the program?

What is a “Transportation” utility?

What happens if my 8-week “covered period” ends later than the program end date of June 30th?

Are self-rental payments considered ‘rent’?

What about owner compensation for LLC’s?



Open Q&A



Questions? Contact us.

Derek Groff

(303) 294-7732

Derek.Groff@mossadams.com

Kirk Faris

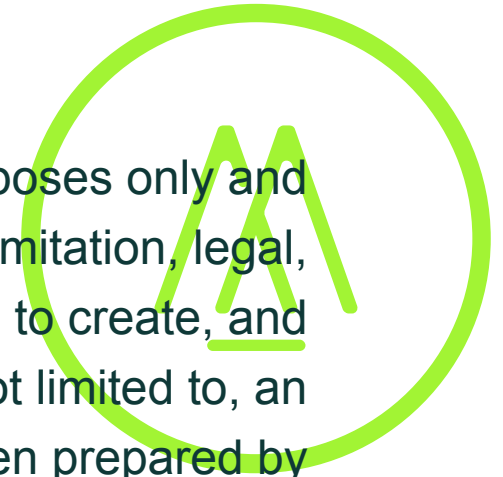
(707) 535-4186

Kirk.Faris@mossadams.com



The material appearing in this presentation is for informational purposes only and should not be construed as advice of any kind, including, without limitation, legal, accounting, or investment advice. This information is not intended to create, and receipt does not constitute, a legal relationship, including, but not limited to, an accountant-client relationship. Although this information may have been prepared by professionals, it should not be used as a substitute for professional services. If legal, accounting, investment, or other professional advice is required, the services of a professional should be sought.

Assurance, tax, and consulting offered through Moss Adams LLP. Investment advisory offered through Moss Adams Wealth Advisors LLC. Investment banking offered through Moss Adams Capital LLC.



THANK YOU

