

**The Church Network – North Central Chapter**  
**5/7/2020 Chapter Meeting – Focus on PPP Implementation**  
***Don't Go It Alone – We are all in this together!***

***Romans 1:12 (The Voice). Plus I know that when we come together - something beautiful will happen as we are encouraged by each other's faith.***

**Disclaimer – We are not experts and should not be considered an authoritative source.**

- If you read ten articles, you may get ten different opinions! Consult with your advisors.

**Our overall goal – Facilitate an ongoing conversation about the PPP loan program and forgiveness**

**There is much collective wisdom in this group - Let's Share it! Tell us what you are hearing**

- Our focus will be on what's new, and specific implementation issues we're all facing
- As well as questions we have on our radar.
- There are some things we know, because they are specified in the SBA guidelines/FAQ's
  - o But at this point – there is little specific guidance, and more questions than answers - especially around how loan forgiveness will be measured and documented
  - o **Stay tuned**. We will update as guidelines are made available.

**Today we will cover SBA resources, accounting for loan proceeds and forgiveness, understanding and measuring the 8-week (56 day) cash flows, and documentation requirements**

- Future meeting topics are mentioned on the last page

**SBA Paycheck Protection Program (PPP)**

**1. Primary regulatory guidance – few specifics**

- a. Links to the Treasury Dept's Paycheck Protection Program website and SBA FAQ's (periodically updated with revised guidance) are provided on the last page
  - i. Also contains a link to the SBA's "PPP Interim Final Rules" and "Sections 1102 and 1106 of the CARES Act" – defining basic eligibility
- b. **CONFIRM with YOUR lending institution** – they have the final say about eligibility
  - i. But they won't know any more until the SBA further clarifies... Stay tuned

**2. How to account for the PPP loan proceeds and forgiveness**

- a. **GAAP-based financial statements** – no specific guidance, but this is what the AICPA is saying (consult your CPA's):
  - i. Record the loan proceeds as Debt. And it stays as debt on B/S all the way up until formally forgiven. Impacts fiscal year-ends around 5/31, 6/30
  - ii. Record the debt forgiveness as income when formally released – as a separate line item in the income statement (where is not defined).
  - iii. Continue to record the underlying expenses in their natural categories. Do not offset with the debt forgiveness income – to facilitate future budgeting and historical analysis

- b. **Cash basis financial statements** – focus on “telling the story” for leadership
    - i. Record the loan proceeds as a note payable / other liability / restricted account.
    - ii. May want to match the timing of debt forgiveness revenues with incurrence of the underlying expenses – as a separate line item in the general fund
      - 1. Again, consider showing as a Transfer of income to offset the expenses in other departments / funds – not as direct expense offsets
3. **BEGIN TO PLAN NOW – specifically identify for your church (timing is everything):**
- a. Which eligible expenses will apply to your situation?
    - i. Payroll costs, and mortgage interest, rent and utility payments
  - b. What periods are covered (“incurred”), and when typically “paid”
    - i. More on these subjects in future meetings
  - c. The importance of being **intentional about your 8-week period:**
    - i.  $8 \times 7 = 56$  days – which is **not two months** (61 days) – SBA did this on purpose
    - ii. **Day 1** of the 8-week period **begins on the date the lender makes the first disbursement** of the PPP loan to the borrower. Not second day.
4. **Prepare estimated cash flow projections for the next 8-weeks**
- a. Many may not be able to use the full amount of loan proceeds for forgivable expenses:
    - i. 56 days of payroll is only 75% of the original 2.5 months (76 days) used to determine the original loan amount
      - 1. This generally leaves the remaining (but no more than) 25% of the original loan proceeds consumed by eligible non-payroll expenses (without mortgage/other interest or rents that may be difficult)
  - b. Do not use loan proceeds beyond the amount of projected forgivable expenses
5. **Closely track cash availability and report to leadership**
- a. Leadership responsibility/decision how to use cash balances/reserves - Not the BA’s!
  - b. Differentiate between Unrestricted/Bd designated, and Donor Restricted, cash balances
    - i. Generally cannot use donor restricted cash to cover GF operating costs
    - ii. Be aware of and intentional about any short-term use of restricted cash
      - 1. Forecast the use, obtain approval, with a policy and plan for repayment
    - iii. More on this subject in future meetings
6. **PLAN NOW Talk to your lending institution** – they are the final determiners of forgiveness eligibility. Understand their definitions and requirements for:
- a. Eligible expenses – payroll costs, and mortgage interest, rent and utility payments?
  - b. Definition of “incurred and paid” – what periods are covered?
  - c. **Documentation required** – Lender requirements will mirror the SBA guidelines
    - i. Will there be a standard lender form to complete?

- d. **The CARES Act states that recipients seeking loan forgiveness shall submit to the lender:**
- i. Documentation verifying the number of full-time equivalent employees on payroll and pay rates for the periods described, including:
    1. Payroll tax filings reported to the Internal Revenue Service, and
    2. State income, payroll and unemployment filings
  - ii. Documentation, including cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments on covered mortgage obligations, payments on covered lease obligations, and covered utility payments
  - iii. Certain certifications
  - iv. Any other documentation the Administrator (lender) determines necessary
- e. **Documentation considerations:**
- i. Separate bank account for payments relating exclusively to PPP?
  - ii. **Specific tracking and documentation of all the eligible payments**
    1. Consider a **spreadsheet listing and explaining all eligible non-payroll payments, with columns/sections for each forgiveness category**
      - a. **Along with copies of all invoices/statements for each payment**
      - b. Allows tracking of the total amounts paid to-date – and consideration of 75% payroll / 25% non-payroll
        - i. Comparison against projected total forgiveness amounts
    2. Desirable to have **alignment with specific general ledger accounts** – especially for mortgage, rent and utility payments, and employee benefit payments for health insurance and retirement, etc.
      - a. Would provide **GL account transcripts** – including dates and amounts paid, detailed descriptions, and check/EFT numbers
      - b. Allow **reconciliations to total amounts** included in the forgiveness calculations / spreadsheet
  - iii. What support will lenders require for payroll amounts, FTE's and pay rates?
    1. Labor distribution reports? 941s – but they would include qualified and non-qualified wages? Some payroll may be for days before the pay date inside the 8-week period? Time cards?
    2. Track and document how FTE's are calculated?
    3. Especially important for seasonal employees / day care/ school, etc.
    4. New FAQ #40 – employees that decline rehiring are not counted against FTE's (with documentation, IN WRITING, of the offer and decline)

## **Future Topics for conversation – Let us know what you’d like to cover:**

1. **What is the definition of “incurred and paid”**
  - a. Payroll processing and payment – timing is everything
  - b. Timing of other eligible non-payroll expenses - and what service periods are covered
  - c. What is included in covered utility, mortgage interest and rent payments
2. **Impacts on the budgeting process**
  - a. Lack of certainty! Rolling 6-month period?
  - b. Increased costs after re-opening?
3. **Differentiating between unrestricted and donor restricted cash balances**
4. **Impact of declines in market value of investments**
5. **Planning for re-opening**
6. **Documenting “uncertainty” at the time of loan application**
  - a. FAQ 31: Specifically, before submitting a PPP application, all borrowers should review carefully the required certification that “current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.”
  - b. Borrowers must make this certification in good faith, taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business.
  - c. Document leadership decisions at the time of application
7. **Unemployment**
  - a. Our understanding... if employees check the box for Covid-19 as the reason for unemployment, will not go against the employer account. Other reasons will.
    - i. Go online and check this out.

Link to the Treasury Dept’s Paycheck Protection Program website:

<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>

**SBA FAQ’s** – periodically updated with revised guidance

<https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>

- Also a link to the SBA’s “PPP Interim Final Rules” and “Sections 1102 and 1106 of the CARES Act” – defining basic eligibility