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# ARCHDIOCESE OF BALTIMORE

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## Guidance on Recording and Tracking SBA-PPP Loan Transactions

EFFECTIVE April 6, 2020



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## Guidance on Recording and Tracking SBA-PPP Loan Transactions

Below is the guidance on how to record and track all transactions that could be covered by the SBA-PPP Loan proceeds. While this is cheap money or as close to free as you can get, it still isn't free. There are requirements that have to be followed in order to qualify the funds for forgiveness and the amount of forgiveness is based on how you spent the funds. The Archdiocese does need a few pieces of information:

1. Signed Loan/Promissory Note Document – please send an electronic copy to the Regional Controller who initially provided you the answers to the application.
2. Date Funds were Received – please in the same communication for which you attached the signed loan document, please also indicate the day the funds were received by your location.
3. \$ Amount – please also provide the dollar amount of the loan in the same email.

If you have any questions at all or need help in any way, please contact one of these individuals:

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### 1. Recording the initial loan proceeds

If the funds were deposited directly into the parish or schools main operating checking account then please create a sub-account in QuickBooks under the main checking called SBA-PPP proceeds and deposit the funds in this account. The credit side of the deposit will be to account 2820 – Notes Payable to Bank for both parishes and schools. If it is a parish and school combo loan see the guidance in #9 below.

## 2. Use of Loan Proceeds

In general, the types of transactions that the loan proceeds can be used to pay in order to have the loan be eligible for forgiveness. They include:

1. Gross Wages
2. Health Benefits
3. Retirement Benefits
4. Utilities, including:
  - a. Electricity
  - b. Gas
  - c. Oil
  - d. Water
  - e. Telephone
  - f. Internet

The time period for which these types of expenses can be accumulated to calculate forgiveness, is called **the covered period**. The covered period is defined as the 8 week period beginning the day the loan proceeds were deposited into the parish or schools bank account. The funds are required to be deposited into an organizations bank account within 10 days of the signing of the promissory note. If it has been 10 calendar days since you signed the note and you haven't received the funds, call the bank.

Every time one of the eligible expenditures listed above is made it should be credited against the sub-account of the operating checking account. At this time code all of the net payroll against this account, **the entire** benefits bill and all of the utilities bills listed above. Adjustments will be made when preparing the request for forgiveness for any allowed and un-allowed expenditures. If a payroll account is used, a journal entry will be made to move the net payroll from the payroll account to the SBA-PPP sub-account. The tax payment can remain in the main operating checking account or the payroll account for now, because the tax payment includes various taxes, some of which are not allowable payroll costs for the PPP Loan.

What we do not know however is how to exactly determine the eligible transactions from an incurred vs. paid perspective. The specific language used by the SBA to date is **"costs incurred and payments made,"** but the SBA is unclear as to what the "and" means. It could mean that the "and" implies the expenses must be both incurred for the 8 week covered period and paid during the 8 week covered period or it could mean that the expenses were either incurred during the covered period or the expenses that were paid during the covered period. There are just as many interpretations as there are banks processing the loans. The SBA has indicated that it will provide further guidance on forgiveness. As soon as it comes out we will review and provide you with the guidance. Although, just to be safe, if you haven't paid your April benefits bill already, wait to make payment within the covered period.

In order to have all of the information available and ready to go once it is time to request forgiveness, the following procedures are strongly recommended:

1. Create a class in QuickBooks called SBA-PPP. Use this class every time a transaction is posted that falls into one of the 6 types of expenses above.

2. Post every transaction that falls into one of the 6 categories above against the sub-account of the operating checking that was created for the loan proceeds. You will be able to see the use of the loan proceeds each time a Balance Sheet is run.
3. Each time an invoice is paid or a check is cut through QuickBooks, attach the scanned copy of the invoice or electronic version of the payroll register to the QuickBooks payment.
4. Create a folder on the parish or school server called SBA-PPP and save all electronic copies of invoices and payroll registers to this folder that fit one of the types of expenses above.
5. Maintain a spreadsheet or google sheet of all transactions from the 6 types above for ease in calculating the split between payroll costs and other costs. At a minimum 75% of the loan proceeds must be spent on payroll costs. A sample spreadsheet which calculates this split is provided with this guidance. This spreadsheet should be reconciled to the SBA-PPP sub-account of the operating checking account on a weekly basis.

### 3. Liquidity and Safe Harbor Rule

It has come to the attention of the SBA and the general public that certain organizations were issued loans under the SBA-PPP program that should not have been. As such the SBA noted the following:

It is unlikely that a public company with substantial market value and access to capital markets would be able to make the required certification in good faith that “current economic conditions make this loan request necessary to support the ongoing operations of the applicant.” The most recent guidance informs each applicant to take into account its current business activity and its ability to access other sources of liquidity sufficient to support its ongoing operations in a manner that is not significantly detrimental to the business. The SBA provides a safe harbor, in that any borrower that applied for a PPP loan prior to the issuance of the guidance (which was issued on April 23, 2020) and repays the loan in full by May 7, 2020, will be deemed by the SBA to have made the required communication in good faith.

Rest assured this is not referring to the parishes and schools of the Archdiocese of Baltimore. First, all parishes and schools are non-profits and do not have *substantial market value and access to capital markets*. Second, while some parishes and schools have cash reserves, to deplete these reserves during the current interruption to operations would qualify as *significantly detrimental to the business*. AOB parishes and schools do not generally budget surpluses, nor do they recorded depreciation. In addition, most parishes and schools have millions of dollars of deferred maintenance. As such, to deplete these reserves would significantly harm the ongoing operations and future ability to meet the capital needs of the parish or school. Finally, our current business activity has been significantly impacted. Our buildings are closed and while individuals are still being generous with offertory and staying current on tuition, revenue is down, anywhere from 20%-50%. Our parishes and schools are the perfect example of why these loans were created in the first place. Therefore, the liquidity

and safe harbor rule do not apply.

#### 4. Timing of Payments

The timing of payments for eligible expenses is important, so we need to do our best to manage payments to fall within the defined covered period but also within the required payment period. As indicated above, however, we don't yet have guidance that defines the "costs incurred and payments made" requirement, so even managing the payments within the covered period may not guarantee that they are included in the forgiveness calculation.

With that said, the AOB has specifically concluded that **no location is to move pre-determined payroll dates** or make late payments to vendors which will result in late fees. Moving pre-determined payroll dates can cause issues with tax payments and can be detrimental for employees, especially those who have auto-bill payments and can ultimately result in unnecessary expenses, like NSF fees to the employees. Therefore, payroll dates are not to be changed and vendor payments are to be made when due.

#### 5. Tracking the Forgivable Amount

- a. Of course the ultimate goal is to have every dollar forgiven. It is best however to keep a close eye during the 8 week covered period to ensure we are on track to meet that goal. Use the Projected Use Calculator, provided by the AOB shortly after the proceeds of the loan are deposited to get an estimate of use from the very beginning.
- b. Over the 8 week period use the spreadsheet (recommended in 2 #5 above) to track the actual transactions to calculate the split between payroll costs and other costs. The SBA has indicated that the purpose of the loan program is to keep workers employed and paid. Therefore the proceeds of the loan must be used so that no less than 75% is used for payroll related costs and no more than 25% of the loan can be used for utilities, mortgage interest and rent. It has been recommended by the USCCB, that Catholic Parishes and Schools not use the loan proceeds for mortgage interest and rent as these can be considered federal financial assistance which can lead to compliance issues with other Federal regulations.
- c. At the end of the 8 week period, if you have not used all of the proceeds or the payroll usage did not meet the 75% minimum, you may return that portion of the loan proceeds to the bank without penalty. Interest will accrue however from the date the funds are deposited on any amount that doesn't qualify for forgiveness. The interest rate is 1%, which is about \$1.56 per day per \$1,000.
- d. At the end of the 8 week period use the Forgiveness Calculator provided by the AOB to anticipate the amount that will be forgiven and that amount that will need to be returned to the bank before October/November 2020. Interest will accrue on the unforgiven amount until payment is received at a 1% interest rate. This accrued interest will also have to be paid before October/November 2020, so that the Note doesn't convert into a loan payable over two years. Please remember however, that the bank will have its own method to calculate forgiveness, which may or may not match the forgiveness calculator tool provided by the AOB. We tried!
- e. Be on the lookout for guidance regarding the "costs incurred and payments made" definition. Once guidance has been provided adjust the predictor tool and the spreadsheet

being maintained for the new definition. This may also require transactions to be reclassified from the SBA-PPP operating sub-account to the main checking account, as well as removed from the SBA-PPP class.

- f. Keep the parish Finance Committee and Corporators and the School Board updated on the use of the proceeds on a monthly basis.
- g. Stay in touch with the bank that issued the loan to get any guidance they have or tools they will be using in a timely manner to make adjustments if necessary.

## 6. Forgivable Amount Determined

Once the bank has notified the parish or school of the forgiven amount, the parish or school can then remove the liability and credit grant income. Please debit 2820 for the forgiven amount, parishes will credit 4730 – Specific Gifts, Grants and Bequests and schools will credit 4251 – Specific Gifts, Grants and Bequests. If any amount has not been forgiven, then please credit the SBA-PPP sub-account for the check or EFT that is used to repay the unforgiven principal. The parish or school will also need record interest expense for the unforgiven amount, the entry is to debit 5910 – Interest on Debt for parishes and 5510 – Interest on Debt for Schools, with the credit to the operating check account. Accrued interest will not be recognized during the 8 week covered period, but will be estimated and recorded as of June 30, 2020 if the forgiven amount hasn't been determined.

## 7. Determining FTEs

The original loan application produced by the SBA simply asked for number of employees. The number of employees that was provided to every parish and school was based on the number of employees listed on the W-3, which is the number of individuals that were paid by the parish over calendar year 2019 and would receive a W-2. A few days later specific guidance was provided by the SBA on calculating the number of Full Time Equivalents for very specific periods in order to calculate forgiveness. Basically, the number of employees that was used for the application is not one of the defined FTE parameters and will not be used. In addition, the latest guidance issued by the SBA on April 15<sup>th</sup> indicates that further guidance on forgiveness will be issued. It just doesn't say when. For now the defined parameters **will be calculated for each parish and school by the HRMS team** and are as follows:

The CARES Act provides that the amount of loan forgiveness is reduced by multiplying the amount eligible for forgiveness by the quotient obtained by dividing:

- The average number of full-time equivalent employees per month employed by the eligible recipient during the covered period; by
- At the election of the borrower, either:
  1. The average number of full-time equivalent employees per month employed by the eligible recipient during the period beginning on February 15, 2019 and ending on June 30, 2019; or

2. The average number of full-time equivalent employees per month employed by the eligible recipient during the period beginning on January 1, 2020 and ending on February 29, 2020.

If a business reduces employees from February 15 through April 27, 2020, but eliminates that reduction by June 30, 2020, the reduced forgiveness is restored. Therefore, the business must then measure:

- It's FTEs from February 15 – April 27, 2020 and
- It's FTEs on February 15, 2020

Based on the current guidance, any reduction between February 15 and April 27, 2020 will be ignored if no later than June 30, 2020, the business has restored the employee levels to what they were on February 15, 2020.

At this point there is also no specific guidance on the definition of FTE, so the standard definition should be used, dividing the number of working hours per pay period into the total hours worked. The HRMS team has all of these FTE parameters and will be providing each location with their own calculations.

## 8. Restoring Employment to Maximize Loan Forgiveness

Based on the FTE calculations above, an entity receiving a loan from the SBA-PPP program must restore employment prior to June 30, 2020 to the number of FTEs prior to the pandemic and interruption in operations in order to maximize the amount of loan forgiveness. It is not clear however, what restore means, we could speculate but that might cause more work and more confusion. At this time the AOB will focus on calculating the number of FTEs for the periods defined above to determine if there is a detrimental change. Any location for which it is determined that there is a detrimental change, will be contacted by a representative from H/R and the assigned Regional Controller to formulate steps that have to be taken prior to June 30, 2020. These steps will be based on the most recent guidance provided by the SBA at that time.

## 9. Parish Schools

The HRMS team has created a payroll summary that splits the parish payroll from the school payroll for the calculation of the original loan application. The Benefits total for the purpose of the loan was taken from the calendar year 2019 Profit & Loss in QuickBooks for both entities and included **all** benefits. If the exact amount of the application was the approved loan amount, then please use the documentation from the HRMS for gross wages and the CY 2019 P&L for the benefits to calculate the amount of the loan that relates to the parish and school respectively. If the approved loan amount was different than the application the proportionate share of the loan should be booked on the parish's and school's books, calculated based on the total of both gross wages and benefits per entity. The schools cash portion of the loan should be transferred from the parish's bank account to the schools bank account, immediately.

When the forgivable amount is determined, it will be applied based on the parish's and schools proportionate share. Any amounts to be repaid will be calculated using the same portion.