



MEMO

To: Fahe Membership
From: Brittney Murphy, Fahe CFO
Re: PPP Loan Forgiveness Information Update
Date: 6/9/2020

Details of PPP loan

Certifications made to qualify for the loan:

1. Uncertainty of current economic conditions make the loan request necessary to support the ongoing operations of Fahe
2. The loan proceeds will be used to retain workers and maintain payroll or make mortgage interest payments, lease payments and utility payments as allowed by the PPP
3. Our organization will only pay expenses with proceeds from the PPP loan as permitted by PPP
4. Our organization will comply with all provisions of the PPP and CARES Act, including limitations on executive and employee individual compensation

Steps taking for proper audit trail at Fahe

It is imperative to track the uses of funds, whether it is the portion that is forgivable or not. Fahe has been holding funds in escrow until we get clearer guidance regarding CDFI eligibility for the program, but we will follow these steps to establish and audit trail if we decide to keep/spend the loan:

Steps
1. Set up separate bank account to track PPP funds. This is not required, but will allow us to avoid an audit of our entire general fund cash account activity.
2. Marj create a project code, just like she would for a grant, that would bucket this funding with federal grants making it easier to pull information for the SEFA (schedule of expenditure of federal awards) at year end.
3. Transfer cash to new bank account, once we have system access through website & earmark funds with project code.

4. Determine amount of payroll and Humana insurance payment that is allowable to uses of the PPP, create documentation and move funds from PPP Cash account to General Fund.
5. As we experience payrolls, make a journal entry to transfer cash from the PPP Cash account with project code to the General Fund WITHOUT the project code. Make a copy of the journal entry and documentation used for the determination of the amounts and place it in a paper folder, as well as create a folder on the Z drive (electronic).
6. Do this for each payroll.
7. At the end of the period, determine how much of the PPP we were able to use for eligible payroll expenses. We will then look at other eligible uses of the PPP funding and make transfers for those. As of 6/8/20, all forgivable expenses will be forgiven regardless of the total percentage they hold of the loan amount. The 75% payroll requirement which was later changed to 60% has been removed.
8. When it is time to request the forgiveness, we make a copy of everything in the paper file and take it to Central Bank with the application to request forgiveness. We will also highlight on our bank statement to show where the funds were paid from our general fund and provide the GL that shows the specific activity with the project code and be able to tie it back to the transfers made from the PPP that were eligible uses.
9. We will continue tagging eligible uses to the PPP funds thru our determined covered period and transfer cash from PPP to General Fund, continuing to document the uses as we did for the forgiveness portions
10. We will be prepared for any potential audit of the funds

We need to do a couple of things to document our eligibility for the program:

Document in memo format how we determined the uncertainty of current economic conditions make the loan request necessary to support the ongoing operations of Fahe – documenting how our operations would differ with and without the funding
Put together Projected Cash Flow due to COVID-19 impact showing need for PPP

Each borrower is required to maintain the following documentation for 6 years from the later of the date of forgiveness or date the loan was paid in full. All schedules referenced relate to the PPP loan or forgiveness application:

Support for each individual in Schedule A Worksheet Table 1.
Support for each individual in Schedule A Worksheet Table 2.

Support for any employee's job offers/refusals, firings for cause, voluntary resignations, and written requests for work schedule reductions.

Support of the PPP Schedule A Worksheet "FTE Reductions Safe Harbor"

Support of the Borrower's necessity of the loan request and eligibility.

*Thoroughly document with dates the decision making process for taking this loan since there has been many updates to this program.

Details learning about PPP Forgiveness

What we know for sure:

1. If we do not maintain the number of FTE's determined in PPP formula we will have to reduce the amount of payroll that we can have forgiven. You will use one of two pay periods for your FTE Baseline. Those are 2/15/19-6/30/19 or 1/1/20-2/29/20. You need to determine what that number is now so that you have no surprises when your forgiveness amount is calculated.
 - a. 1 FTE is assumed to work 40 hours per week. The interim final rule (5/22/2020) tracks the application in providing that employees who work 40 hours or more each week are limited to an FTE quotient of 1.0. For employees who work less than 40 hours per week, the borrower may calculate the average number of hours paid per week divided by 40, or the borrower may use an FTE equivalency of 0.5 for each employee. The chosen method must be applied consistently to all employees in all relevant periods.
 - b. Mitigations for hiring of employees is now available if mitigated by 12/31/20. No guidance on length of employment required for the mitigating hire has been released.
 - c. If an employee refuses to come back to work, resigns, or is fired for cause, written documentation is required and those employees would not be required to be reduced in the calculation.
2. Update: The PPP loan can now cover 24 weeks, updated from the previous 8 week window. You should determine what amount of payroll would hit during that period, as well as other eligible uses.
 - a. New language: The new interim final rule confirms the prior guidance that non-payroll costs are eligible for forgiveness if (i) paid during the covered period, **or** (ii) incurred during the covered period and paid on or before the next regular billing date.
 - i. Include all prior payroll amounts paid during the period plus the amounts paid during the next payroll period that were incurred during the covered period.
3. We cannot include the hours staff use FFCRA (COVID FMLA) in the calculation of FTE#. So if you have many employees utilizing the FFCRA, I would recommend you reach out to your CPA for assistance in this calculation.

4. We cannot ask forgiveness for salaries that are proportionately over \$100,000 in annual pay – we are reducing the amount paid in each payroll for any person over \$3,846 – only paying the \$3,846 with PPP. Payments of salary, wages, or commissions to furloughed employees, bonuses, health insurance, and hazard pay are eligible payroll costs and are still allowed to be paid with the PPP.
5. We can request forgiveness for state unemployment insurance paid.
6. Any amount of the loan that we are unable to use for “allowable uses” must be repaid by December 31st. The uses will need to be tracked whether they are forgivable or not. Any unforgivable loan dollars can now be repaid over 5 years at 1% interest.
7. Salary/hourly wage reductions will only be taken into account if they are not attributable to an FTE reduction. An example is if an hourly wage employee had been working 40 hours per week but only works 20 hours per week during the covered period, but the employee’s hourly wage is not reduced, the reduction in hours is taken into account for FTE purposes, but the borrower is not required to apply the salary/hourly wage reduction to such employee.

What we are still seeking solid guidance for:

1. We need guidance how to count people on short-term disability toward the FTE calculation.
2. How the funds used will show/affect our single audit for FY 20. *We are taking the stance that they will be included on the SEFA and will have our financials recorded and documentation available in a way that this will pose no challenge for us to get through an audit with no findings.*

Other information we know or things to consider:

1. ERTC is not allowed once you’ve received and decided to keep the PPP loan. If the money is returned, then an application for the ERTC is allowed.
2. Assess all grants that cover payroll expenses and ensure you remain in compliance with how those funds are to be spent as well as what is able to be considered as an allowable payroll cost. Payroll funds already covered by federal grants for example, are not forgivable.
3. Covered non-payroll expenses are those that were in place prior to 02/15/2020.
 - i. Covered Mortgage interest
 - ii. Covered Rent obligations
 - iii. Utility payments for the distribution of gas, electricity, water, transportation, telephone or internet
 - iv. Covered interest payments on debt for balances as of 02/15/2020

Application and Recent Updates

1. May 22, 2020 and June 5, 2020 Updates:
 - a. A deadline for submitting the application for forgiveness has not been released. However, if an eligible recipient fails to apply for forgiveness of a covered loan

within 10 months after the last day of their covered period, they shall make payments of principal, interest, and fees “beginning on the day that is not earlier than the date that is 10 months after the last day of such covered period.”

- b. For loans that are not reviewed by the SBA prior to the lender’s decision on loan forgiveness, lenders must issue decisions on loan forgiveness to the SBA within 60 days from receipt of a completed application, and the SBA will remit the appropriate forgiveness amount, plus any accrued interest, to the lender within 90 days thereafter.
- c. Advance payments of interest on a covered mortgage obligation are not eligible for forgiveness. Payments of principal are not eligible under any circumstances.
- d. The borrower must inform the state unemployment office of any employee’s rejected offer of employment within 30 days of such rejection. This is a new requirement applicable to the exemption of not reducing the FTEs calculation due to a rejected employment offer.
- e. A second Interim Final Rule was released relating to loan review procedures and borrower/lender responsibilities. A great summary of that information can be found [here](#).
- f. PPP loan recipients who receive loan forgiveness are able to defer payroll tax payments for the entire March 27 – Dec. 31, 2020, period.

I am keeping a close eye on any advances in guidance for the PPP and will share it with the Membership as I find it.