



## GUIDANCE FOR DOCUMENTING PPP FUNDS

Now is the time to establish some best practices for documenting how your business uses its PPP funds. It is very important to ensure that the funds are used only for allowable costs. With little guidance released on the specifics of the calculation of the forgivable amount, be very careful to fully support the use of these funds. Our current understanding is there will be an application process for the determination of loan forgiveness. This process will be handled through our bank. We will have an application and request list when the SBA provides guidance. In addition to the SBA requirements, there may be variances between what different banks need.

### HERE ARE A FEW SUGGESTIONS:

- » **Set up a separate bank account.** This is the best advice we can give. Have the bank who is providing the loan also set up a separate bank account to assist with tracking the specific cost. Only the PPP funding goes into the account, and only allowable expenses come out of the account.
  - » If you continue to use your operating accounts and payroll accounts to pay eligible expenses, you will then be transferring the funds from the PPP account to your operating and payroll accounts to cover these costs. We recommend that you complete an in-house “draw request” to document the reimbursement of these costs from the separate PPP account. This draw request should document the vendors/invoices, types of costs, dates incurred, amounts and total draw being made. Attach and retain the supporting documentation to the draw request to support these costs.
  - » If you have a payroll account for the purposes of direct deposit, transfer only the allowable part of the payroll cost to be covered from the PPP funds.
  - » For other allowable expenses, such as utilities, interest or rent, consider writing these checks directly out of the PPP account instead of making the draw requests, if that is more efficient for you.
- » **Set up separate general ledger accounts.** Consider structuring some different GL accounts to be able to easily identify and track the amounts from the loan account and the use of these PPP funds. For example, use “Utilities – PPP” or “Telephone – PPP” to be able to easily distinguish the amounts, but also to be grouped with the natural classification of the accounts on your income statement.
- » **Separate time code.** For payroll costs covered by the FFCRA program (emergency sick leave, expanded family medical leave act and/or CARES Act), the time for employees under these programs needs to be tracked separately. Consider using a separate time code or payroll items to support this time and ensure it is not used for both programs.
- » **Maintain documentation.** Maintain invoices and payroll registers to support the transactions in this account. It is a good idea to keep an additional copy of this documentation in a centralized location or folder. It will be needed fairly soon for the forgiveness application.
- » **Monitor your expenses.** Only 25% of the forgivable part of the PPP funds can be used for non-payroll expenses. It is important to monitor each type of expense to make sure you are within these limits on an ongoing basis. This allows you to adjust before it’s too late.
- » **Monitor your number of employees and amount of payroll costs.** Again, the forgivable part of the PPP funds is dependent on maintaining the same number of employees and the salary threshold within 25% of prior years. It is very important to calculate and monitor these amounts on an ongoing basis. Also remember, if you are receiving credits for payroll cost through the FFCRA program, those payroll costs are not eligible for use of the PPP funds.
  - » Prepare a **projection.** Look at the eight weeks from the point you receive the PPP funds and prepare a projection of what you expect to pay in these eight weeks. You may find it is important to shift some expenses around and change up your traditional timing of expenses.
  - » **Review your options.** Are you also considering a SBA EIDL loan? This process may allow some benefits after the eight weeks of use of the PPP funding.
  - » **Be prepared.** We do not yet have information and guidance on the calculation of the forgivable part of the PPP loan. At this point, we are estimating. Have a plan in place for if a portion of the loan is not forgivable. Update your annual budget with current expectations.
  - » **Stay informed.** More information and more questions are produced every day regarding these programs. Stay in touch with your bank and with your team to be aware of changes as they are available.
  - » **DOCUMENT! DOCUMENT! DOCUMENT!** You will never be faulted for over documenting! Be very diligent with your record keeping.

### QUESTIONS?

Cornerstone Bank is here to help! Small businesses have always been important to us, and we know this is a difficult time for you. We are all in this together, and we want to continue to be your resource. If you need additional guidance, give us a call at 1-800-301-4466, or visit the Business Resource Page on our website at [www.Cstonebank.net/blog/sbas-disaster-relief-lending](http://www.Cstonebank.net/blog/sbas-disaster-relief-lending).