

Accounting for Paycheck Protection Program Proceeds

By Timothy J. Sims, Partner and Frank Jakosz, Partner

Many nonprofit organizations are asking about the proper accounting for Paycheck Protection Program (PPP) proceeds.

PPP loans are designed to provide a direct incentive for small businesses to keep their workers on the payroll. The U.S. Small Business Association (SBA) will forgive the loan if eligible expenses are those that are incurred over 24 weeks (if you received your PPP loan before June 5, you can still use an 8-week period) and the money is used for payroll, rent, mortgage interest, or utilities.

Here's what to know.

Key points about PPP loans:

- The loan will be fully forgiven if the funds are used for payroll costs, interest on mortgages, rent, and utilities. At least 60% (previously 75%) of the forgiven amount must have been used for payroll.
- Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines or if salaries and wages decrease.
- Loan payments will be deferred for six months.
- No collateral or personal guarantees are required.
- Neither the government nor lenders are to charge small businesses any fees.
- This loan has a maturity of two years and an interest rate of 1%.

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Key points about accounting for PPP loan proceeds:

- Since the transaction is initially a loan that could be partially or completely forgiven, it has an inherent right of return or release.
- The loan also has a stated interest rate of 1%, which is the stated rate for this type of loan in this market on any amount not qualifying for forgiveness.
- There is not a below-market interest aspect that would need to be considered in the accounting for the loan. Any such interest would need to be accrued. However, given the short period of 24 weeks to determine the amount that is forgivable, interest would only need to be accrued on any unforgivable amount until it is repaid.
- As organizations adopt the provisions of ASU 2018-08 for fiscal years December 31, 2019 and later, during the covered eligible period, which may cross over your fiscal year-end date, it's important to evaluate whether your organization has overcome the barriers for PPP loan forgiveness.
- The initial day one accounting would record the receipt of the funds as cash and a related liability. The 1% interest payable would be accrued monthly.

Looking Ahead

Once your organization has overcome the barriers, the forgivable amount of the loan would reduce the liability, increase restricted contribution revenue, and simultaneously be released from restrictions, since the some or all of the related expenses may have been incurred as of your year-end reporting period.

In lieu of recording the forgiven amount of the loan as "with donor restrictions" and simultaneously recording the release of restrictions (since the qualifying expenses fulfilling the restrictions may have already been wholly or partially met), the organization may elect an alternative accounting treatment for such conditional restricted contribution revenue.

FASB amended the current requirements under GAAP to allow nonprofit organizations to elect the simultaneous release policy for donor-restricted contributions that were initially conditional contributions independent of any election for other donor-restricted contributions. **FASB noted that “... in many instances, the condition could**

be met and the restriction satisfied at precisely the same time; thus, there essentially would be no separate restriction that needs to be tracked by the NFP for resources to which it is already entitled.” (Emphasis added.)

This optional election would result in the recording of the forgiven loan amount as unrestricted contribution (i.e., “without donor restrictions”), thereby eliminating the need to record the amount forgiven as a restricted contribution and then recording a release from restriction.

If this alternative treatment is elected, this policy needs to be disclosed in the footnotes to the financial statements and the policy needs to be followed for all conditional grants where the condition and the restriction are met at the same time. Other sources of restricted contributions would continue to be recorded as with donor restrictions and released when the restriction is met.

We believe the process involving any required certification, verification, or other formal documented forgiveness by the lender or SBA is separate and apart from the organization’s accounting and reporting based on the activities and transactions. The PPP information on the SBA website does not include any such verification process as a barrier to the recording of the contribution revenue. Based on our current understanding, there is a 60-day window where this verification/approval process will be performed by the SBA or lender. This may result in a subsequent event item for some June or July fiscal year-ends.

Since this verification process is not considered a barrier, it would be appropriate for your organization to determine or estimate the forgiven amount based on your records and satisfying these barriers, and therefore recognize the contribution revenue.

If the subsequent verification amount approved by the SBA or lender is **materially** different from your estimate, the estimate would be revised if you receive the notification subsequent to year-end but prior to the audit report being released. (This would be a “type 1” subsequent event for which an adjustment is recorded.)

Handling the Funds

As a best practice, some organizations are depositing the PPP loan funds received into a separate bank account to avoid commingling the loan funds with other funds. This allows them to account for the qualifying expenses separately.

Taking this step may make it easier for your organization to identify the potential remaining loan amount after forgiveness and repay that amount immediately to avoid future interest accrual. If your organization has substantial reserves prior to receiving the PPP proceeds, you may not need to track in a separate bank account.

Please [contact us online](#) or at info@capincrouse.com with any questions. We are here to help.

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