Understanding the Impact of PPP Loan Forgiveness on Your Nonprofit's Finances and Reporting

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David M. Rottkamp, CPA, is an Audit Partner, Not-for-Profit Practice Leader, at Grassi. David has over 34 years of experience providing audit and advisory services, include Uniform Guidance audits, to the not-for-profit and health care industries. David focuses on organizations serving individuals with special needs, foundations, religious organizations, educational institutions, membership associations, social service providers, healthcare providers, and arts and culture.

David has advised some of the area's most successful not-for-profits in areas such as: financial reporting systems, implementation of new accounting standard updates, sustainability/succession planning, internal control reviews, developing financial forecasts, and providing quality board education and governance advice. Through his focus on education and board awareness, he has improved the internal structure and sustainability model for many of his clients, demonstrating his industry leadership.

David has presented in several industry conferences, including the AICPA and the NYSSCPA. David leads internal education sessions, webinars and has been published in the CPA Journal several times. David is also a member of the firms' Accounting and Auditing Committee and the Strategic Partner Retreat committee, which plays a significant role in cultivating the firm's culture and strategic objectives.

David serves on the Board of the National Multiple Sclerosis Society, the New York Council of Nonprofits (NYCON) and Governance Matters and is a member of the AICPA and NYSSCPA. David is a graduate from Pace University with a BBA in Accounting.

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Payment Protection Program (PPP) Overview

Payment Protection Program (PPP)

Coronavirus Aid, Relief, and Economic Security (CARES) Act

- Congress enacted three economic relief packages. The third, with an estimated $2 trillion price tag, was the CARES Act.
- The CARES Act set aside $349 billion for the relief of small businesses, to be administered by the SBA in the form of the PPP. The SBA commenced the PPP on April 3, 2020, and closed the program on April 16, 2020, after exhausting the $349 billion appropriated by Congress (Round One). Congress later provided an additional $310 billion for the PPP in H.R.266, the Paycheck Protection Program and Health Care Enhancement Act (Round Two).
- This brought the total funds available to the SBA and the PPP to $659 billion.
- The PPP expired August 8th with 5,212,128 loans approved totaling $525,012,201,124. The average loan size was $100,729. The PPP had 5,460 lenders participate.
- In NY, there were 348,870 PPP loans totaling $38,699,947,686.

COVID Relief Act - *NEW*

- Includes the Economic Aid Act and $284 billion for PPP (2nd draw and 1st draw for new borrowers)

PPP Use: Round 1

COVERED

Payroll Expenses (60% Required)

- Cash Compensation
  - Cash compensation includes salaries, wages and commissions (including to furloughed employees), tips, bonuses, hazard pay, paid leave, severance, and housing allowances
- Employer Paid Health & Retirement Benefits
  - Group health benefits includes medical, dental, and vision
- Employer Paid State & Local Payroll Taxes

Non-Payroll Eligible Expenses (40% Maximum)

- Rent & Mortgage Interest, Other Interest
  - Other Interest not eligible for forgiveness
- Utilities (Water, Gas, Electricity, Transp. Internet, Phone)

NOT COVERED

- Excess Wages for Salaries Over $100k
- Payroll for Employees Permanently Outside US
- Independent Contractor Pay (1099s)
- Employer Portion of Federal Taxes & FICA
- FFCRA Credits for Sick and Family Leave

COVID RELIEF ACT HIGHLIGHT CHANGES APPLY TO 2020 (1st Draw) AND 2021 (1st Draw and 2nd Draw):

- **Clarification of Group Insurance Benefits (DBL, Life, etc)**

Added Non-Payroll Eligible Expenses (capped at 40%)

- **Covered operations expenditures**
- **Covered property damage costs**
- **Covered supplier costs**
- **Covered worker protection expenditures**

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Loan Forgiveness Applications

When Do You Apply: You have Up to 10 Months to Submit Your Loan Forgiveness App (after the end of your covered period)

3508 Application: full app including FTE ratio and wage reduction penalty with safe harbors

OR

3508EZ Application: certify meet the criteria of no wage reduction and no employee reduction or no wage reduction and health/safety compliance; FTE ratio and wage reduction penalty removed

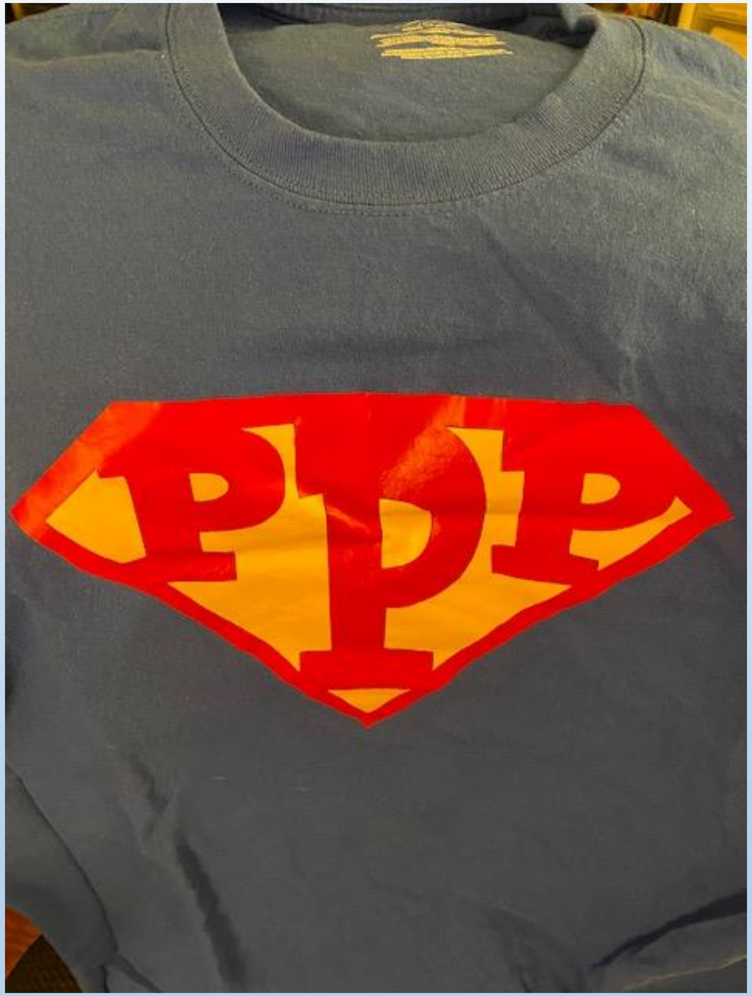
OR

3508S Application: simplified app for loans $50,000 and less; no consideration of FTE ratio or wage reduction

OR

Certification: attest compliance with 1 page description of number of employees retained with PPP loan, estimated total amount of loan spent on payroll costs, and total loan amount. No documentation submitted (but required to retain records for 4 years). To be released in January. Applies to 1st draw too.

***EIDL Advance Payment eliminated: no longer deducted from PPP loan forgiveness.**



Round 2

Eligibility Update

- Already received PPP loan (1st draw)
- Finished spending 1st draw (but not required to have applied for loan forgiveness)
- Have 300 or fewer employees (as compared to 500 or less with Round 1)
- 25% drop in gross receipts in any quarter in 2020 as compared to same quarter in 2019
- 2nd draw PPP maximum is $2 million
- Eligible entities must be businesses, certain nonprofit organizations **(501C6s are new)**, housing cooperatives, veterans' organizations, tribal businesses, self-employed individuals, sole proprietors, independent contractors, and small agricultural co-operatives
- Ineligible entities include:
  - **Organizations that receive a grant under the Shuttered Venue Operator Grant program**
  - **Business or organization that was not in operation on February 15, 2020**

Program requirements are the same: 60% payroll expenses (minimum) and 40% maximum for non-payroll eligible expenses

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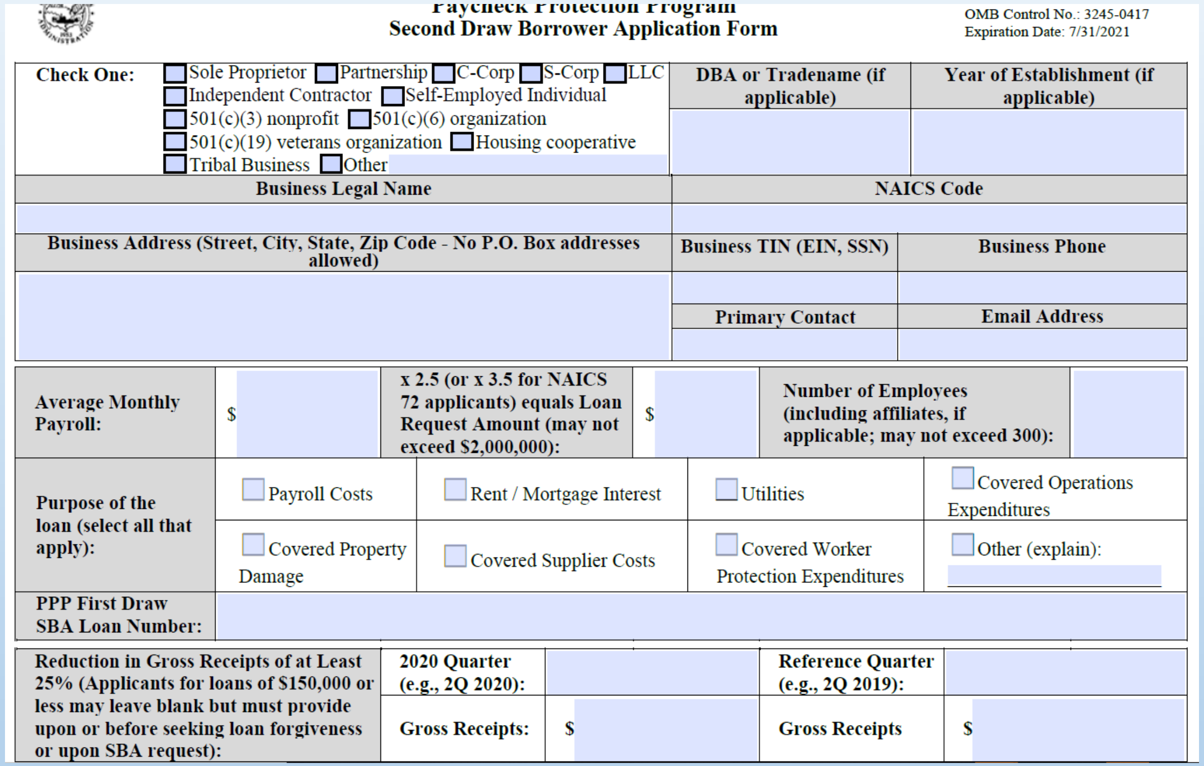
Applying for the 2nd Draw

- 2.5 times average monthly payroll based on choice of 12 months prior to applying for the loan, or 2020 or 2019 (calendar years)
- NAICS lookup https://www.naics.com/search/
- 25% reduction in gross receipts identified by Quarter 2020 as compared to same quarter in 2019
  - Can be left blank for loans of $150,000 or less, but best to fill in
    - Documentation provided when seeking loan forgiveness
  - For loans greater than $150,000, documentation is required with app
- Covered period update
  - Borrower can now elect a covered period that falls between 8 – 24 weeks



Paycheck Protection Program
Second Draw Borrower Application Form

OMB Control No.: 3245-0417
Expiration Date: 7/31/2021

Check One: ☐Sole Proprietor ☐Partnership ☐C-Corp ☐S-Corp ☐LLC ☐Independent Contractor ☐Self-Employed Individual ☐501(c)(3) nonprofit ☐501(c)(6) organization ☐501(c)(19) veterans organization ☐Housing cooperative ☐Tribal Business ☐Other		**DBA or Tradename (if applicable)**	**Year of Establishment (if applicable)**
Business Legal Name		**NAICS Code**	
Business Address (Street, City, State, Zip Code - No P.O. Box addresses allowed)		**Business TIN (EIN, SSN)**	**Business Phone**
		Primary Contact	**Email Address**

Average Monthly Payroll: $	**x 2.5 (or x 3.5 for NAICS 72 applicants) equals Loan Request Amount (may not exceed $2,000,000):** $	**Number of Employees (including affiliates, if applicable; may not exceed 300):**	
Purpose of the loan (select all that apply):	☐Payroll Costs	☐Rent / Mortgage Interest	☐Utilities
	☐Covered Operations Expenditures	☐Covered Property Damage	☐Covered Supplier Costs
	☐Covered Worker Protection Expenditures	☐Other (explain):	
PPP First Draw SBA Loan Number:			

Reduction in Gross Receipts of at Least 25% (Applicants for loans of $150,000 or less may leave blank but must provide upon or before seeking loan forgiveness or upon SBA request):	**2020 Quarter (e.g., 2Q 2020):**		**Reference Quarter (e.g., 2Q 2019):**	
	Gross Receipts:	$	**Gross Receipts**	$

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25% Gross Receipts Reduction: Defining

- For nonprofits, gross receipts meaning of section 6033 of the Internal Revenue Code of 1986, which is the gross amount received by the organization during its annual accounting period from all sources **without reduction for any costs or expenses** including, for example, cost of goods or assets sold, cost of operations, or expenses of earning, raising, or collecting such amounts. Thus "gross receipts" includes, but is not limited to:
  - (i) the gross amount received as contributions, gifts, grants, and similar amounts without reduction for the expenses of raising and collecting such amounts,
  - (ii) the gross amount received as dues or assessments from members or affiliated organizations without reduction for expenses attributable to the receipt of such amounts,
  - (iii) gross sales or receipts from business activities (including business activities unrelated to the purpose for which the organization qualifies for exemption, the net income or loss from which may be required to be reported on Form 990-T),
  - (iv) the gross amount received from the sale of assets without reduction for cost or other basis and expenses of sale, and
  - (v) the gross amount received as investment income, such as interest, dividends, rents, and royalties.

25% Gross Receipts Reduction: Documentation

- **Quarterly financial statements** for the entity.
  - If not audited, sign and date first page of financial statement and initial all other pages attesting to their accuracy.
  - If not identified, note what makes up gross receipts.
- **Quarterly or monthly bank statements** for the entity showing deposits from the relevant quarters.
  - Note, if not clear, which deposits listed make up gross receipts and which do not.
- **Annual IRS income tax filings** of the entity (required if using an annual reference period).
  - If 2020 return not yet filed, then fill out the return forms, compute the gross receipts value, and sign and date the return (attesting the values and info will be the same on filed return).
    - Gross receipts value for nonprofit organizations (IRS Form 990): the sum of lines 6b(i), 6b(ii), 7b(i), 7b(ii), 8b, 9b, 10b, and 12 (column (A)) of Part VIII.
    - Gross receipts value for nonprofit organizations (IRS Form 990-EZ): sum of lines 5b, 6c, 7b, and 9 of Part I.

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Defining New Covered Expenses

- **Payroll Expenses:** Clarification that group disability and life insurance are eligible payroll expenses with other employer-paid group insurance benefits (health, dental and vision).
- **New Eligible Non-Payroll Expenses**
  - **Covered operations expenditures:** Payment for any software, cloud computing, and other human resources and accounting needs.
  - **Covered property damage costs:** Costs related to property damage due to public disturbances that occurred during 2020 that are not covered by insurance.
  - **Covered supplier costs:** Expenditures to a supplier pursuant to a contract, purchase order, or order for goods in effect prior to taking out the loan that are essential to the recipient's operations at the time at which the expenditure was made. Supplier costs of perishable goods can be made before or during the life of the loan.
  - **Covered worker protection expenditure:** Personal protective equipment and adaptive investments to help a loan recipient comply with federal health and safety guidelines or any equivalent State and local guidance related to COVID-19 during the period between March 1, 2020, and the end of the national emergency declaration.

PPP Loan Finances and Reporting Impact

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Nonprofit Financial Statement Impact

- The Association of International Certified Professional Accountants ("AICPA) has identified two presentation models for nonprofits to follow after they have received their PPP loans - Technical Practice Aid – Q & A 3200.18
  - Method 1 – account for the transaction as a traditional loan payable (FASB ASC 470 "Debt")
  - Method 2 – account for the transaction as a conditional contribution under the new FASB ASU No. 2018-08
- Either method is acceptable – facts and circumstances to dictate which method to use
- All nonprofits with a material PPP loan should disclose their accounting policy of such loans and the related impact to the financial statements, regardless of the method used

Nonprofit Financial Statement Impact

Method 1 – Account for the transaction as a traditional loan payable (FASB ASC 470 "Debt")

- Upon receipt of proceeds, record a loan payable for the full amount
  - Accrued interest from day one, at a 1% interest rate
  - Repayment is based on a 2-year or a 5-year amortization depending on when the proceeds were received

- Derecognize the liability based on when the loan is forgiven in whole or in part, and nonprofit is legally released
  - Gain on extinguishment of debt is revenue, along with any interest that is also forgiven
  - Cash outlay for any amount to be repaid back to financial institution

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Nonprofit Financial Statement Impact

Method 2 – Account for the transaction as a conditional contribution under the new FASB ASU No. 2018-08

- This model uses the concepts of conditionality as part of the determination for how to record proceeds.
- Upon receipt of proceeds, record a refundable advance (liability) for the proceeds received
- When conditions are substantially met or explicitly waived – reverse the refundable advance and record revenue (i.e. Grant revenue)
  - Conditions include:
    - Necessity
    - Use of funds
    - Submission of forgiveness application to financial institution (is this an administrative task?)
    - Approval of forgiveness from financial institution

Nonprofit Financial Statement Impact

<u>Method 2 – Account for the transaction as a conditional contribution under the new FASB ASU No. 2018-08</u>

- There are considerations to be assessed when determining which model to use

Loan Model	Conditional Contribution Model
Was the loan primarily for working capital with limited or no forgiveness	Was there an expectation of maximum loan forgiveness
Are there debt covenants to be met	How to determine the various conditions
Are there limitations for obtaining additional loans from another financial institution	How to assess the various conditions
Reporting on the balance sheet	Reporting on the balance sheet
When to recognize revenue	When to recognize revenue
Footnote disclosure	Footnote disclosure

- Revenue recognition is subjective based on these considerations

Nonprofit Financial Statement Impact

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QUESTIONS?

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