

# Accounting for PPP Loan Proceeds at Fiscal Year End

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The [Payroll Protection Program \(PPP\)](#) was put into law in April 2020, and many nonprofit organizations applied for loan proceeds to obtain relief and resources for payroll and certain other expenses due to COVID-19. Hopefully, you have set up a way to track the PPP loan proceeds and associated expenses separately from other operations in your fiscal system. Organizations are still in the process of spending the loan proceeds or may still be in the application process, but it is never too early to think about how to account for these funds when it comes time for your fiscal year end and the audit.

For nonprofits there is specific guidance to follow for determining how to record the loan proceeds. If the Organization is unclear what portion of the loan will be forgiven as a result of potentially not meeting the conditions outlined by the Small Business Administration (SBA) or as the rules for forgiveness are still being determined, presentation under [Accounting Standards Codification 470](#) (ASC 470) might be more appropriate. These conditions could include an inability to maintain the required levels of employment or maintaining salaries and hourly wages over the 8 or 24 week applicable period. In addition, conditions could include if the Organization is unclear if the expenditures will be deemed allowable, if it is unclear if the safe harbor provisions will apply or if the Organization is unclear if it can demonstrate the economic uncertainty. ASC 470 would allow your Organization to present the PPP proceeds as a loan until the amount of forgiveness has been determined by the SBA.

Guidance has been issued by the AICPA that presentation under ASC 470 would be considered a safe harbor approach and can be applied whether the Organization expects the loan to be forgiven or repaid. This presentation might be the most conservative

approach but Organizations should make their decision carefully as it would most likely result in revenue related to PPP forgiveness and the associated expenses being recorded in separate fiscal years.

If however, the Organization believes the conditions of the program have been substantially met as of the balance sheet date or will be met during the covered period a different presentation would be allowable. As the proceeds are being given to the nonprofit “without the intent of exchanging goods or services of commensurate value [Accounting Standards Codification 958-605](#)” (ASC 958-605) the proceeds could be recorded as a contribution. The proceeds would be recorded as a conditional contribution that would not be recognized until the organization incurs qualifying expenses. If the organization has not expensed all of the loan proceeds prior to fiscal year end the difference would be recorded as a refundable advance. Also, any proceeds not spent on purposes qualifying for forgiveness should be recorded as a liability and would be due within five years, along with any interest accrued. The Organization would need to consider all the SBA conditions for PPP to be substantially met to recognize the loan proceeds as contribution revenue to the extent of expenses. If the Organization believes it substantially met the most of the program conditions but not all or did not meet all of the conditions for the entire covered period, then forgiveness can be recognized in stages.

Under either accounting method the organization will need to disclose the contributions from the PPP loan proceeds as a separate line item. The expenses can be recorded as program, management or fundraising in the same manner expenses are normally recorded. It would not be appropriate to net the loan proceeds and the associated expense as the amounts are likely material.

Most likely the loan proceeds (contribution revenue) and associated expenses would be reported as operating income as the monies were received to ensure operations were allowed to continue.

In the Statement of Cash Flows the loan proceeds that are expected to be forgiven should most likely be reported as an operating activity under ASC 958-605 and as a financing activity under ASC 470. Any amount that was deemed not forgiven would be recorded as a financing activity under either method. In addition, if the date of the forgiveness occurs in a separate fiscal year from when the loan was received the forgiveness should be recorded as a non-cash activity. The organization should consult with their auditors or the person responsible for financial statement preparation on the appropriate treatment.

Finally, in the Notes to the Financial Statements, the organization should have a disclosure that describes the significant terms and conditions of the PPP loan, amount, whether the loan has been forgiven, the method of accounting for the activity and if the organization has been contacted by the Small Business Administration to perform an audit of the program. The disclosure would be required for at least the fiscal years in which the PPP loan proceeds were being expended. The SBA document retention period for all documents related to the PPP loan is six years. This six year period is presumed to be the time in which the SBA can review the PPP loan forgiveness certifications and amounts. If your

organization received over \$2 million in PPP loan proceeds the SBA will be performing a review to ensure the organization's self-certification for the loans was appropriate.

Appropriate reporting of the PPP loan proceeds and associated expenses is going to be an important part of your upcoming audit. To ensure successful reporting and disclosure, the organization should maintain all of the supporting documentation together, including the support for the expenses. There is no such thing as free government money, and the PPP loan is no exception.

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