



LOCAL COUNCIL ACCOUNTING FOR PPP LOANS

Presenter: Ken Moran, CPA, CGMA





About the presenter.....

Ken is a CPA and CGMA, licensed in Virginia and North Carolina, with over 20 years' experience in not-for-profit accounting and taxation. Ken audited local councils with McGladrey & Pullen (now RSM) and served as CFO of the Heart of Virginia Council in Richmond, VA for 8 years on a contract basis as managing principal of his own CPA firm in Richmond. Ken authors both the *Local Council Guide to the Audit* and *Local Council Guide to IRS Form 990*, among other publications, and can be reached at ken.moran@scouting.org.

Note: The following information is being provided for educational purposes only and should not be acted upon before consulting your council's locally licensed professionals.





Paycheck Protection Program (PPP) Overview

- The PPP is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll.
- SBA will forgive loans if all employee retention criteria are met, and the funds are used for eligible expenses.
- Loan will be fully forgiven if the funds are used for payroll costs, interest on mortgages, rent, and utilities (at least 60% of the forgiven amount must have been used for payroll).
- PPP closed Aug 8, 2020. SBA no longer accepting PPP applications from participating lenders.





PPP Overview (continued)

PPP Loan Highlights:

- PPP loans have an interest rate of 1%.
- Loans issued prior to June 5 have a maturity of 2 years. Loans issued after June 5 have a maturity of 5 years.
- Loan payments will be deferred for six months.
- No collateral or personal guarantees are required.
- Neither the government nor lenders will charge small businesses any fees.





PPP Overview (continued)

PPP Loan Forgiveness

- 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.
- Borrowers have up to 24 weeks after the loan disbursement date (not to extend beyond December 31, 2020) to spend the proceeds.
- Borrowers can use the 24-week period to restore their workforce levels and wages to the pre-pandemic levels required for full forgiveness.





Accounting for PPP Loans

AICPA Issues Guidance

- In June, the AICPA issued guidance on accounting for PPP loans in its Technical Question and Answer (TQA) 3200.18, *Borrower Accounting for a Forgivable Loan Received Under the Small Business Administration Paycheck Protection Program*.
- The guidance covers nongovernmental entities, which include businesses and not-for-profit entities (including local councils).
- Two options are available to local councils.





Accounting for PPP Loans (continued)

Option 1

- Initially record the PPP loan proceeds as long-term debt (following FASB Accounting Standards Codification (ASC) Topic 470, Debt) and reclassify the amount forgiven to other income upon legal release by the lender.
- Note: Under Option 1, interest would need to be accrued on the debt in accordance with FASB ASC 835-30.
- Journal entries under Option 1 follow:





Accounting for PPP Loans (continued)

Option 1 Journal Entries:

Upon initial receipt of the PPP loan proceeds:

Dr. Cash – Fund 1	\$XXX	
Cr. Long-term notes payable – Fund 1		\$XXX

Upon forgiveness and legal release of the debt:

Dr. Long-term notes payable – Fund 1	\$XXX	
Cr. Other income – Fund 1		\$XXX

Note: Interest accrual JEs are not presented here.





Accounting for PPP Loans (continued)

Option 2

- Treat the proceeds as a *conditional contribution* (following FASB ASC 958-605) and initially recognize the amount received as a *refundable advance* (liability).
- This option may be chosen if the council chooses *not* to follow FASB ASC 470, expects to meet the PPP's eligibility criteria, and concludes that the PPP loan represents, in substance, a grant that is expected to be forgiven.
- The council would then reduce the refundable advance and recognize the contribution once the conditions of release have been substantially met or explicitly waived.
- Journal entries under Option 2 follow:





Accounting for PPP Loans (continued)

Option 2 Journal Entries:

Upon initial receipt of the PPP loan proceeds:

Dr. Cash – Fund 1	\$XXX	
Cr. Refundable advance* – Fund 1		\$XXX

Upon satisfaction of the conditions of release:

Dr. Refundable advance* – Fund 1	\$XXX	
Cr. Government grants/Fees – Fund 1		\$XXX

*The refundable advance could be an “other” current liability (2789) or other noncurrent liability (2901) depending on when the council expects to satisfy the conditions necessary for legal release of the obligation.

Note: Option 2 does not require accrual of interest!





Accounting for PPP Loans (continued)

Audit considerations

- Councils with material PPP loans should adequately disclose their accounting policy (Note 1) for such loans and the related impact to the financial statements.
- Look for guidance on this and other disclosures in the *Local Council Guide to the 2020 Audit* coming in December. If you have questions on this matter, contact BSA Member Care at 972-580-2489.





Resources Available to Local Councils

For a copy of this presentation:

- <https://www.scouting.org/council-support/finance-impact/bsa-covid-19-financial-resources/>
- Or— Google “Finance Impact BSA” and click “BSA COVID-19 Financial Resources” under “Council Funding and Finance”.

For the AICPA tool to automate PPP loan forgiveness process:

- <https://PPPForgivenessTool.com>





Resources Available to Local Councils

U.S. Small Business Administration (SBA) PPP resources:

- <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>

U.S. Department of the Treasury PPP resources:

- <https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>
- **BSA Member Care: (972) 580-2489**
- Ken.moran@scouting.org





Thank you!

