Paycheck Protection Program
Loans: Managing Your PPP Loan & Forgiveness 101

With Updates as of April 21, 2020 9:00am EST
Continue to Check SBA’s Website

This information is provided for general informational and educational purposes only and does not constitute legal advice. Please note guidance is changing regularly and we encourage you to check with the SBA and your lender for updated information.
What are we covering today?

- Allowable Uses of the Loan & PPP Loan Accounting 101
- Forgiveness 101
- Additional Implications of PPP For Your Organization
- Resources Available
Introduction to Audited Financial Statements

FMA Paycheck Protection Program Toolbox

https://fmaonline.net/ppptoolbox/
How do we reach FMA with additional questions and support on PPP after today?

Please reach out to

FMACARES@fmaonline.net

OR

Call (646) 416-6053 between 2-3pm EST

One of our experts will assist you with your questions as soon as possible
Basics of the PPP

• Federal loan administered by the SBA
• It is a **loan with conditions** on how it can be used
• There is an opportunity for it to be fully forgiven
• Whatever is used for allowable costs and not forgiven, continues as a loan at 1% interest

**Caution Ahead:** Guidance is Still Evolving & You Will See Where We Have Open Questions in Red Boxes
What Can We Use the Loan For?
What Can We Use the Loan For?

• **Payroll** (total loan must be at least 75% for payroll)

• **Utilities, rent, mortgage interest, interest payments on other debt obligations** (with arrangements in place by 2/15/20)

There are consequences of spending on unallowable expenses, including needing to return funds used for these unallowable purposes. If done knowingly, this could be considered fraud with certain penalties.
## What Can We Use the Loan For?

<table>
<thead>
<tr>
<th>Allowable</th>
<th>Unallowable: All Other Expenses Including</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salaries, Wages, Paid Leave, Severance</td>
<td>Excess Wages for Salaries $\geq$ 100k</td>
</tr>
<tr>
<td>Employer Paid Health &amp; Retirement Benefits</td>
<td>Payroll for Employees Perm. Outside USA</td>
</tr>
<tr>
<td>Employer Paid State &amp; Local Taxes</td>
<td>Employer Portion of Federal Taxes &amp; FICA</td>
</tr>
<tr>
<td>Rent &amp; Mortgage Interest, Other Interest</td>
<td>FFCRA Credits for Sick and Family Leave</td>
</tr>
<tr>
<td>Utilities (Water, Gas, Electricity, Internet, Phone)</td>
<td>Independent Contractor Pay (1099s)</td>
</tr>
</tbody>
</table>
What Can We Use the Loan For?

Open Questions:

- Are health benefits for furloughed employees allowable?
- Is vacation payout for employees who resign or are terminated allowable?
- What kind of transportation, if any, is allowed in the definition of utilities?
- If you reimburse staff for internet, telephone, or home office use rather than pay a vendor directly, are those expenses allowable?
<table>
<thead>
<tr>
<th>Key Nonprofit Expenses</th>
<th>Use PPP Loan?</th>
<th>Must Use Other Revenue Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>Up to $1,923/wk/ee</td>
<td>Salaries &gt; $1,923/wk/ee + Int'l Employees</td>
</tr>
<tr>
<td>Health &amp; Retirement Benefits</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>FICA &amp; Federal Taxes</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>State &amp; Local Taxes</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Life Insurance &amp; Disability</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Rent &amp; Mortgage Interest</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Mortgage Principal</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Contractors &amp; All Professional Services</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Liability Insurance</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>IT, Computers, Supplies, Software</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>
Other Considerations and Questions

• Organizations with related nonprofit entities, e.g., 501(c)(4)s and (c)(6)s, should keep in mind that those types of organizations are not eligible for PPP funding. Therefore, PPP loan proceeds should not be used to pay for expenses tied to those organizations. See more guidance on this issue in Appendix III.

• Given it is unclear if the forgiveness portion will be deemed a federal grant or forgivable debt, what other provisions of federal law might you have to adhere to?

• What guidance will be put in place to prevent abuse (e.g., ensuring staff do meaningful work and random staff are not added to payroll)?
PPP Loan Accounting 101: Recording & Tracking Funds
Overview: How to Manage the Loan

1. Record loan in your general ledger
2. Record interest monthly
3. Record expenses as you normally would, and tag allowable expenses
4. Submit forgiveness paperwork
5. Prepare to pay back what isn't forgiven
What Do We Do When We Receive The Loan?

- Re-read through promissory note and save with other key financial documents

- If not already in place, create new accounts in your chart of accounts for **PPP Loan Payable** (Liability Account), **Forgiveness of Debt** (Revenue Account), and **Interest Expense** (Expense Account)

- Create a way to track the allowable expenses associated with the loan (e.g., Customer/Job function)

- Record the Cash when received and offset with Total Loan Amount as Liability on your Balance Sheet

See Appendix for Step-by-Step Journal Entry Guidance
What Accounting Do We Do During the Loan Period?

- As related invoices and payments are processed through accounts payable, book as you normally would.

  But also determine portion to be tracked as allowable and later considered in the forgiveness process. Code accordingly.

- Accrue interest as **Interest Expense** at 1% APR against the total loan amount until full forgiveness confirmed or all funds paid back.

**Open Question:** Timing of Allowable Expenses Eligible for Forgiveness. See Forgiveness section.
How Will We Record the Amount Forgiven?

After your lender confirms your amount for forgiveness:

- Reduce **PPP Loan Payable** account by the amount (principal + interest) forgiven

- Increase **Forgiveness of Debt** account by the amount forgiven
What Are Other Accounting Issues Should We Consider?

Open Questions:

- Will the loan or forgiveness trigger a subsequent event on your audit?
- Will you need to record a gain contingency given the possibility of forgiveness?
- Will the loan be subject to a federal Single Audit?
PPP Forgiveness 101
Overview: How Much Will We Get Forgiven?

How much will be forgiven? What we understand so far...

Up to **100%** of the funds you spend in the first 8 weeks following loan disbursement if you keep or increase your FTEs, maintain salaries of employees and spend the loan on what it is supposed to be spent for (payroll, rent, mortgage interest, utilities)

**BUT** - if you have to decrease salaries of employees making less than $100,000 by more than 25% or reduce FTEs, you will get a partial reduction in forgiveness.

- Reductions made between 2/15/20 – 4/26/20 will be disregarded/not reduce forgiveness if replenished by 6/30/20
Timing of Allowable Expenses Eligible for Forgiveness

We continue to have an open question about the timing of which allowable expenses made related to the 8-week period will be eligible for forgiveness.

- For example, if the 8-week period starting with the day of loan disbursement is 4/15 - 6/14, and your rent for April was paid on 3/31, can you a) prorate and count half of the rent to cover 4/15 - 4/30 or b) is it excluded from PPP inclusion because it wasn’t paid between 4/15 - 6/14?

- The same open question applies to payroll. If your payroll for 6/7 - 6/20 gets paid out on 6/21 can you a) prorate the portion from 6/7 - 6/15 or b) is it excluded from PPP inclusion because it wasn’t paid until after 6/15?

We will clarify this with you as we get more guidance. For now, you can plan on the prorated strategy focused on coding expenses associated with the 8-week period rather than simply what’s paid during the 8-week period, but keep in mind this may evolve and you may want to consult with your lender.
Formula: How Much Will We Get Forgiven?

Average # of FTEs Per Month During 8 Week Period

Option 1: Average # of FTEs Per Pay Period
Feb 15 – Jun 30, 2019

Option 2: Average # of FTEs Per Pay Period
Jan 1 – Feb 29, 2020

Wages for Salaries Reduced By More than 25% for Those Making < $100k

Amount of Loan Spent on Allowable Expenses During 8 Weeks Following Disbursement

Grace for bringing back FTEs or reinstalling salaries reduced between 2/15 – 4/26
if Done by 6/30

Amount Forgiven
(Up to the Full Loan Amount)
### Forgiveness Scenario Examples

SBA guidance allows you, the borrower, to pick one of two options to compare to your PPP 8-week period to understand how much you'll be able to get forgiven. So assuming you do not reduce staff salaries...

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 2/15-6/30/19 (Option 1) you had...</td>
<td>Monthly Average: 10 FTEs</td>
<td>Monthly Average: 10 FTEs</td>
</tr>
<tr>
<td>You grew in January and February of 2020 (Option 2), so you had...</td>
<td>Monthly Average: 15 FTEs</td>
<td>Monthly Average: 15 FTEs</td>
</tr>
<tr>
<td>The crisis resulted in layoffs, so when you received your loan you had...</td>
<td>5 FTEs</td>
<td>5 FTEs</td>
</tr>
<tr>
<td>With PPP funds you can rehire during the 8-week period...</td>
<td>You rehire 5 FTEs for a monthly average of 10 FTEs for the 8-week period</td>
<td>You rehire 3 FTEs for a monthly average of 8 FTEs for the 8-week period</td>
</tr>
<tr>
<td>Forgiveness Result</td>
<td>Fully Forgiven</td>
<td>Partially Forgiven</td>
</tr>
</tbody>
</table>

In both scenarios, you would compare to Option 1 – the lower FTEs option.
Forgiveness Calculator Coming Soon

**Step 1 - Enter Loan Details**
- Loan Amount
- Loan Origination Date
- Loan End Date

**Notes**
- Loan origination date is the first day the loan funds are dispersed into your account.
- Loan end date is 56 days after origination date.

**Step 2 - Calculate Average FTEs**
- Average FTEs for each date range:
  - 3/1/2019 - 3/31/2019
  - 4/1/2019 - 4/30/2019
  - 5/1/2019 - 5/31/2019
  - 6/1/2019 - 6/30/2019

**Step 4 - Est. Forgiveness Amount**
- Select an Average number FTEs During Loan to model

<table>
<thead>
<tr>
<th>First Four Weeks Total</th>
<th>Last Four Weeks Total</th>
<th>Overall Loan Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- + Gross Salary, Wages, Tips, Commissions
- + Paid Vacation, Parental, Family, Medical or Sick Leave
- + Group Health Benefits
- + Retirement Benefits
- + Employer Paid State Tax
- + Employer Paid Local Tax
- Compensation in excess of $100K annualized salary cap

**Total Allowable Payroll Costs**
- $
What Will the Forgiveness Process Look Like?

Guidance still coming but probably will include:

- Gathering payroll information, relevant IRS Forms 940/941, and documentation backing up every expense you are looking to get forgiven
- Filing a forgiveness application with certain certifications
- Lender will have 60 days to return result
Additional Considerations
Outside of Managing the Loan
Additional Considerations

- Depending on your projected cash flow situation for the summer and fall and your comfort managing the loan payments, you may strategically decide to not return funds that are not forgiven, so long as you continue to use them for allowable expenses.

- Organizations receiving other federal funds cannot "double dip," meaning you cannot claim to the federal government you spent different federal funds on the same expenses. You should consider comparing your allowable expenses for PPP vs. your federal grants and contracts. There may be plenty of expenses your other federal funding can cover, including during the 8-week period.

- When bringing staff back on and managing contractor decisions, be careful about the impact of changes on employee morale and labor laws. Consult an HR attorney.
Engaging with Other Parts of CARES

- Cannot include amounts covered by credits related to sick and paid leave from the FFCRA in your PPP

Allowable Expenses

- EIDL – the amount of grant received (up to $10,000) will reduce the forgiveness amount of the PPP

- Once your PPP loan is approved, you are no longer eligible to defer deposit and payment of FICA (employer’s share of social security tax)
Additional Resources
In collaboration with the Wallace Foundation, FMA has created a library of tools and resources to help organizations become “fiscally fit”

Four Topic Areas:  Planning  |  Monitoring  |  Operations  |  Governance

Planning Resources for Nonprofit Financial Management
Good planning finds the most effective ways to deploy your organization’s resources – and meet your overall objectives.

Materials here include help with budgeting, cost calculations and cash projections.

Strengthening the Budget Development Process
# Cash Flow Planning Tool

## Cash Flow Projection Template

<table>
<thead>
<tr>
<th>Current Yr Budgeted</th>
<th>July</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cash Receipts</td>
<td>$2,892,560</td>
<td>$356,422</td>
<td>$426,701</td>
<td>$230,383</td>
<td>$188,433</td>
<td>$258,953</td>
</tr>
<tr>
<td>Total Cash Disbursements</td>
<td>$2,816,563</td>
<td>$234,251</td>
<td>$233,492</td>
<td>$218,821</td>
<td>$214,360</td>
<td>$230,503</td>
</tr>
<tr>
<td>Excess (Shortfall) from operations</td>
<td>$122,171</td>
<td>$193,209</td>
<td>$11,562</td>
<td>($25,927)</td>
<td>$28,450</td>
<td>($9,825)</td>
</tr>
</tbody>
</table>

### CAPITAL AND FINANCING

**Cash Receipts**
- Cash received from loans/financing
- Transfers from savings/investments

**Cash Disbursements**
- Capital purchases
- Repayment of loan principal
- Transfers to savings/investments

<table>
<thead>
<tr>
<th></th>
<th>July</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>36,442</td>
<td>2,983</td>
<td>2,993</td>
<td>3,002</td>
<td>3,012</td>
<td>3,022</td>
<td>3,032</td>
</tr>
</tbody>
</table>

**NET CASH EXCESS (SHORTFALL)**

<table>
<thead>
<tr>
<th></th>
<th>July</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>$119,188</td>
<td>$190,216</td>
<td>$8,560</td>
<td>($28,939)</td>
<td>$25,428</td>
<td>($12,857)</td>
<td></td>
</tr>
</tbody>
</table>

**ROLLING CASH BALANCE**

<table>
<thead>
<tr>
<th></th>
<th>July</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>$374,883</td>
<td>$565,098</td>
<td>$573,658</td>
<td>$544,719</td>
<td>$570,147</td>
<td>$557,290</td>
<td></td>
</tr>
</tbody>
</table>
## Revenue Analysis Worksheet

### Program/Department/Function

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Total Possible Revenues (Current Year Portion only)</th>
<th>Likelihood of Receipt (%)</th>
<th>Revenue Scenarios</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Contract A</td>
<td>$275,000</td>
<td>100%</td>
<td>275,000</td>
</tr>
<tr>
<td>Government Contract B</td>
<td>$75,000</td>
<td>75%</td>
<td>75,000</td>
</tr>
<tr>
<td>Grant from Foundation A</td>
<td>$40,000</td>
<td>50%</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Pre-Kindergarten Program</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VARIABLE: Earned program revenue</td>
<td>$75,000</td>
<td>n/a</td>
<td>75,000</td>
</tr>
<tr>
<td><strong>Pre-Kindergarten Program</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY Expense Budget for Pre-Kindergarten Program</td>
<td>$400,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Revenue Subtotal:**
- **Best Case:** $465,000
- **Moderate Case:** $410,000
- **Worst Case:** $320,000

**Expense Budget:**
- **Best Case:** $400,000
- **Moderate Case:** $400,000
- **Worst Case:** $400,000

**Surplus /Deficit:**
- **Best Case:** $65,000
- **Moderate Case:** $10,000
- **Worst Case:** ($80,000)
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Appendix:
General Ledger
Step-by-Step Directions
**1: Loan Funds Disbursed To Nonprofit**

- PPP proceeds are initially recorded as a liability.
- Later, lender will determine what portion of the loan funds will be forgiven and what portion will remain a loan.
- Record one-time entry when loan funds are received in cash.

<table>
<thead>
<tr>
<th>Date of cash receipt</th>
<th>Account</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash/checking (balance sheet account)</td>
<td>$50,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PPP loan payable (balance sheet account)</td>
<td></td>
<td>$50,000</td>
</tr>
</tbody>
</table>
General Ledger Recording: Allowable Expenses

2: Spending PPP Loan Proceeds

- Proceeds of a PPP loan are to be used for allowable expenses: payroll costs, mortgage/other loan interest payments, rent payments, utility payments (as defined by regulations)

- As related invoices and payments are processed through accounts payable, determine portion to be tracked as allowable and later considered in the forgiveness process.

Reminder: Keeping track of allowable expenses during the 8-week period after loan disbursement will assist your organization in optimizing the amount of loan forgiveness.
## General Ledger Recording: Allowable Expenses

### 2: Spending PPP Loan Proceeds

<table>
<thead>
<tr>
<th>Type</th>
<th>Account</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Utilities</strong></td>
<td>Utility expense **</td>
<td>$750</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash or accounts payable</td>
<td></td>
<td>$750</td>
</tr>
<tr>
<td><strong>Loan Interest</strong></td>
<td>Interest expense **</td>
<td>$550</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Loan principle (balance sheet)</td>
<td>$300</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td>$850</td>
</tr>
<tr>
<td><strong>Payroll</strong></td>
<td>Payroll expense **</td>
<td>$1,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash or payroll payable</td>
<td></td>
<td>$1,500</td>
</tr>
</tbody>
</table>

**Further chart of account dimensions based on each organization’s chart of account structure. See consideration of coding to funding source to follow.**
QuickBooks – PPP Allowable Expenses

Sample Chart of Account Structure

- **Account**: General Ledger Expense (such as payroll, interest or utilities)
- **Class**: Program + M&G + Fundraising
- **Customer /Job**: Source – PPP Loan

PPP Loan

Reported as non-PPP funds

Not reported as PPP funds

PPP Allowable Expenses

PPP Interest Expense

PPP Forgivable Expense
**Example:**

An organization incurs $3,500 of PPP allowable payroll for the afterschool program staff during a bi-weekly pay period:

<table>
<thead>
<tr>
<th>Account</th>
<th>Class</th>
<th>Job/Customer (Source)</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll Expense</td>
<td>Afterschool Program</td>
<td>PPP Loan</td>
<td>$3,500</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
<td></td>
<td>$3,500</td>
</tr>
</tbody>
</table>
General Ledger Recording: Loan Forgiveness

3. Forgiveness is Determined
- Following notification of forgiveness of all or a portion of loan funds, reduce loan balance and record revenue.
- Remember – Any loans NOT forgiven have accrued interest since the disbursement date.

<table>
<thead>
<tr>
<th>Date of forgiveness</th>
<th>Account</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PPP loan payable (balance sheet account)</td>
<td>$50,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Revenue – forgiveness of debt</td>
<td></td>
<td>$50,000</td>
</tr>
</tbody>
</table>
Established in 1999 to serve not-for-profit organizations around the country

Provides customized financial management, accounting, software, organizational development, and other consulting services

Works directly with organizations or through funder-supported management and technical assistance programs

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