How Should Nonprofits Calculate Gross Receipts When Determining if They Are Eligible for Second Draw PPP Loans?
Updated January 20, 2021

One of the requirements to apply for a Second Draw PPP Loan is that organizations must have experienced a **25% or greater decrease in gross receipts** in any calendar quarter in 2020 compared to the same quarter in 2019. For example, if an organization accrued $50,000 in gross receipts in Q1 2020 but had $100,000 in Q1 2019, that would be a 50% reduction and thus they would meet the gross receipts reduction requirement.

Alternatively, the SBA is allowing organizations to compare all of calendar year 2020 to 2019 to calculate the drop in revenue (instead of just looking quarterly), but they can only do so if they have tax records to back this up, which for nonprofits would mean final draft or filed 990s for 2019 and 2020. This probably will not work for many nonprofits given many nonprofits have not drafted their 2020 990s. Thus, in this FMA guidance, we will focus on the quarterly approach, however the SBA has more info on the annual approach in the link below.

*This update incorporates guidance from the SBA in their January 19th memo: How to Calculate Revenue Reduction and Maximum Loan Amounts Including What Documentation to Provide.*

**What is the definition of “gross receipts”?**
While the SBA has provided a lengthy definition of “gross receipts” for small businesses to follow in the Loan Application, for nonprofits the SBA has specified, per the Economic Activity Act that authorized the Second Draw Loans, that “gross receipts has the meaning in section 6033 of the Internal Revenue Code of 1986,” which has led many nonprofits scratching their heads on what this means. While they provided a longer definition for nonprofits in their updated guidance (see full definition in Appendix I), it can be hard to follow.

While we will discuss some nuances below, simply put: it is the **total amount of revenue the organization received from all sources.** Technically, by pointing to section 6033, the SBA is specifying the revenue from all sources you would recognize as **revenue on your 990.** That would include donations, membership dues, government contracts, grants (both unrestricted and restricted), sponsorships, program services (earned) revenue, interest, and any other revenue nonprofits would include on the 990. See Appendix III for a snapshot of the 990 Part VIII Statement of Revenue.

**What accounting method should nonprofits use to calculate gross receipts?**
Organizations must use their own adopted accounting method – whether cash or accrual – for calculating gross receipts.

**Is there any revenue not included in “gross receipts”?**
There is some revenue nonprofits might typically track in their internal or audited financial statements that is not included in the 990 definition of revenue, mainly: (a) **donated/in-kind services and use of facilities** and (b) **net unrealized gains and losses on investments.** Donated goods are included in “gross receipts.”

Secondly, on the 990, as organizations calculate Total Revenue, the calculation subtracts certain expenses tied to raising that revenue, such as costs of goods sold or expenses from fundraising events. When calculating gross receipts for purposes of determining eligibility for Second Draw PPP Loans, nonprofits will not back out those expenses.

Keep in mind that for nonprofits that follow accrual-based GAAP accounting standards, **conditional contracts and grants.** typical of government and some foundation funding, are not included in gross receipts until the conditions are satisfied. Conditional revenue shouldn’t be showing up in your books to begin with, but we know this is an area that can cause confusion.

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Lastly, organizations should **not include** any revenue they may have recognized from their first **PPP loan** or the Economic Injury Disaster Loans (**EIDL**) advance of $10,000 if they received that in 2020.

Consider consulting your auditor, accountant and/or 990 preparer regarding how 990-related rules apply to your organization if you have questions and how to apply these rules on a quarterly basis.

**What if a nonprofit doesn’t use a calendar year for its financials?**

Showing data by calendar quarters (January – March; April – June, etc.) appears to be required even if you operate on a different fiscal year.

**How should nonprofits go about calculating their gross receipts?**

1) In your accounting software, start by reviewing the **Statement of Activities** (aka Income Statement) **by quarter** so you can analyze your revenue. If your software allows, run a report that compares quarters in 2020 vs. the same quarters in 2019 (e.g., Q1 2020 vs. Q1 2019). Otherwise, run separate reports by quarter or calendar year. For QuickBooks Online users, see screenshot on page 4 for the report inputs to make this easy. **Tip:** *Make sure all of your revenue is properly booked before running the calculation*; if you have not finished booking end of 2020 data, make sure to only analyze data that is fully booked.

2) **Carefully review** to see if you need to make any modifications to **align with the “gross receipts” definition from the 990.**

   a. Ensure the revenue is not netting any expenses associated with raising that revenue (such as costs of goods sold or fundraising event expenses). You should not net any other expenses either, e.g., costs of operating your program.
   
   b. Next, remove revenue that wouldn’t be included in the 990 (primarily donated/in-kind services and use of facilities and net unrealized gains and losses on investments), as well as any revenue from your first PPP loan you may have recognized in your 2020 financials.

   You might be able to build a custom report in your accounting software to remove these revenue accounts from the report or export to Excel and manually review and recalculate.

   c. Remember that, for GAAP accrual purposes, restricted income is recognized when received or promised. It is appropriate and necessary to recognize the full amount of a restricted grant in the quarter that it is pledged, even though the income will be “released from restriction” in the future.

3) **Analyze the data** to see if you had a 25% reduction in **any quarter** in 2020 compared to 2019.

<table>
<thead>
<tr>
<th>Q1 (Jan - Mar) 2019</th>
<th>Q1 (Jan - Mar) 2020</th>
<th>Gain/(Reduction)</th>
<th>% Gain/ Reduction</th>
<th>At least 25%?</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100,000</td>
<td>$50,000</td>
<td>($50,000)</td>
<td>(50%)</td>
<td>Yes</td>
</tr>
<tr>
<td>$100,000</td>
<td>$75,000</td>
<td>($25,000)</td>
<td>(25%)</td>
<td>Yes</td>
</tr>
<tr>
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<td>$190,000</td>
<td>($10,000)</td>
<td>(5%)</td>
<td>No</td>
</tr>
<tr>
<td>$300,000</td>
<td>$305,000</td>
<td>$5,000</td>
<td>2%</td>
<td>No</td>
</tr>
</tbody>
</table>

Organizations **only need to have one quarter** with a 25% reduction, so even if other quarters do not meet the 25% reduction threshold and/or the organization didn’t have 25% reduction on the entire year, you will still meet the gross receipts reduction requirement with one quarter of data.

As noted above, nonprofits are required to record large contributions, both restricted and without donor restrictions, in the period received or promised even if those contributions will fund expenses over a future period of time. Often times, this will affect the comparability of gross receipts from period to period (the revenue is not spread evenly, like the expenses perhaps might be). The “gross receipts” rules for Second Draw Loans do not impose any special considerations based on this situation.

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Please do keep in mind that organizations will continue to need to certify they need the Second Draw Loan with the same certification as the initial PPP loans: “Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.”

If your organization was not incorporated by January 1, 2019, see the Second Draw Loan Application instructions middle of page 4 for more information.

**What data and documents do nonprofits need to provide to their lender to prove the gross receipts reduction?**

When completing the Second Draw Loan application, organizations must specify the one 2020 quarter meeting this requirement (e.g., Q2 2020), identify the reference quarter (e.g., Q2 2019), and state the gross receipts amounts for both quarters, as well as provide supporting documentation. For loans of $150,000 and below, these fields are not required at the time of application, and the organization only must certify that they have met the 25% gross receipts reduction at the time of application; but by the time they apply for forgiveness, they must provide this information and related supporting documentation.

For documentation, nonprofits can submit a copy of their quarterly Statement of Activity (aka Income Statement) for the relevant 2020 and 2019 quarters run from their accounting system or optionally, if using cash accounting, bank statements. The SBA has specified that for unaudited financial statements, the organization must sign and date the first page of the statements and initial all other pages.

We suggest that this Statement of Activity be adjusted and a note added to explain any adjustments needed to satisfy the definition of gross receipts described above. This is aligned with the SBA guidance that, “If the financial statements do not specifically identify the line item(s) that constitute gross receipts, the Applicant must annotate which line item(s) constitute gross receipts.”

Nonprofits electing to show an annual loss instead of calculating quarterly must submit a final draft (that won’t change by the timing of filing) or filed calendar year 2019 990 and a calendar year 2020 990.
Appendix I: SBA Definition of Gross Receipts for Nonprofits

In the memo, How to Calculate Revenue Reduction and Maximum Loan Amounts Including What Documentation to Provide, the SBA has specified for nonprofits that:

“[G]ross receipts means gross receipts within the 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.

Gross receipts of a borrower’s affiliates (unless a waiver of affiliation applies) are calculated by adding the gross receipts of the business concern with the gross receipts of each affiliate.”

They go on to note later: “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”

Appendix II: Getting Your Revenue Data out of QuickBooks Online

Under Reports, run a Statement of Activity report with these inputs. For Compare another period, select Previous Year (PY) % change. If you know you have revenue booked that you will need to back out, such as donated services or unrealized gains/losses on investments, you can use the Customize report feature to filter out these accounts.

That will get you a report that allows you to compare revenue by quarter and see if there was a quarter that decreased by 25% or more:

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Appendix III: Revenue Categories from the 990

Include all revenue. Do not back out any expenses related to raising this revenue.

Include all revenue. Do not back out any expenses related to raising this revenue that would be included in 6b, 7b, 8b, 9b, or 10b.

Consult with your CPA or 990 preparer on if there is any Miscellaneous Revenue typically included for your organizations.

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