



PAYCHECK PROTECTION PROGRAM (PPP) LOANS - ACCOUNTING GUIDANCE

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To: Priests, Principals, Business Managers, and Bookkeepers

From: Steve Poehler, CPA & Senior Financial Analyst
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Re: Accounting for PPP Loans

We have received multiple inquiries from parishes and schools that have applied for and received loans through the Federal government's Paycheck Protection Program (PPP). **Above all, it is vitally important that you accurately track all expenditures related to the PPP Loan, in order to ensure that your parish or school receives 100% loan forgiveness!**

We recommend the following accounting procedures related to PPP Loans:

1. When the loan proceeds are received:

First, create a new account in QuickBooks (or related accounting software), with an account type of "Other Current Liability." This liability account should be included in the 2300-Series "Loans Payable" account grouping on your balance sheet, as a sub-account. Example: "2340 PPP Loan Payable," sub-account of "2300 LOANS PAYABLE."

When recording the deposit of loan proceeds, record a "deposit" to the new account noted above (example: "2340 PPP Loan Payable").

2. No changes to accounting for expenses:

Record salaries and wages, utilities, etc. in their "regular" expense accounts in QuickBooks.

However, we recommend creating a new "Class" called "PPP Loan" in QuickBooks for the PPP Loan-related expenditures. That way, you can run a "Profit & Loss By Class" report that will include a summary (and detail) of all PPP Loan-related expenses.

3. After applying for and receiving official loan forgiveness:

First, create a new account in QuickBooks (or related accounting software), with an account type of “Other Income.” This account should be included in the 8000-Series “Other Income” account grouping on your profit & loss, as a sub-account. Example: “8010 Other Inc - PPP Loan Forgiveness”, sub-account of “8000 OTHER INCOME.”

Second, create a journal entry (dated the day of loan forgiveness received):

DEBIT “2340 PPP Loan Payable” – amount of loan forgiveness (hopefully 100%)
CREDIT “8010 Other Inc – PPP Loan Forgiveness” – amount of loan forgiveness
Memo: “To record official PPP Loan forgiveness received by the SBA & [X] Bank.”

If the amount of loan forgiveness is less than 100%, then the remaining unforgiven loan amount will need to be paid back, with accrued interest. Please contact us if you are in this situation, and we can assist with those accounting transactions separately.

Note that we do not recommend reducing the actual expenses incurred (salaries and wages, utilities, etc.) by the forgiveness amount, as that would distort the operational meaning of your accounting information and may complicate recordkeeping.

Additional Q&A:

Question 1: Should we open a separate bank account for the PPP Loan proceeds?

Answer 1: We **highly recommend opening a separate bank account** for the PPP Loan proceeds. While a separate bank account does not appear to be required, having a separate bank account dedicated solely to the PPP Loan proceeds would make the tracking of expenditures much easier.

If a separate checking account is used for the PPP Loan proceeds, you can use this account to pay for all PPP Loan-related expenditures.

If a separate savings account is used, you can use the main checking to pay for all PPP Loan-related expenditures – and then record transfers from the savings account to the main checking at the same amount of the expenditures to reimburse the main checking for all PPP Loan-related expenditures.

We are aware that parishes are receiving funds for both a parish and school (single legal entity), so we can help these locations record the proper entries on both the parish and school books, in order to correctly record expenses and move funds. This process is more easily accomplished with a separate bank account holding the PPP Loan proceeds – and then transferring funds to the parish or school checking as eligible expenses are paid.

Question 2: Are these recommendations 100% in accordance with Generally Accepted Accounting Principles (GAAP)?

Answer 2: As of the date of this writing, to our knowledge there has been no official guidance issued by the Financial Accounting Standards Board (FASB) related to the proper GAAP treatment of PPP Loans. Once we see such guidance issued by either the FASB or American Institute of Certified Public Accountants (AICPA), we will send that guidance out separately. This only applies for those few locations that are following GAAP 100% (example: typically Archdiocesan high schools).

Question 3: What are the acceptable uses of the PPP funds for our parishes and schools?

Answer 3: Payroll costs, employer-paid health care benefits, employer retirement contributions, rent, utilities, and interest on mortgage obligations. Note that, in addition to standard expenditures for gas, heating, and electric, utilities specifically include telephone and internet charges – so if any additional costs have been incurred to allow staff to work from home, for example, those would also be eligible expenses.

Question 4: What are the restrictions on determining the amount of loan forgiveness for our parishes and schools?

Answer 4: In summary, at least 75% of the loan proceeds must be used for payroll costs. If salaries decrease for employees, or if the number of FTEs decreases, the forgiveness amount will be reduced. (However, there are opportunities to re-hire employees by June 30, 2020. If that is the case for your location, please contact us for further information.)

It is important to **pay all eligible costs within 8 weeks from the date the loan proceeds were received. In addition, eligible costs may need to be paid by June 30, 2020, in order to be considered for loan forgiveness.** We are researching the June 30, 2020, deadline question and will update you as more information becomes available. We will also issue further guidance regarding the timing of payroll processing for the month of June, including possible payments for teachers who would normally be paid in July and August for work performed by the end of June.

Note that the SBA has not finalized all of the requirements for PPP Loan forgiveness. **Please carefully read and follow all of the information and guidance from your bank on how to qualify for PPP Loan forgiveness.**

Additional Information:

The SBA will conduct an audit in the future to assure compliance with the rules governing PPP Loans. Audits typically occur about one year following the loan. However, due to the large number of PPP Loans issued, it is estimated that the audit may occur as long as up to two years after the loan. This is why it is so important to follow these guidelines in accounting for the PPP Loan and in maintaining adequate historical records.

Additional Resources:

1. SBA Fact Sheet for PPP Loans:

<https://home.treasury.gov/system/files/136/PPP--Fact-Sheet.pdf>

2. SBA FAQ's Related to PPP Loans:

<https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>

3. AICPA Website (Includes FAQ's Related to PPP Loans and Loan Forgiveness Guidance):

<https://www.aicpa.org/>

Contact Information for Additional Questions and Accounting Guidance:

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