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PPP AND PANDEMIC-RELATED TIPS FOR NOT-FOR-PROFITS

From the *Journal of Accountancy* by Ken Tysiac

The coronavirus pandemic's effects on not-for-profits include numerous Paycheck Protection Program (PPP) issues, budgeting issues, and even accounting challenges with funding strategies that wouldn't be pursued during normal times.

Here are some issues for not-for-profit preparers, auditors, and even board members to keep in mind as their organizations work to chart their course in this challenging environment.

Documentation is key in PPP forgiveness. The expansion of the PPP covered period from eight weeks to 24 weeks has relieved many not-for-profits' concerns about getting full loan forgiveness, said Andrew Prather, CPA, CGMA, a shareholder and member of the Not-for-Profit Service and Audit Practice groups at Clark Nuber in Bellevue, Wash.

Many not-for-profits will be able to account for their full forgiveness amount just with payroll costs now, rather than having to include other forgivable expenses. But the documentation of those payroll costs must be precise to ensure that forgiveness is achieved.

Accounting for PPP funds. A not-for-profit's financial statement accounting for PPP funds may follow one of two paths according to AICPA Technical Question and Answer guidance, and will rely on management making key judgments to determine the best path to follow.

If a not-for-profit plans to pursue forgiveness, the funds may be accounted for as either debt or a conditional contribution. Not-for-profits that do not plan to request forgiveness should account for PPP funds as debt.

Prather and Paul Preziotti, CPA, a partner with Johnson Lambert in Washington, D.C., said their clients overwhelmingly are choosing the forgiveness/conditional contribution approach.

Double-dipping is not permitted. Not-for-profits will not be permitted to use PPP funds for the same expenses that are being paid with other government funds.

To make sure such "double-dipping" does not occur, Not-for-Profits should consider potentially bifurcating their expenses in their general ledger software so that expenses being paid with PPP funds are separate from those paid with other government money.

"We know we can't double-dip," says Paul Preziotti. "And if we have a separate line item on expenses with those two, that can help."

Challenges for June 30, July 31, and Aug. 31 year ends. Accounting for PPP loans should be fairly straightforward for not-for-profits with calendar year ends because their loan forgiveness will occur in the same year as the covered period.

Not-for-profits with fiscal year ends of June 30, July 31, or Aug. 31 may have more difficulty because their loan forgiveness most likely will occur in the fiscal year after the covered period. Their covered period also may span two fiscal years.

“For some organizations, that’s going to require a lot of strategy and thinking through some scenarios,” Prather said. “And it may be something where they need to get legal counsel involved, particularly if they have cost-reimbursement federal awards, because it gets into compliance with laws and regulations and maybe some legal interpretations.”

Reputational risks exist. Some businesses and organizations have experienced negative publicity after receiving PPP funds.

Preziotti advises that not-for-profits have their public relations teams prepare a response in case the news media questions why they applied for PPP funding.

“Information can always be powerful, and you can’t control how people interpret it until you get information out there,” Preziotti said. “From my stance, it’s more having a plan for how you respond if it goes public.”

Scenario planning is important. Some of Preziotti’s clients rely on live events, trade shows, and conferences for revenue. Some of them have had success pivoting to virtual events during the pandemic, and he is encouraging them to conduct scenario planning to guide their strategies for the months and the year ahead.

Some not-for-profits are preparing three to five different budgeting scenarios that vary based on different possibilities for the length of time and severity of the pandemic.

“What’s the pathway if [clients] get to do [trade shows and events] live next year, versus if they have to do virtual, versus if they have to cancel them?” Prather said. “Or if you’re a performing arts organization, if we have to completely cancel next season versus we can start it in the fall versus we have to start it in the winter time? What’s the cash flow management for those different scenarios?”

Prioritize health and virtual capabilities. Not-for-profits should continue to look after the health of their customers and employees, Preziotti said. Mental well-being also should be a focus, particularly as parents may face child-support issues while many schools will be virtual on at least a part-time basis.

Meanwhile, the ability of a not-for-profit and its employees to be able to work in a virtual setting is more important than ever.

“One thing that’s become clear to everyone is the need for automation and electronic document retention,” Preziotti said. “Most of our clients have been very good about that, and I’ve been pleasantly surprised. But there were a few that for whatever reason didn’t have electronic accounts payable. All their documentation was paper. And it’s tough.”

Unusual accounting and tax challenges. Not-for-profits that are pivoting to new strategies may encounter new accounting and tax challenges as a result.

For example, some performing arts organizations and public charities that hold events that have been canceled are asking ticket holders to donate the cost of the ticket instead of receiving a refund. This converts an exchange transaction into a donation that must be documented and validated and requires new treatment for tax purposes.