

Recording PPP loan proceeds as income - Many of our church leaders are not aware that there are two options for recording PPP loan proceeds received during 2020 – as either income or debt.

In fact, many church leaders are under the mistaken belief that they are not allowed to record PPP loan proceeds as income until after the church has formally received forgiveness. As a result, they believe that PPP loan proceeds must remain recorded as debt on the balance sheet at 12/31 until forgiven.

The AICPA/FASB specifically addressed the issue and allows churches to either: 1) record the PPP proceeds as debt until formal forgiveness is received, or 2) record the PPP proceeds as conditional grant income in 2020.

- Churches can record the proceeds as income in 2020 as long as it is “probable” they will meet the requirements for spending the proceeds on eligible payroll and nonpayroll expenses. And while every case is unique, I can’t imagine the typical church not meeting the requirements.
- My personal opinion is that recording the PPP as income in 2020, rather than as debt at 12/31, may be preferable if it helps to tell the story about 2020, and matches the recording of the proceeds as income in the same period/year that the eligible payroll was covered, etc.

Telling our story – Also, some churches are wondering, if they ended the year with an operating surplus, what would the optics look like if the church also records PPP income on top of the operating surplus? For a short answer, there are two parts to the story of 2020 for most churches:

- The PPP proceeds were necessary and came in during a critical period of uncertainty and helped carry the church’s staff and operations through a challenging summer. Without receiving the initial proceeds, things may have looked quite different during that challenging period.
- Then as the year progressed, it was our congregation member’s generosity that kicked in and allowed the church to build a year-end surplus to move forward into 2021 – a year where uncertainty remains about the potential future impact of COVID-19 or an unknown variant.

Language to avoid – Lastly, for churches that ended the year with a surplus, they should never say things like... “we didn’t need the PPP funds after all,” or “we didn’t end up needing to spend them.” That is one of the potential pitfalls of the debt model, since it could give the mistaken impression that the PPP proceeds are sitting in cash at year end. Again, that is not the case.

- The PPP proceeds were already spent - on payroll and other eligible expenses during the initial “covered period.” The proceeds cannot be used for any other purpose. That was the central requirement of the PPP program. If the PPP proceeds are not considered by leadership to have been spent, there would be no loan forgiveness!
 - So be careful with the messaging of your story. Again, it was member generosity at year-end that created the surplus, not the PPP proceeds.

Operating surplus-type account – If there is a net surplus for the year, church leadership may consider transferring all or a portion of the surplus into a board-designated operating reserve-type account. That indicates the funds are set aside and available to cover any future periods of uncertainty. These types of reserves can be spent at the board’s discretion with proper approval.

I’d be happy to talk with you or any of your churches that might have questions about this.