

## Paycheck Protection Program: Resources for Processing and Accounting for Loan Forgiveness

### Key Findings

- Due to the COVID-19 pandemic, many electric cooperatives received Small Business Administration (SBA) Paycheck Protection Program (PPP) loans through their lender and may be eligible for loan forgiveness for qualifying expenses.
- To receive loan forgiveness, detailed recordkeeping and an understanding of how to account for PPP funding and transactions are essential.
- NRECA has compiled a list of suggestions and resources to help co-ops understand how to apply for loan forgiveness and meet their obligations under the PPP.

### What has changed?

A significant number of electric cooperatives leveraged the Paycheck Protection Program (PPP) for important short-term assistance during the COVID-19 pandemic. Most of these loans can be forgiven, on the condition that co-ops spend the PPP funds on qualified expenses, provide the proper documentation, and meet all associated deadlines. The PPP loan forgiveness application is available either through the [U.S. Department of the Treasury](#)<sup>1</sup> or the [Small Business Administration](#) (SBA).<sup>2</sup> Electric co-ops are encouraged to work with their lenders and accountants for further assistance in completing this necessary paperwork.

### What do cooperatives need to know or do about it?

The amount of the loan eligible for forgiveness is based on the proportion of PPP funds spent on payroll costs. To receive forgiveness of the entire loan amount, a PPP borrower must have spent at least 60% on payroll and may not have used more than 40% of its PPP loan for qualifying non-payroll costs. However, if the entity did use more than 40% of the loan for such costs, forgiveness is not completely eliminated, but, rather, adjusted downward based on the amount used for non-payroll costs in excess of 40%. That is, the forgivable amount will scale in proportion to the amount spent on payroll, up to the total loan amount. Any funds spent on ineligible expenses will not be included in the forgivable amount.

<sup>1</sup> U.S. Department of Treasury link to PPP loan forgiveness application: <https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>

<sup>2</sup> Small Business Administration link to PPP loan forgiveness application: <https://www.sba.gov/sites/default/files/2020-05/3245-0407%20SBA%20Form%203508%20PPP%20Forgiveness%20Application.pdf>

Qualifying payroll expenses include:

- Salaries
- Wages
- Vacation pay
- Parental and family leave
- Employer medical or other group benefits
- Sick leave
- Employer retirement benefits
- Bonuses, commissions or hazard pay

Eligible non-payroll costs include:

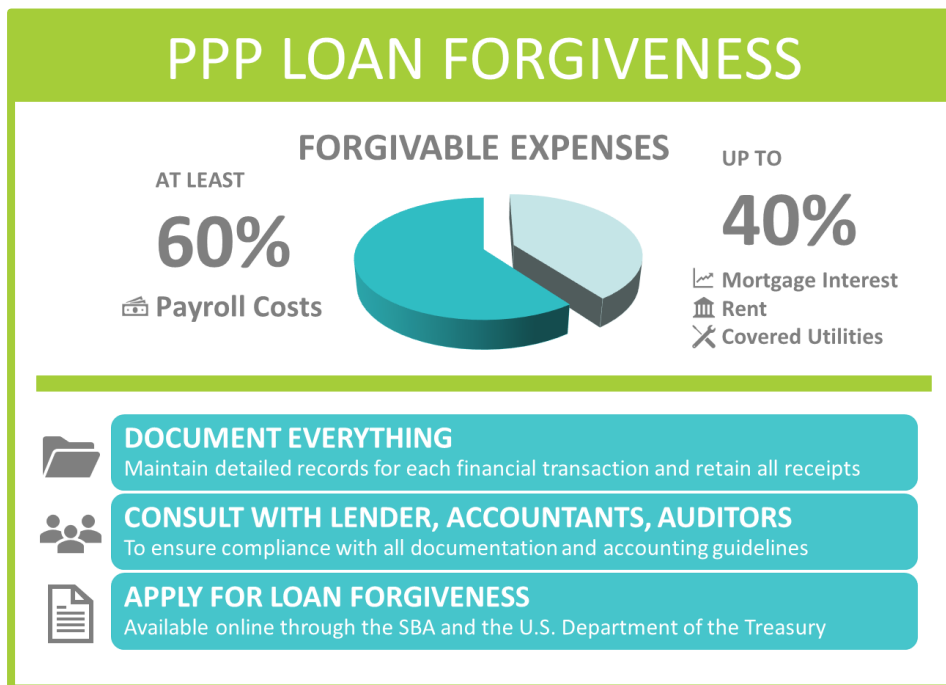
- Mortgage interest
- Rent
- Covered Utility Payments (e.g. electricity, gas, water, and internet)<sup>3</sup>

For PPP loans issued on or before June 5, 2020, borrowers may retain the original eight-week period to spend the funds to qualify for forgiveness or may now take up to 24 weeks. Those receiving loans after June 5, 2020 will need to demonstrate that they spent the funds within 24 weeks after receiving the loan, or by the end of 2020, whichever comes first. Electric co-ops should maintain detailed bookkeeping for each financial transaction, properly document the expense amount, recipient, date, and category (e.g. payroll, utilities, rent, etc.) and retain all associated receipts and records.

Co-ops should apply for forgiveness of expenses through their lender, using the forgiveness application form (links provided on page 1). Under the CARES Act, a lender has 60 days to complete its review of a borrower's forgiveness application and submit its decision on forgiveness to the SBA.

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<sup>3</sup> In the SBA's PPP loan forgiveness application instructions, covered utility payments are defined as "business payments for a service for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020."



Source: NRECA (chart) and SBA/Treasury (data)

### Accounting for PPP Loans and Loan Forgiveness

In August, the SBA and the Department of the Treasury released a guidance document, [Frequently Asked Questions \(FAQs\) on PPP Loan Forgiveness](#),<sup>4</sup> to address borrower and lender questions. The document provides further detail on SBA’s interpretation of how several specific issues relating to timing, payroll costs, healthcare and retirement benefits, owner compensation, non-payroll costs, and forgiveness reductions should be properly treated.

The Rural Utilities Service (RUS) has indicated that they will follow a “grant” approach, where the applicable costs associated with the PPP loan will be credited with the PPP loan forgiveness. RUS also provided the following guidance in a memorandum to RUS borrowers:

1. PPP loan funds should be initially recorded as debt.
2. Any PPP loan funds that are included on work orders submitted to RUS for financing, must be removed from all financing requests, regardless of whether the PPP funds are forgiven. This will prevent duplicate financing of these costs through the Federal Government. (Please note, the costs do not have to be removed from the assets constructed or retired unless the loan is forgiven.)
3. If PPP loan funds are subsequently forgiven, the expenses and/or work orders along with assets constructed or retired should be credited for any forgiven PPP loan funds used for these purposes.

<sup>4</sup> Available at: <https://www.sba.gov/sites/default/files/2020-08/PPP%20Loan%20Forgiveness%20FAQs%208-4-20.pdf>.

The American Institute of CPAs (AICPA) worked with volunteer members and the Financial Accounting Standards Board (FASB) staff to develop [Technical Question and Answer \(TQA\) 3200.18, Borrower Accounting for a Forgivable Loan Received Under the Small Business Administration Paycheck Protection Program](#).<sup>5</sup> The TQA provides general guidelines and references FASB Accounting Standards Codification (ASC) Topic 470 (Debt) and International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*. The TQA explains that an entity accounting for the PPP loan under Topic 470 would:

- Initially record the cash inflow from the PPP loan as a financial liability and would accrue interest in accordance with the interest method under ASC Subtopic 835-30.
- Not impute additional interest at a market rate.
- Continue to record the proceeds from the loan as a liability until either (1) the loan is partly or wholly forgiven and the debtor has been legally released, or (2) the debtor pays off the loan.
- Reduce the liability by the amount forgiven and record a gain on extinguishment once the loan is partly or wholly forgiven and legal release is received.

As the liability is reduced, it would be offset through earnings, presented as either (1) a credit in the income statement, either separately or under a general heading such as “other income,” or (2) a reduction of the related expenses, e.g. compensation expense. If an entity is not granted full forgiveness of their PPP loan, any remaining amounts will remain in the liability category and will be subject to the associated repayment terms.

Guidance from the SBA and the Treasury Department is subject to change and may be updated in the coming months. Cooperatives should consult with their lenders, accountants and auditors to ensure compliance with all documentation and accounting guidelines.

## Additional Resources

- [Electric Cooperatives and the Paycheck Protection Program](#)  
NRECA compiled a Fact Sheet with additional background and information on the CARES Act and SBA administered PPP loans.
- [PAYCHECK PROTECTION PROGRAM: Frequently Asked Questions \(FAQs\) on PPP Loan Forgiveness](#)  
The SBA, in consultation with the Department of the Treasury, provided this guidance to address borrower and lender questions concerning forgiveness of PPP loans.
- [Technical Question and Answer \(TQA\) 3200.18, Borrower Accounting for a Forgivable Loan Received Under the Small Business Administration Paycheck Protection Program](#)

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<sup>5</sup> Available at: <https://www.aicpa.org/content/dam/aicpa/interestareas/frc/downloadabledocuments/tqa-sections/tqa-section-3200-18.pdf>.

- [PPP Forgiveness Tool](#)

The AICPA has provided guidance and offers an easy-to-use tool and FAQs for businesses. The AICPA website also includes information on payroll basics, workforce and business management, and links to other useful guides and forms.

## Contacts for Questions:

### **Russell Wasson**

Senior Director Tax, Finance and Accounting Policy

[Russell.Wasson@nreca.coop](mailto:Russell.Wasson@nreca.coop)

### **Joseph Goodenbery**

Lead Economist

[Joseph.Goodenbery@nreca.coop](mailto:Joseph.Goodenbery@nreca.coop)

### **Allison Hamilton**

Senior Principal, Markets and Rates

[Allison.Hamilton@nreca.coop](mailto:Allison.Hamilton@nreca.coop)

### **Bobby Hamill**

Legislative Affairs Director

[Bobby.Hamill@nreca.coop](mailto:Bobby.Hamill@nreca.coop)