

Hot Topic: PPP Loans & Endowments

The information shared here is based on the best available information as of publication. Museums are encouraged to seek legal and other expert advice on their specific circumstances.

Question: My museum received a federal Paycheck Protection Program (PPP) loan to stay afloat during the coronavirus pandemic. But I've been hearing conflicting information about whether we need to return the loan if we have a sizeable endowment. What do we need to know?

The American Alliance of Museums posed this question to Kathy Raffa at Marcum LLP. Kathy shared the following:

There is no one-size-fits-all answer to this question. Clearly museums have been hit hard. Most museums are closed and receiving no admissions, gift shop, or rental revenue. They don't need employees to work in the museum to support visitors—so PPP funding is enabling them to retain or hire staff back. Some of the largest museums with endowments have taken PPP funding due to the economic impact of closing.

Regarding endowments in light of their economic need—true endowments are permanently restricted by the donor. That is, the corpus must remain inviolate, so it cannot be used to cover such shortfalls. Earnings of endowed gifts are often restricted to a particular use as well, such as art acquisitions, education programs and exhibitions. As with the new liquidity statement on the financial statements, true endowments should not be considered to be available funds. The only way to get a true endowment released is to go back to the donor. If the donor is no longer alive, then one must petition the courts. And while in certain cases endowments can be borrowed against, this should not go to reducing economic needs.

Remember, the CARES Act suspends the ordinary requirement that borrowers must be unable to obtain credit elsewhere (as defined in section 3(h) of the Small Business Act).

Upon request of the PPP loan, the requesting organization certified that “current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.” Museums should consider their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business.

If museums do not have other available funds, they are likely on solid ground. The endowment principal should not play into it.

For additional guidance:

Marcum LLP is helping nonprofits calculate loan forgiveness amounts and maintain compliance and documentation, as well as advising them on the SBA PPP loan forgiveness application process. Contact Kathy Raffa, who led our previous webinar on COVID crisis management for museums, at:

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Related Resources

- » [PPP Payback Deadline May Have Unintended Consequences](#)
- » [Risks and Implications of Post Hoc Changes to the Borrower Certification Requirements: What PPP Borrowers Need to Know](#)
- » [The Impact of Endowments and Reserves on a Nonprofit's Access to Funding Under the Paycheck Protection Program](#)

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The current crisis is taking a distressing financial toll on cultural organizations, and AAM is no different. In these challenging times, we ask that if you can, consider supporting our [advocacy work](#) and making extensive [COVID-19 resources](#) freely available for our field, by [making a donation](#) or [becoming a member](#) of AAM. Thank you for your much-needed support.