

Financial Reporting Considerations for Higher Education CARES Grant Fund Recipients

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Nationwide closures of higher education institutions as a result of the pandemic could continue into the fall semester and raises the question on how colleges and universities can continue to serve and educate their students. Thankfully, these institutions were not forgotten in the Coronavirus, Aid, Relief, and Economic Security (CARES) Act.

Through the CARES Act for Higher Education Emergency Relief Fund (HEERF) Congress has allotted \$13.95 billion in grants to colleges and universities to be utilized for student and institutional aid. In addition, not-for-profit colleges and universities with less than 500 employees may also qualify for the Paycheck Protection Program (PPP) loans, which includes provisions that make portions of these loans forgivable if certain criteria are met.

While many of us have focused our attention on determining eligibility for these grants and the best course of action for accessing and distributing these funds, careful consideration should also be given to how these amounts will be reported in the college's or university's financial statement. The following is a brief summary of accounting considerations regarding how transactions related to the Paycheck Protection Program and the CARES Act Grants should be reported in accordance with recent guidance.

Paycheck Protection Program

Not-for-profit institutions fortunate enough to qualify for a PPP loan will initially establish a liability upon receipt of these funds. Once it is determined that a portion of the loan will be forgiven, the college or university will record that amount as a contribution or non-exchange grant. Any remaining balance from the PPP loan which is not forgiven should be classified as a note payable in accordance with the terms of the agreement.

CARES Act Grants

The CARES Act for Higher Education Emergency Relief Fund provides for no less than 50% of the grant proceeds to be used as student aid for direct emergency aid to students. The remaining 50% of the grant is for institutional aid which can be used as reimbursement for forgone revenue which resulted from student refunds for services which could no longer be provided as a result of campus closures. Institutional funds can also be used to defer the costs created as a result of delivering online education as a result of COVID-19.

Not-for-profit institutions will account for revenues received under the HEERF grant as conditional contributions, while public institutions will report these amounts as non-exchange transactions. Public and private colleges and universities will report expenses related to student aid grants as an increase to student aid expenses, and not a reduction to revenue.

Current guidance suggests that revenues and expenditures related to these grants should be recorded as operating activities for institutions following FASB as these funds are replacing revenues and expenses that would be included in operations. Public institutions will report revenues from the HEERF grants as non-operating revenues, while expenses are considered operating. Significant footnote disclosures discussing the financial effects of COVID-19 on each institution are anticipated.

Auditor Consultation

While current guidance suggests that the receipt and expenditure of these funds should be accounted for within the revenue and expense accounts of the statement of activities, discussion of whether these events should be reported as a separate component of income from continuing operations goes on. This year more than ever institutions will want to consult with their auditors early to determine the best course of action for their financial reporting.

Contact Us

The Higher Education Practice Group at PKF O'Connor Davies is available should you have any questions about the CARES Act for Higher Education Emergency Relief Fund (HEERF) or the Paycheck Protection Program (PPP). We also provide the full spectrum of audit, tax and risk advisory services to public and private institutions of higher education. Please contact either of the following individuals on PKF O'Connor Davies Higher Education team.

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