Health center governing boards are a unique reflection of the communities and the patient populations they serve. Board member oversight responsibilities are significant and can be particularly complicated during times of crisis.

Since the outbreak of the COVID-19 pandemic, there have been major disruptions in cash flow as many of the services that health centers provide have been disrupted. Fortunately, health centers have received a significant infusion of capital through the various stimulus packages passed by the Federal government. The Health Resources Services Administration (HRSA) has distributed multiple supplemental grants to health centers; funds have been disbursed through the general and targeted allocations of the Provider Relief Fund and many health centers were able to secure financing through the Paycheck Protection Program (PPP). These stimulus programs have pulled many health centers back from financial uncertainty following the abrupt decline in patient visits.

Many board members have expressed concerns about the compliance that accompanies this additional funding, which is addressed in a short article titled, “Grants Compliance During the COVID-19 Pandemic: Considerations for Health Center Boards.” Additionally, many board members have asked questions about how these dollars are captured on the health center financial statements. Questions include:

- Will the recording of these funds by the finance department stand up to audit?
- Is our finance department ensuring these funds are appropriately recorded?

It is not reasonable to expect every board member to understand generally accepted accounting principles (GAAP), but a general understanding of how these funds should be recorded could be helpful. Financial statement auditors, Federal regulators and others will be asking the questions on whether these funds have been correctly accounted for. **If Board members can ask the right questions before other scrutiny is given, it could prevent audit findings, compliance issues and a myriad of other difficulties.** To help board members navigate these accounting challenges and the impact on the financial statements, please consider the following guidance on accounting for these stimulus dollars.

**Accounting for Provider Relief Funds**

The Coronavirus Aid, Relief and Economic Security (CARES) Act set aside $100 billion for healthcare “COVID-19 related expenses and lost revenues” in the Public Health and Social Services Emergency Fund, commonly referred to as the Provider Relief Funds. The grant rules and terms and conditions for these funds have been published by the U.S. Department of Health and Human Services (HHS). There are a few things that the board should be aware of related to these funds:

---

1 BKD is a national Certified Public Accountant (CPA) and advisory firm. This article was authored at NACHC’s request as part of a national training and technical assistance effort to support education and training for health centers and boards specific to COVID-19 response and recovery.
Any funds received under this portion of the CARES Act will be considered a grant/contribution and should be accounted for in accordance with ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). This Accounting Standards Update is required to be adopted for all entities in fiscal year 2020 and will need to be completed by the center if not previously adopted.

Based on our understanding of the rules, these Provider Relief Funds should be considered a contribution. Generally speaking, one of the main differences between a contribution and a grant is whether the giver receives proportionate value for the funds that were given. If no commensurate value is received, then the funding should be considered a contribution.

When the center receives a contribution, it must determine whether it is unconditional or conditional. These funds should be considered conditional. The terms and conditions are considered barriers to be overcome and the funds are subject to return if the terms and conditions are not complied with which is why these funds should be considered conditional grants. The accounting for these types of contributions are:

- Funds should only be recognized in income when the conditions have been met, i.e., when qualifying expenses have been incurred and/or revenues have been lost.
- For any funds awarded but not yet recognized in income at year-end, the remaining amount should be disclosed as a conditional contribution/grant in the financial statements.
- Since these funds are not capital related, they will be recognized within operating income.
- If these funds have been considered obligated based on revenues that were documented as lost, it may still be important to be able to document the expenses that were incurred and paid for with these funds.

As of the date of this article, the audit rules have not been published on how financial statement auditors will audit Provider Relief Funds, but HHS has communicated that these funds will be subject to the Uniform Guidance requirements.

It is important for board members to understand that while these funds have been received, they may not be reflected as revenue in the financial statements due to the guidance recapped above. Board members can help provide oversight related to the treatment of such funds by asking questions such as:

- How are we making sure all funds are being used correctly?
- Is the center on track to spend all of the funds received?
- When is it anticipated that these funds will be reflected as revenue in the financial statements?

**Accounting for Non-Cash Contributions Known as In-Kind Contributions**

Many health centers have received a substantial amount of noncash assets, such as inventory and supplies, from donors. In-kind contributions that can be used or sold should be measured at fair value. In determining fair value, health centers should consider the quality and quantity of the gifts, as well as any applicable discounts that would have been received by the health center. If the gifts have no value, as might be the case for homemade face masks that cannot be used internally by the health center or for program purposes, the item received should not be recognized.

The health center board should ensure that there are policies that document what should be recorded, how the health center accounts for these contributions and should know were these are recorded on the financial statements. If these board-approved policies are up to date and follow the current accounting guidance, then finance departments have clear direction for the recording of these types of transactions. Board members can ask:

- Is the center’s policy for non-cash contributions up-to-date?
- Are updates needed to the center’s policy for non-cash contributions to reflect today’s environment?
**Accounting for Payroll Protection Program Funds**

Many entities have received benefits from the U.S. Small Business Administration’s (SBA) Paycheck Protection Program (PPP). There are two possible approaches for not-for-profit health centers to account for these funds, based on the intent of the borrower.

- If a health center entered into a PPP Loan with the intention that it will be forgiven, it is in substance a government grant and the health center may account for it as a conditional contribution pursuant to ASU 2018-08 similar to the Provider Relief Funds above.
- If the intention of the health center was to obtain the PPP Loan to obtain low interest financing and the health center expects to repay the loan, the loan may be accounted for under ASC Topic 470, Debt.

Under ASU 2018-08, revenue is recognized when the conditions are met. Measurable barriers to forgiveness include:

- Maintaining full-time equivalent (FTE) count during the covered period (CP) (8 weeks or 24 weeks) or alternative payroll covered period (APCP). If a borrower reduced full-time equivalent (FTE) employee levels during the period February 15, 2020 through April 26, 2020, and then restored its FTE employee levels by the earlier of the date the PPP Loan Forgiveness Application is filed or December 31, 2020, the forgiveness of the loan would not be impacted. Regulations do provide safe harbors to avoid reduction in loan forgiveness due to a reduction in FTE during the CP or APCP to the reference period that borrowers selected. For the purposes of this safe harbor, a borrower does not have to wait until the end of the covered period to look at FTE levels. The safe harbors are as follows:
  - The first is If a borrower can document an inability to rehire employees that were employed on February 15, 2020, and an inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020.
  - The second is if a borrower is able to document the inability to return to the same level of business activity as it was operating at before February 15, 2020, due to compliance with requirements of the HHS, the Centers for Disease Control or Occupational Safety and Health Administration generally regarding COVID-mandated practices during the period March 1, 2020 through December 31, 2020. This includes sanitation, social distancing, or any other employee or patient safety requirements.
- The second measurable barrier is that salaries must not be reduced for employees more than 25 percent during the entire CP or APCP.

There are also limited discretion barriers, including the loan proceeds must be used at least 60 percent on payroll costs, and the remainder may be used for rent, interest on mortgages and utilities.

For reporting purposes, the revenue should be recognized as a component of operating revenue, and not netted with expenses. Additionally, the activity should be recognized in operating activities in the statement of cash flows. It is important for board members to understand that while the health center expects for these funds to be forgiven, until the health center can document that these barriers have been overcome, the PPP Loan should be recorded as a liability on the financial statements. Based on the health center’s year end, the revenue from the forgiveness could be in a different year than when the underlying expenses were incurred. Board members can ask:

- How are PPP funds reflected in the financial statements?
- Do we anticipate any barriers to these funds being forgiven? What are those barriers and the associated impacts?
Revenue Recognition Reminders
On June 3, 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-05, Effective Dates for Certain Entities, which defers ASC 606, Revenues from Contracts with Customers (commonly called the revenue recognition rules) for all entities that have not yet adopted these rules. Under the current rules, most government grants will be considered conditional contributions as discussed above. Although many health centers might decide to delay implementation in the current environment, especially if your health center has not started the process, board members will want to understand if it is necessary for management to make any changes to the practice management system, general ledger or policies. Because revenues are a critical financial measure for health centers, the 156-page ASU will affect your health center. This principles-based standard requires all companies to follow the same 5 step model, eliminates most of the existing industry specific guidance, and significantly expands revenue recognition disclosures.

Conclusion
Health centers are rising to meet the challenge of COVID-19 and maintaining the strength and flexibility of our health care delivery model. This is a herculean task even with health centers receiving strong financial support to position them for success. As a health center board member, you may not be an accounting expert, but it is important to be familiar with the accounting issues, understand how they impact financial statements reviewed by the board, and to ask appropriate oversight questions. It is important to have dialogue with your CEO around whether budgetary approval is needed should they deem that additional resources are needed or if additional financial expertise is needed to help the center navigate these unique times.

Additional Information and Questions?
- For additional governance resources focused on COVID-19, please visit https://www.healthcenterinfo.org/priority-topics/covid-19/ and look under “Governance”
- For additional information on Financial Considerations, please note the availability of Strategies to Manage Financial Operations During COVID-19 Response and Recovery (Podcast Series) at https://conferences.nachc.org/nachc/articles/3028/view
- If you have a general health center governance question, please contact Emily Heard, Director of Health Center Governance at trainings@nachc.org.
- For additional resources from NACHC related to COVID-19, please visit https://www.healthcenterinfo.org/priority-topics/covid-19/ and http://www.nachc.org/coronavirus/, or contact preparedness@nachc.org.

*Please note that health centers are responsible for determining appropriate and tailored operations and strategies suitable for their organization, staff, patients, and community. Health centers should refer to applicable State, Local, and Organizational regulations in consultation with the health center’s general counsel and other advisors as appropriate.

This project is supported by the Health Resources and Services Administration (HRSA) of the U.S. Department of Health and Human Services (HHS) as part of an award totaling $6,375,000 financed with non-governmental sources. The contents are those of the author(s) and do not necessarily represent the official views of, nor an endorsement, by HRSA, HHS, or the U.S. Government. For more information, please visit HRSA.gov.