

# CARES ACT PROVIDER RELIEF FUND WEBINAR Q&A

*For all of our clients and friends who attended Part IV of our CARES Act webinar series, we have attempted to consolidate all of the questions and our answers as of October 8, 2020. Please keep in mind that the situation is very fluid, that the answers to these questions may change based on future guidance.*

**Q1) The specific question we have at present as relates to the latest guidance. Copied from the latest guidance below is text we have read. We are seeking to understand more the concept about incremental expenses incurred and not reimbursed elsewhere. Based on our read, it appears that this is to avoid recovering the same incremental COVID-related expenditure twice (understandably) but that the offsetting reimbursement must be specific to that expense (from patient surcharge, insurance or another governmental program) and cannot be deemed as reimbursed from general earned revenue for services in other aspects of the business. In other words, if entity still has net profit for the year, but incurred incremental expenses not paid for by patient, insurance or govt, there isn't a default that this was deemed reimbursed from another source. Focusing only on the first test here- not as relates to the change in year over year operating results-but to focus on how to document and validate incremental expenditures not otherwise reimbursed.**

*A1) This is an area that we are expecting to require additional guidance. We are assuming, in the interim, that Providers are to report healthcare-related expenses attributable to the Coronavirus net of reimbursements directly related to those expenses – this would include the examples you mention, such as revenue from a patient surcharge, insurance, or another governmental program.*

**Q2) How do we account for new physicians that joined in mid-2019?**

*A2) As we currently understand the formula, there would be no adjustment to account for adding additional services or capacity in 2019. The calculation of lost net income will compare 2020 to 2019. If the provider is able to offset losses by adding services or capacity, this will potentially reduce the lost net income and therefore reduce the provider's need for Provider Relief Funds.*

**Q3) Are revenue from drugs and in-office dispensing considered patient service revenue?**

*A3) For purposes of these calculations, revenue is defined as net charges from Patient Care Related Sources, where Patient Care means: "health care, services and supports, as provided in a medical setting, at home, or in the community. It should not include: 1) insurance, retail, or real estate values (except for SNFs, where that is allowable as a patient care cost), or 2) grants or tuition."*

*In addition, there is the following question and response in the Frequently Asked Questions on the Provider Relief Fund – Phase 1 – General Distributions: **An organization has prescription sales as part of its revenue. Can these sales be captured in the data submitted as "gross sales or receipts" or "program service revenue?"** (Modified 6/22/2020)*

Generally, no. Only patient care revenues from providing diagnoses, testing, or care for individuals with possible or actual cases of COVID-19 may be included. Patient care revenues do include savings obtained by providers through enrollment in the 340B Program.

Based on this guidance, it appears that revenue items would need to be analyzed on a case-by-case basis to determine if they can be included.

**Q4) Is employee retention tax credits considered "other reimbursement sources"?**

A4) We believe that employee retention tax credits will likely fall under the "Other Assistance" catch-all, which includes the following: "Total amount of other federal and/or coronavirus-related assistance received by the recipient and the other TINs included in its report as of the reporting period end date."

**Q5) Is the 2% sequestration suspension considered other reimbursement sources?**

A5) We do not believe that the sequestration suspension will be considered a revenue source.

**Q6) Do these reporting requirements apply to all three tranches?**

A6) Yes. These reporting requirements apply to all Provider Relief Fund distributions except for Nursing Home Infection Control and Rural Health Clinic Testing.

**Q7) \$185,000 from PPP and \$30,000 from HHS. What guidelines apply to me?**

A7) The PPP funds will not count towards your Provider Relief Fund reporting thresholds. You will fall within the \$10,000 - \$499,999 reporting requirements and be able to report Coronavirus-related expenses in the two aggregated categories.

**Q8) What is the exact definition of Net Operating Income from patient care? Is this net of ancillary expense? Labor costs?**

A8) Net Operating Income from Patient Care appears to be calculated as follows:

Revenue from patient care, net of bad debt  
PLUS: All other assistance received  
Total Revenue

LESS: Total calendar year expenses, including:  
General & Administrative Expenses  
Healthcare Related Expenses

This appears to include both ancillary expenses and labor costs.

**Q9) So, Net Income (after depreciation, etc.) is a positive \$100k for 2019. Are we then "safe" to limit our recognition to \$100k (and not more) for 2020? This is a critical item as some groups will have higher taxable income than 2019 if not done properly. That would cause a need to distribute to owners (for profit) to cover taxes due.**

A9) Keep in mind that it is not clear that the provider will be able to claim all or some portion of the Provider Relief Funds – rather, it appears that the Provider will provide the financial data to HHS and then HHS will calculate the Provider's use of PRFs. We don't believe that the Provider would automatically be "safe", or perhaps even able, to claim \$100k in this scenario. The actual allowed amount will depend on the total amount of Coronavirus-related expenses and total revenue/expense for 2020 and 2019.

We are recommending that providers plan on filing an extension for 2020 tax returns to defer final reporting until the use of HHS PRF funds (and PPP forgiveness decisions) are finalized. This will create a challenge for groups that need to distribute income to owners prior to year-end for tax purposes.

**Q10) Do you simply claim all G&A is covered by the Funds?**

A10) There are two reporting groups: first, providers must report the subset of Coronavirus-related expenses, to include certain G&A expenses. Providers will also be required to report all expenses, including G&A and Healthcare.

**Q11) Would like to better understand the lost revenues calculation piece of the required reporting...**

A11) As it currently sits, it does not appear that Providers will be required to submit a calculation of lost net income. Rather, Providers will be required to submit information on revenue and expenses that will allow HHS to calculate the loss. It appears that HHS will calculate net operating income for both 2019 and 2020 as follows:

**Net Charges from Patient Care Related Sources**

PLUS: Other assistance received (2020 only)

LESS: Total Calendar Year Expenses

The resulting net operating income for 2019 and 2020 will be compared, and lost net operating income will be calculated as the negative year over year change from 2019 to 2020. Providers will be allowed to apply the Provider Relief Funds towards lost revenue up to the amount of their 2019 net gain, or, for Providers who experienced a loss in 2019, up to a net-zero gain/loss in 2020.

If you would like to have a lost revenues calculation using your own specific information, please contact one of our healthcare team:

- Al Grimes at [al.grimes@saltmarshcpa.com](mailto:al.grimes@saltmarshcpa.com)
- Andrew Kent at [andrew.kent@saltmarshcpa.com](mailto:andrew.kent@saltmarshcpa.com)
- Claudia Reingruber at [claudia.reingruber@saltmarshcpa.com](mailto:claudia.reingruber@saltmarshcpa.com)

**Q12) What revenue and expense elements are applicable for CCRCs?**

A12) We expect that additional guidance will be issued in this area, however, because CCRC's were permitted to use revenue from all service lines (including ILF, ALF, and SNF operations) we anticipate CCRC's will be allowed to use revenue and expense elements from all service lines in the calculation of lost net operating income.

**Q13) What is the next round of scheduled stimulus funds available?**

A13) Phase III of the General Distribution may be applied for online from October 5, 2020 through November 6, 2020.

**Q14) The 2% of Net Patient Revenue - what period is that calculation based on? Also, I thought there was funding contingent on participating on CMS training. What is the status of that?**

A14) In general, HHS is calculating Provider's PRF eligibility based on 2% of Net Patient Revenue for 2018 or the most recent fully completed tax year.

AHRQ is partnering with the ECHO Institute to establish a National Nursing Home COVID Action Network. More information is available at this link: [www.ahrq.gov/news/newsroom/press-releases/covid-action-network.html](https://www.ahrq.gov/news/newsroom/press-releases/covid-action-network.html)

Nursing homes that actively participate are eligible to receive \$6,000- in compensation to cover staff training time. More information and webinars on this program can be located at this link: [www.ahrq.gov/nursing-home/index.html](https://www.ahrq.gov/nursing-home/index.html)

**Q15) All of 2020 compared to 2019? or just from March?**

A15) It appears that the lost revenue calculation will compare the entire year 2020 to the entire year 2019.

**Q16) The \$750k threshold - applies to individual facilities or to the organization as a whole (with several facilities)?**

A16) The \$750K threshold to determine if an organization will be subject to the single audit requirements will need to be considered based on the legal and financial reporting structure for the entities involved. In general, when individual facilities are consolidated into a parent organization, the threshold should apply to the organization as a whole.

Note that the rules for what entities can be consolidated for the purpose of reporting use of Provider Relief Funds may be different than the analysis as to whether an entity meets the \$750,000 reporting threshold. In the reporting instructions (at the TIN level) that received one or more PRF payments may report on General Distributions attributable to subsidiaries, regardless of which entity attested to receipt of the funds.

See this quote:

**Reporting Entity:** Entity (at the Tax Identification Number (TIN) level) that received one or more PRF payments. If the entity has subsidiary TINs that received General Distribution payments, regardless of whether the subsidiary or Reporting Entity formally attested to accepting the payment within the provider portal, the Reporting Entity may report on and direct the use of General Distribution payments. However, if a subsidiary TIN received a Targeted Distribution payment, 1 the subsidiary TIN must report use of funds for that payment, and the parent organization that reports on a subsidiary's General Distribution payment cannot also report on (or transfer) the subsidiary's Targeted Distribution payment.

**Q17) Any suggestions for 6/30 year-end financial audits which are currently underway and due by the end of the month?**

A17) Because financial reporting procedures can vary among entities and are often specific to individual fact situations, we recommend that you discuss specific questions with your external audit team. In addition, please feel free to submit specific questions to our healthcare team and we will have a member of our audit team get in touch with you.

**Q18) If we are able to report the entire assistance amount as COVID-related expenses, will we still be expected to report lost revenue? Or is the lost revenue portion only IF your expenses do not use all of those relief funds?**

A18) This is unclear, but it appears that Providers will be required to report both Coronavirus-related expenses for 2020 and all revenue and expense for 2019 and 2020. We see no provision that would allow Providers out of the net income reporting requirements.

**Q19) Lost revenue on just Medicare Revenues YOY?**

A19) It appears to be all healthcare revenues from patient care for all payors, net of bad debt.

**Q20) A nursing facility which received both federal stimulus as well as a PPP loan, how will they report their COVID related PR expenses. Can they not include it for the PPP forgiveness application, so it can be held for federal stimulus substantiation?**

A20) If the Provider has sufficient non-Coronavirus related expenses to support their PPP loan forgiveness application, they should be able to use those other, non-Coronavirus related payroll costs to substantiate their PPP loan forgiveness and use the Coronavirus-related payroll costs to support the use of their PRF funds. Because it appears that the overall calculation mechanism will work to

restore providers to either 2019 net income levels (if the Provider had positive net income in 2019) or to zero/breakeven (if Provider had a loss in 2019) it may not matter.

**Q21) How does a nursing facility located in a state which distributed stimulus funds (PA, MA, OH etc.) determine which expenses to include for federal and which for state reporting, since neither let's use the funds for expenses that have been covered by another source?**

A21) We are expecting additional guidance on this issue, however, in general, it appears that HHS is going to require that the Provider Relief Funds are used after all other funding sources are used.

**Q22) Can you provide a step by step example of how to calculate lost revenue, per the latest info released by HHS?**

A22) Please refer to the seminar slides for our presentation of current understanding as to how the lost revenue calculation will work. If you would like to have a lost revenues calculation using your own specific information, please contact a member of our healthcare leadership team:

- Al Grimes at [al.grimes@saltmarshcpa.com](mailto:al.grimes@saltmarshcpa.com)
- Andrew Kent at [andrew.kent@saltmarshcpa.com](mailto:andrew.kent@saltmarshcpa.com)
- Claudia Reingruber at [claudia.reingruber@saltmarshcpa.com](mailto:claudia.reingruber@saltmarshcpa.com)

**Q23) Will we need to do separate reporting for each phase of the Cares Grant?**

A23) No. Our understanding is that the current reporting requirements will cover all funding tranches except for Nursing Home Infection Control and Rural Health Clinic Testing.

**Q24) What if you had new beds come online in FY 2019 and were not fully occupied until later in the year due to filling the beds after they were available?**

A24) Right now, we are not aware of any mechanism that would adjust for these structural changes in capacity.

**Q25) The reporting requirements also require reporting of "other assistance provided" such as PPP funds...**

A25) Yes, to the extent a Provider's PPP loan is forgiven we believe it will qualify as "Other Assistance."

**Q26) Single Audit Requirement: Are the PPP funds included in the \$750k threshold of federal funds?**

A26) PPP funds have been specifically excluded from the single-audit requirement and should not count towards the \$750k single audit threshold.

**Q27) Gross Revenue - is that gross patient charges or actual received revenue?**

A27) Revenues are described as patient charges, net of uncollectible patient service revenue recognized as bad debt. We anticipate that further guidance will address whether revenues and expenses are to be reported on a cash or accrual basis.

**Q28) What is meant by them in stating that it's offset FIRST by expenses, THEN change in revenue? Your example simply shows net income only.**

A28) For reporting purposes, it is our understanding that the PRF funds will be applied to Coronavirus-related expenses, net of other reimbursement sources, first and then to lost net income second. It appears, however, that the end result should be the same, because the lost net income calculation must be reduced by the amount allocated to Coronavirus-related expenses.

**Q29) What happens if I have 10 as number of employees FTE and 3 quit during the covered period, for the FTE since we have a voluntary resignation should I still count 10 employees, or it would be 7? For the FTE can I count the owner of the s corporation?**

A29) This looks like a PPP-specific question. We have referred it to our PPP Loan Forgiveness Team at [ppp@saltmarshcpa.com](mailto:ppp@saltmarshcpa.com).