



CPAs & Advisors

CARES Act, PPP and Other Covid-19 Implications



Accounting Agenda

- › Provider Relief Fund
 - Background
 - Terms and Conditions
 - FAQs
- › Arkansas Cares Funding
- › Accounting for Relief Funding

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Tax Agenda

- › FFCRA/CARES Acts
- › Executive Order
- › Potential Future Covid-19 Acts/Revisions

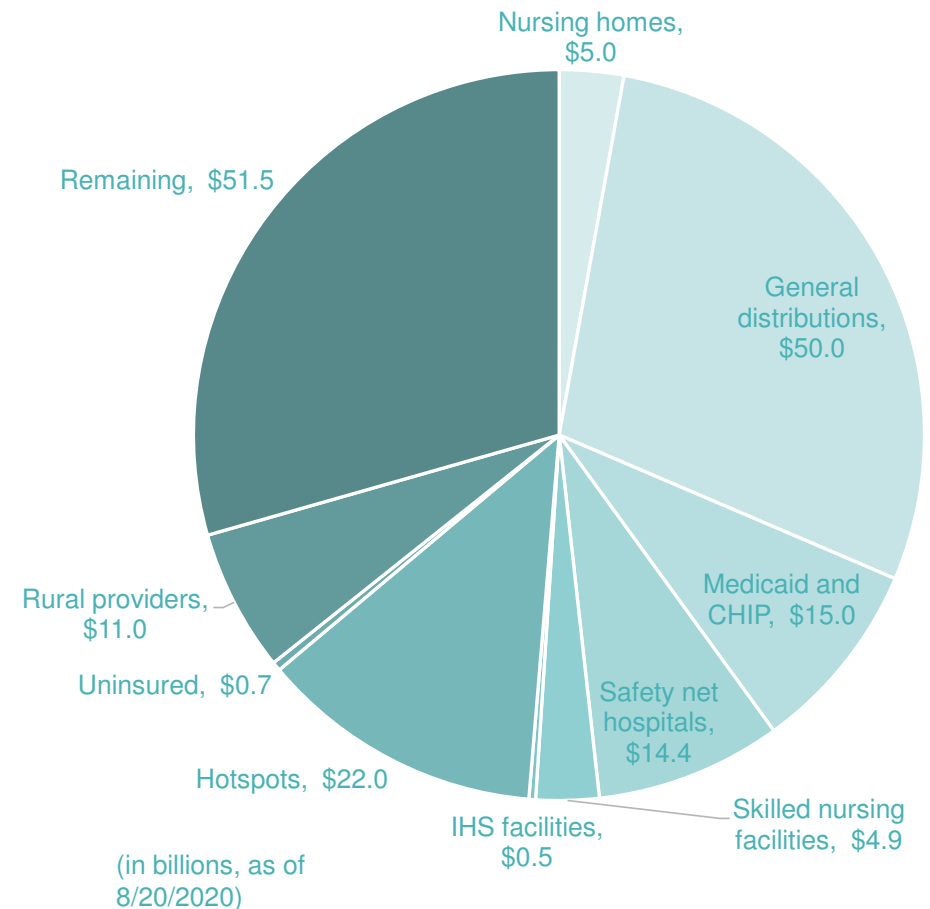
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Provider Relief Fund

- › \$175B fund established by the CARES Act

- Administered by US Dept of Health & Human Services (HHS)
- General and targeted distributions
- Terms and conditions
 - › Expenses and lost revenue
- Frequently asked questions



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Distributions

› General Distributions

Tranche One	Tranche Two	CHOW	Medicaid & CHIP
April 10-17	April 24	August 28	August 28
\$30B	\$20B	Part of 50B	\$15B
Based on Medicare FFS payments (6.2%)	Lesser of 2% of patient revenue or March and April losses	Providers who were not eligible for Tranche 1 payments due to change in ownership	MCD providers who have not received a general distribution of 2% of patient revenue
Attestation portal	Information submitted via payment portal	Enhanced portal	Enhanced portal

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Distributions

› Targeted Distributions

Uninsured Reimb.	Safety Net – 1	Safety Net – 2	Safety Net – 3
Ongoing	June 9	July 10	August 14
\$705M through 8/20	\$10B	\$3B	\$1.4B
For testing and treatment of uninsured COVID-19 patients	DPP \geq 20.2 UCC/Bed \geq \$25,000 Profitability \leq 3%	“Certain” acute care hospitals with profitability \leq 3% as averaged over several years	Free-standing children’s hospitals
Claims reimbursement portal	Attestation portal	215 providers; Attestation portal	80 providers; Attestation portal

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Distributions

› Targeted Distributions

Rural Providers – 1	Rural Providers – 2	Hotspots – 1	Hotspots – 2
May 1	July 10	May 1	June 9
\$10B	\$1B	\$12B	\$10B
Graduated base (\$1M - \$3M) + 1.97% of operating expenses	Specialty rural hospitals	100 or more COVID-19 cases through April 10	More than 161 COVID-19 cases between 1/1 – 6/10; \$50,000/case
Attestation portal	Attestation portal	Teletracking	Attestation portal

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Provider Relief Fund

› Terms and Conditions

- Funds will be used to prevent, prepare for, and respond to coronavirus
- Funds will reimburse recipient only for health care related expenses or lost revenues that are attributable to the coronavirus
- Reporting requirements
 - › Pending guidance
- No balance billing for possible or actual COVID-19 patients
- Not returning funds within 90 days is considered as acceptance of T&C

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Provider Relief Fund

› Frequently Asked Questions

- PRF amounts can be “expended” from January 1, 2020 through July 31, 2021 (reporting deadline)
- Provider “expending” more than \$750,000 in a fiscal year will be required to have a single audit
 - › Including for-profit entities
- Example healthcare related expenses attributable to coronavirus:
 - › supplies used to provide health care services for possible or actual COVID-19 patients;
 - › equipment used to provide health care services for possible or actual COVID-19 patients;
 - › workforce training;
 - › developing and staffing emergency operation centers;
 - › reporting COVID-19 test results to federal, state, or local governments;
 - › building or constructing temporary structures to expand capacity for COVID-19 patient care or to provide health care services to non-COVID-19 patients in a separate area from where COVID-19 patients are being treated; and
 - › acquiring additional resources, including facilities, equipment, supplies, health care practices, staffing, and technology to expand or preserve care delivery.

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Provider Relief Fund

› Frequently Asked Questions (continued)

- The term “lost revenues that are attributable to coronavirus” means any revenue that you as a health care provider lost due to coronavirus. This may include revenue losses associated with fewer outpatient visits, canceled elective procedures or services, or increased uncompensated care.
Providers can use Provider Relief Fund payments to cover any cost that the lost revenue otherwise would have covered, so long as that cost prevents, prepares for, or responds to coronavirus. Thus, these costs do not need to be specific to providing care for possible or actual coronavirus patients, but the lost revenue that the Provider Relief Fund payment covers must have been lost due to coronavirus. HHS encourages the use of funds to cover lost revenue so that providers can respond to the coronavirus public health emergency by maintaining health care delivery capacity, such as using Provider Relief Fund payments to cover payroll, health insurance, mortgage/rent, lease payments, EHR fees.
- Any reasonable method of estimating lost revenue would be acceptable.

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Provider Relief Fund

› Frequently Asked Questions (continued)

- General distributions can be redistributed within a multi-provider system; targeted distributions cannot
- No appeals process or method of redress
- Can not use funds to cover costs reimbursed from other sources

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AR CARES Funding

- › Section 5001 of the CARES Act provided at least \$1.25B to each state for necessary expenditures related to coronavirus
- › Governor established Coronavirus Aid, Relief, and Economic Security (CARES) Act Steering Committee to recommend ways to use funding
- › \$100M was set aside for payments to hospitals
 - CAHs - \$50,000
 - PPS - \$10,182 per licensed bed
- › \$10M was set aside for COVID-19 cluster payments

AR CARES Funding

- › Can be used reimburse costs incurred from March 1, 2020 – June 30, 2020 including, but not limited to:
 - Patient, visitor, and staff safety;
 - public health response;
 - technology improvements;
 - education and training;
 - readiness and preparedness; and
 - other related incremental direct and indirect costs.
- › Can not be used for lost revenue, bonuses, retention payments or any increase in management fees or administrative salaries. No double dipping.

AR CARES Funding

- › Hospitals must have attested that they will follow requirements by June 30, 2020
- › Cost form demonstrating allowable costs must be submitted by August 31, 2020
- › Payments made prior to submission of cost form
 - Range from \$40,000 to \$8.6 million
 - Will recoup amounts distributed above cost identified on form

Accounting for Relief Funds - FASB

- › Considered conditional contributions under ASC 958-605
- › Can be recognized as unrestricted contribution revenue if conditions met in same period as funding
- › If conditions are met in a period subsequent to receipt of funds, it would be recorded as a liability until conditions are met
- › NFP HCEs should have a consistently applied accounting policy governing the classification of transactions as operating v. nonoperating. No authoritative controlling guidance.

Accounting for Relief Funds - FASB

- › Primary conditions to be met for recognition of PRF distributions is identification of qualifying lost revenues and expenses
- › With uncertainty as to whether lost revenue can be used to restore a profit, more guidance is needed to properly record.
- › Until more guidance is provided, a conservative approach would be to limit recognition of PRF amounts supported by lost revenue to that which would get to breakeven on operations for affected months.
- › Very important to have clean schedules that demonstrate no double dipping

Accounting for Relief Funds - FASB

- › AR CARES funding amounts were announced prior to distribution
 - June 3 – approved by steering committee
 - June 19 – approved by legislative council (final state approval)
 - June 20 – cost form, funding cap and both attestation forms sent to hospitals
 - June 30 – first attestation due
 - August 3 – first batch of payments to hospitals processed
 - August 31 – cost form and due
- › Since amounts were known and approved before June 30, a hospital could conclude that it had met the conditions in June (program is limited to expenses incurred 3/1/2020 – 6/30/2020)
- › Uncertainty about how to recognize federal funds could delay meeting conditions of AR CARES funds

Accounting for Relief Funds - GASB

- › GASB Technical Bulletin 2020-1 indicates relief funds are voluntary nonexchange transactions subject to eligibility requirements rather than purpose restrictions
- › Should be recorded as non-operating revenue since the funding is not a fee-for-service grant.
- › Distributions should be recorded as a liability until eligibility requirements are met

FFCRA/CARES Acts

› PPP loan

- Borrower is eligible for loan forgiveness for the following costs
 - › Eligible payroll costs
 - › Eligible nonpayroll costs
- Amount of forgiveness may be subject to reductions for
 - › FTE reductions
 - › Salary/Hourly wage reductions
 - › 75% payroll costs requirement

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FFCRA/CARES Acts

› PPP loan (cont'd)

- Loan disbursement starts an eight-week or 24-week Covered Period (CP) for purposes of measuring payroll & nonpayroll costs eligible for loan forgiveness
- Eligible nonpayroll costs for loan forgiveness
 - › Real or personal property mortgage interest
 - › Real or personal property rents
 - › Utilities – payments for a service for the distribution of electricity, gas, water, transportation, telephone or internet access
 - Fuel for business vehicles was added by the IFR #3 on 4/15/20, related to self employed

FFCRA/CARES Acts

› PPP loan (cont'd)

- Interaction with payroll tax deferral
 - › Section 2302 of the CARES Act allows a deferral to 12/31/2021 & 12/31/2022 of the employer's share of FICA taxes for period 3/27/2020 through & including 12/31/2020
 - › IRS, in a FAQ, addressed the ability of a PPP loan recipient to take advantage of the deferral. In short, they authorized the deferral up to the date the lender issues its decision to forgive any of the PPP loan under Section 1106 of the CARES Act

FFCRA/CARES Acts

- › PPP loan (cont'd)
 - Interaction with employee retention credit
 - › In general & subject to further rules & restrictions, Section 2301 of the CARES Act allows eligible employers to claim a credit against applicable employment taxes of up to 50% of qualified wages with respect to each employee (subject to \$5,000 employee cap)
 - › Section 2301(j) of the CARES Act specifics that if a business receives a PPP loan, such business shall not be eligible for the employee retention credit

FFCRA/CARES Acts

› PPP loan (cont'd)

- Loan forgiveness – is it tax free?
 - The CARES Act excludes PPP loan forgiveness from gross income subject to tax
 - Recent IRS guidance applies principle that expenses allocable to tax-exempt income are not deductible. Therefore, expenses covered by a PPP loan that is forgiven will not be deductible by the borrower
 - Many in Congress are not happy with the IRS interpretation, but allowing the relevant expenses to be deductible would require a change to the tax law to specifically permit a deduction

FFCRA/CARES Acts

› PPP loan (cont'd)

- Documentation on loan forgiveness
- Who makes the final determination on whether all or apportion of my PPP loan will be forgiven?
- The lender makes this decision not later than 60 days after the date on which a lender receives an application for loan forgiveness from the borrower. See page 6 of Loan Forgiveness Application for documents each borrow must submit with their application
- Broad Categories of documentation include
 - › Payroll
 - › FTE
 - › Nonpayroll

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FFCRA/CARES Acts

- › Employer/employee credits and others
 - Emergency paid sick leave
 - Emergency family & medical leave expansion
 - Tax credit for paid sick & paid family & medical leave
 - Recovery checks
 - Special rules for use of retirement funds
 - Charitable contributions deduction modifications
 - Exclusion for certain employer payments of student loans
 - Unemployment assistance (\$600 federal supplement)

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FFCRA/CARES Acts

- › Business provisions
 - › Employee Retention Credit for Employers Subject to Closure due to COVID-19
 - › Delay of Payment of Employer Payroll & Self-Employment Taxes
 - › Modifications for net operating losses
 - › Modifications of limitation on business interest expense
 - › Technical amendments regarding qualified improvement property

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Executive Order

- › Defers employee portion of 6.2% social security tax from 9/1/20-12/31/20 for workers making less than \$100,000 annually.
 - Amounts are deferred without any penalties, interest, or addition to the tax.
 - Tax will eventually have to be paid minus any congressional legislation
- › Unemployment assistance (\$400 federal supplement)
- › Temporarily halt residential evictions
- › Student loan relief from CARES Act extended through end of year

Potential Future Covid-19 Acts/Revisions

- › HEROES Act
- › HEALS Act
- › Other proposals/revisions

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Questions?

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BKD COVID-19 Tax & Accounting Resource Center

- › BKD has created a resource center to help disseminate important tax & accounting information for our clients & friends as we evaluate ways to mitigate the inevitable financial effects of the SARS-CoV-2 virus & the incidence of COVID-19 (Coronavirus)
- › <https://www.bkd.com/covid-19-resource-center>



COVID-19 Resource Center
CLICK TO SEE RESOURCES NOW

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Thank You!

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The discussions and conclusions included with this letter are based on the facts as stated and existing authorities as of the date of this May 18, 2020 presentation. Our advice could change as a result of changes in the applicable laws and regulations. We are under no obligation to update this content if such changes occur.

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