



COVID-19 Aid Programs for Portable Diagnostic Providers

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Outline

- Paycheck Protection Program
 - Update
 - Forgiveness applications
 - Tax & Accounting issues
- HHS Stimulus funds
 - Provider Relief Funds (PRF)
 - Application – Phase 3
 - Reporting guidelines

Paycheck Protection Program - Timeline

- 3/27/20 – CARES act passed, including \$349B for PPP
- 4/16/20 – PPP program runs out of money (SBA stops apps)
- 4/21/20 – PPP 2.0 – replenished with \$310B more money
- 6/5/20 – PPP Flexibility Act passed extending the covered period from 8 weeks to 24 weeks.
- 6/30/20 – Final date to apply for PPP funding.
- 7/7/20 – PPP application date extended to 8/8/20.
- 8/8/20 – Application date expires - \$134B unspent.
- 9/1/20 – Some banks began accepting forgiveness applications.

PPP by the numbers...

- Total Loan Count 5,212,128
- Percent < \$150K 87.4%
- Percent > \$1M 1.6%
- Net dollars loaned \$525 billion
- Balance unused \$134 billion
- Average Loan Size \$101,000
- Largest Sector
 - Healthcare/Social assistance \$68B

PPP Flexibility Act

1. Covered costs period extended from 8 weeks to 24 weeks.
2. Covered period extended from 6/30 to 12/31.
3. Payroll as a percent of covered costs reduced from 75% to 60%.
4. FTE safe harbors expanded and extended to 12/31.
5. Loan repayment extended from 2 years to 5 years (effective for loans after 6/5/20).

PPP Flexibility Act – cont.

6. Extension of deferral of payments from 6 months to the date the forgiveness is determined and agreed to by the lender.
7. Established deadline for forgiveness application – 10 months after the last day of the PPP loan covered period.
8. Deferral of payroll taxes – OASDI (6.2%) can now be deferred until 12/31/20.

PPPFA – FTE exemptions expanded

- Limits on forgiveness calculations have been expanded
 - To provide an exemption based on employee availability if an eligible borrower is able to document:
 - An inability to rehire employees of the borrower on February 15, 2020, AND
 - An inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020

OR

PPPFA – Exemptions continued

- Exemption language (continued)
 - Employer borrower is able to document an inability to return to the same level of business activity operating as of February 15, 2020
 - The Act specifically refers to requirements issued by HHS, CDC, and OSHA
 - An exemption is possible if regulatory guidance is issued from March 1 through December 31 by HHS, CDC, and OSHA
 - If guidance that is issued makes it impossible to return to February 15 level of activity, then an exemption on loan forgiveness will most likely apply

Current Focus Areas

- Document, document, document
- Maximize PPP loan forgiveness
- Maximize deferral of employer portion of FICA payroll taxes
- Evaluate eligibility and quantification of benefits of the **Employee Retention Credit**
- Maintain constant awareness of Treasury Department FAQs

PPP Covered costs

- Payroll Costs
 - Gross pay during covered period reduced for:
 - Individuals limited to \$100K annualized
 - FFCRA – payments
 - Other exceptions
 - Health Insurance premiums
 - Retirement benefits paid
 - Payment of state and local taxes assessed on compensation of employees

PPP covered costs

- Non payroll costs
 - Rents
 - Mortgage Interest
 - Utilities
 - Gas, Electric, Water, Telephone, Cable

Example Paid and incurred

From SBA 2020-0032

Non-payroll cost is eligible for forgiveness if it was:

- i. Paid during the covered period; or
- ii. Incurred during the covered period and paid on or before the next regular billing date, even if the billing date is after the covered period.

Paid and incurred - Example

Borrower's covered period begins on **June 1** and ends on **July 26**. The borrower pays its **May and June** electricity bill during the covered period and pays its July electricity bill on **August 10**, which is the next regular billing date. The borrower may seek loan forgiveness for its May and June electricity bills, because they were paid during the covered period. In addition, the borrower may seek loan forgiveness for the portion of the electricity bill through July 26 (the end of the covered period) because it was incurred during the covered period and paid on the next regular billing date.

PPP Loan Forgiveness

- **Full-Time Equivalent Employee (FTE) Debt Forgiveness Limitations**
 - FTE definition has been addressed in the Treasury Department FAQs
 - The CARES Act defines an FTE based on a 40-hour work week
 - Simplified calculation...any employee over 40 hours is 1 FTE, and any employee under 40 hours is 0.5 FTE
- **Measurement Periods**
 - The average number of FTE per month employed by the eligible recipient during the covered period
 - Compared to the lesser of:
 - average number of FTE per month ***beginning on February 15, 2019 and ending on June 30, 2019***
 - average number of FTE per month beginning on ***January 1, 2020 and ending on February 29, 2020***

Why do FTE's matter?

Period	2/15/19 – 6/30/19	1/1/20 – 2/29/20	Covered period 5/1/20 – 6/25/20	FTE Quotient
FTE's	120	100	90	90%

Loan Amount	\$1,000,000
Covered Costs	\$900,000
FTE Quotient	90%
Amount Forgiven	\$810,000
Remaining Loan	\$190,000

FTE Quotient – 2 schools of thought?

FTE applied to Loan Amount

A. Loan Amount	\$1,000,000
B. Covered Costs	\$2,000,000
Lower A or B	\$1,000,000
FTE Quotient	90%
Amount Forgiven	\$900,000
Loan remaining	\$100,000

FTE applied to covered costs

A. Loan Amount	\$1,000,000
B. Covered Costs	\$2,000,000
Higher of A or B	\$2,000,000
FTE Quotient	90%
Amount Forgiven	\$1,000,000
Loan Remaining	\$0

FTE Safe Harbors/Exceptions

1. Safe Harbor 1

- a. Inability to return to prior level of business activity due to regulatory restrictions (HHS, CDC, OSHA, etc.)

2. Safe Harbor 2

- a. Restoration of FTE's by end of covered period allows exception to FTE quotient.

3. FTE Reduction Exception

- a. Add back FTE's for terminations, voluntary leaves/reductions, etc.

PPP Loan Forgiveness

- Loan forgiveness calculation and methodology continue to be clarified
- All entities receiving a PPP loan should consult with a knowledgeable financial or legal advisor to ensure that loan forgiveness calculation is accurate
- Most accounting firms have developed both “loan forgiveness calculators” and standard documentation templates for payroll and other costs that must be thoroughly documented
- In order to maximize loan forgiveness, future FAQs and requirements of the PPPFA possible future legislation must be given extensive consideration

When should I apply for forgiveness?

- Loan amount – 2.5 months payroll or 11 weeks.
- Most recipients will fully spend PPP loan within 8 – 11 weeks.
- Most covered periods are ending between 6/30 and 10/31.
- Most banks are waiting for further guidance before accepting applications
- Applications can be submitted as soon as you spend all of the loan proceeds on covered costs...
- Discuss any “uncertain” positions with your bank before submitting the forgiveness application!

PRO's – filing early

1. Just want to get it over with!
2. My FTE's are dropping, so the sooner the better...
3. My bank's ready to accept my application.
4. Interest is accruing on my loan...
5. My loan covenants may be a problem.

PRO's for waiting

1. Guidance has not been finalized. (rules still uncertain)
2. There's no benefit of submitting it early for the vast majority of applicants.
3. You may want to go out several extra weeks to ensure that you've more than spent the money.
4. You probably won't be able to change your application once it's been submitted/accepted.
5. Waiting may give you flexibility in counting some of your PPP costs for other programs (HHS COVID Relief)...

Forgiveness Application - TIPS

- Review the application **BEFORE** creating your PPP tracking model.
- Instructions/Application provide a lot of information on how forgiveness works – especially the safe harbors.
- Review Certifications/Representations beforehand.
- Reach out to your bank to get clarification on how they're treating certain things.
- Ask the bank specifically what they're going to need so you're not scrambling to get the "documents" together.
- PPP Schedule A Worksheet is not part of the application (but banks will probably require it)

Forgiveness Application – Pitfalls to avoid

- Payroll must be payroll – not contracted services.
- Failure to consider FTE safe harbors.
- Health insurance costs must be net cost to employer (premiums less employee paid portion)
- Related party rents are limited to mortgage interest paid by the related company (Propco).
- Employee salaries limited to \$100,000 – 8 week = \$15,385, 24 week = \$46,154.
- \$100,000 limit is salary only – health/retirement not limited.

PPP Forgiven simplified – loans less than \$50,000

- Simplified Application (Form 3508S – one page)
 - PPP Loan must be less than \$50,000.
 - Borrower is exempted reduction in loan forgiveness from:
 - Reductions in full time equivalent (FTE) employees, and
 - Reductions in employee salary or wages.
- Information reported (loan amount, employees at time of application and at time of forgiveness)
- Certify that you spent full loan amount on covered costs.
- Of the total PPP loans of 5.2M, 3.6M were under \$50,000.

Full or EZ application?

- Criteria for EZ application
 - Did not reduce salary or hourly rate for any employee by 25% or more.
 - Did not reduce the number of employees or average paid hours between 1/1/20 and the end of the covered period (other than inability to rehire individuals or similarly qualified employees or voluntary reductions in hours OR
 - Safe Harbor #1 – inability to operate at same level of business due to compliance with requirements (HHS, CDC, OSHA, etc.)
- Benefit of EZ application
 - 8 lines – covered costs, loan amount, 60%, forgiveness amount.
 - No FTE's need to be reported.
 - 2 pages.

PPP Loan Forgiveness Questions

- **Forgiveness is NOT guaranteed**
 - Must submit no later than 10 months after end of covered period (example covered period ends 10/31/20, must submit application by 8/31/21).
 - Eligible recipient seeking loan forgiveness must submit to the lender that is servicing the covered loan an application, which shall include:
 - documentation verifying the number of full-time equivalent employees on payroll and pay rates for the periods including
 - ❖ payroll tax filings reported to the Internal Revenue Service; and
 - ❖ State income, payroll, and unemployment insurance filings
 - documentation, including cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments on covered mortgage obligations, payments on covered lease obligations, and covered utility payments

PPP Loan Forgiveness Questions

- Eligible recipient seeking loan forgiveness must submit to the lender that is servicing the covered loan an application, which shall include (continued):
 - a certification from a representative of the eligible recipient authorized to make such certifications that
 - ❖ the documentation presented is true and correct; and
 - ❖ the amount for which forgiveness is requested was used to retain employees, make interest payments on a covered mortgage obligation, make payments on a covered rent obligation, or make covered utility payments;
 - any other documentation the Administrator determines necessary.

PPP Loan Forgiveness Questions

- No eligible recipient shall receive forgiveness without submitting to the lender that is servicing the covered loan the documentation required
- The lender must issue a decision regarding loan forgiveness no later than 60 days after the date on which a lender receives an application
- There is a concern that lenders will come up with their own terms and computational formulas for purposes of determining forgiveness
 - Guidance has been provided, but it is possible that some lenders may modify the SBA's recommended form

Accounting for PPP (Generally)

- Option 1 – Treat PPP loan as a loan until officially forgiven
 - Appropriate if there's even a remote possibility that loan might not be forgiven
 - Most conservative position
- Option 2 – Recognize loan as Deferred Income (liability)
 - Income is recognized when there is a reasonable assurance (probable) that any conditions attached to the assistance will be met.
 - Income is recognized over the period the expenses for which the loan proceeds were used.
 - Income recognized as Other Income or as a reduction of expenses.

PPP forgiveness – taxable?

- IRS Notice 2020-32 – Expenses paid with grant funds (PPP) not deductible.
- IRS notice potentially flawed – weak authoritative guidance, congressional intent, applicability questionable.
- Timing
 - Consider delaying loan forgiveness application.
 - Cash basis versus accrual basis.
 - Consider extending return (9/15 or 10/15/21) to buy some time.
- Other – Deferred of payroll taxes
 - May want to pay by the filing of your return to receive deduction.

What's next?

- PPP Round 3 ?
 - Proposals for an extension of PPP to allow additional borrowing - \$134B unspent plus some additional funds.
- COVID Testing funding, Funding for state and local government, schools, etc.
- Extension of unemployment
- Stimulus checks – part 2.
- Rent relief, student loan relief

HHS Provider Relief Fund

*Phase 3 General Distribution, Documentation, Reporting and
Single Audit Uniform Guidance Requirements*

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HHS Provider Relief Fund - Overview



- As part of the CARES Act, signed on 3/27/2020, a \$175 billion Provider Relief Fund was created to address the economic harm to providers due to the suspension of elective procedures, the increase in the uninsured population, and the expense associated with providing treatment for COVID-19.
- Providers must have provided diagnosis, testing, or care for actual or possible COVID-19 patients on or after 1/1/2020.
- Payments can be used to prevent, prepare for, and respond to coronavirus and reimburse healthcare-related expenses or lost revenues attributable to coronavirus.

HHS Provider Relief Fund - Overview



General Distribution – Phases 1 & 2

- 2% of net patient revenue to Medicare, Medicaid, CHIP, Dental, Assisted Living, and Other Providers

Targeted Distributions

- Rural Distribution
- Covid High-Impact Distribution
- Tribal Hospitals, Clinics, and Urban Health Centers
- Safety Net Hospitals
- Children's Hospitals
- Skilled Nursing Facilities

General Distribution – Phase 3

- Expanded Eligibility
- 2% of net patient revenue to providers that have not yet received 2%
- Potential add-on payment that considers changes to revenue and expense from patient care and funds received.
- Deadline **November 6th**

HHS Provider Relief Fund – Guidelines for Use of Funds



1. Expenses attributable to coronavirus that are **NOT** reimbursed or obligated to be reimbursed from other sources (insurance & patient payments, funds from state and local governments).
 1. Treating confirmed or suspected cases of coronavirus, preparing for possible or actual coronavirus cases, maintaining healthcare delivery capacity.
2. Lost revenues, as represented by a change in net patient care operating income from 2019 to 2020 (revenues less expenses) and net of expenses calculated in Step 1.
 1. *This is a **SIGNIFICANT** change from the lost revenue calculation used in General Distribution applications
 2. Limited to the greater of 2019 net gain from healthcare related sources or 0.

HHS Provider Relief Fund – Guidelines for Use of Funds



1. Operating Revenues from Patient Care

1. Amounts received for the delivery of health care services directly to patients net of contractual allowances, bad debt, and charity care adjustments
2. Includes pharmacy revenue from the 340B program
3. Includes resident fees for assisted living and SNFs
4. Excludes insurance, retail, real estate revenue, grants, tuition, gains/loss on investments, provider relief funds received

2. Operating Expenses from Patient Care

1. Operating expenses incurred as part of care delivery
2. Operating expenses generally considered part of overhead structure
3. Excludes costs incurred on rental properties, non-operating expenses

HHS Provider Relief Fund – Guidelines for Use of Funds



Step 1:

Identify Expenses Attributable to Coronavirus NOT reimbursed by another source or obligated to be reimbursed by another source.

Step 2:

Calculate Change in Patient Care Margin for 2020 and 2019

Patient Care Margin =
Patient Care Revenue –
Patient Care Expense

Step 3:

Lost Revenue =
Change in Patient Care
Margin
–
Expenses Identified in
Step 1

**If 2019 margin is negative, lost revenue allowable up to a net gain of 0 in 2020, net of Step 1 expenses*

HHS Provider Relief Fund – Guidelines for Use of Funds



EXAMPLE CALCULATIONS

	2019	2020	Change
Patient Care Revenue	\$1,000,000	\$500,000	(\$500,000)
Patient Care Expense	\$500,000	\$1,000,000	\$500,000
Margin	\$500,000	(\$500,000)	\$(1,000,000)
1. COVID Expenses			\$500,000
2. Lost Revenue			\$500,000

	2019	2020	Change
Patient Care Revenue	\$1,000,000	\$500,000	(\$500,000)
Patient Care Expense	\$1,100,000	\$1,000,000	(\$100,000)
Margin	(\$100,000)	(\$500,000)	\$(400,000)
1. COVID Expenses			\$500,000
2. Lost Revenue			\$0

HHS Provider Relief Fund – Reporting Requirements



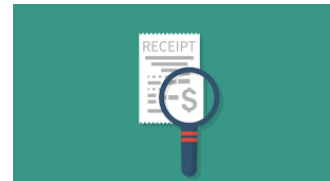
Provider Relief Funds Received	Reporting Type
\$9,999 or less	No Reporting Required
\$10,000 - \$499,999	Aggregated Expense Reporting
\$500,000 +	Detailed Expense Reporting
\$750,000 + in aggregate federal funds	Also subject to Single Audit

HHS Provider Relief Fund – Reporting Requirements



- **Expenses Attributable to Coronavirus (by Quarter)**
 - **General & Administrative Expenses** – *actual G&A expenses incurred over and above what has been reimbursed by other sources.*
 - **Mortgage/Rent**
 - **Insurance** – property, malpractice, business insurance
 - **Lease Payments** – equipment & software
 - **Utilities/Operations**
 - **Personnel** – workforce training, staffing, temporary employees or contract employees, overhead employees, security personnel
 - **Fringe Benefits** – hazard pay, travel reimbursement, employee health insurance
 - **Other** – Costs generally considered part of overhead structure

HHS Provider Relief Fund – Reporting Requirements



- **Expenses Attributable to Coronavirus (by Quarter)**
 - **Other Healthcare Related Expenses** – *actual healthcare related expenses incurred over and above what has been reimbursed by other sources.*
 - **Supplies** – PPE, hand sanitizer, supplies for patient screening, etc.
 - **Equipment** – ventilators, updates to HVAC systems, etc.
 - **IT** – IT systems to expand or preserve care such as EHR licensing fees, telehealth infrastructure, increased bandwidth, teleworking
 - **Facilities** – lease or purchase of temporary structures, modifications to accommodate new patient treatment practices
 - **Other Healthcare Related Expenses** – Other expenses used to prevent, prepare for or respond to coronavirus.

HHS Provider Relief Fund – Reporting Requirements



- Data Elements in Addition to Expenses and Lost Revenue

Demographic Information	Revenue From Patient Care Payer Mix (2019 & 2020)	Additional Assistance Received (2020)	Non-Financial Data
Reporting Entity	Medicare Part A + B	Treasury, SBA, PPP Loans	Personnel Metrics
Tax ID Number	Medicare Part C	FEMA CARES Act Funds	Patient Metrics
NPI (<i>optional</i>)	Medicaid/CHIP	CARES Act Testing	Facility Metrics
Fiscal Year-End Date	Commercial	Local, State, and Tribal government assistance	Change in Ownership
Federal Tax Classification	Self-Pay	Business Insurance	
	Other	Other	

HHS Provider Relief Fund – Reporting Requirements



• Key Dates

- **Nov 6, 2020** – Phase 3 Application Deadline
- **Jan 15, 2021** – reporting portal opens for providers.
- **Feb 15, 2021** – first reporting deadline for all providers on PRF funds used in 2020.
- **June 30, 2021** – deadline to use PRF funds
- **July 31, 2021** – final reporting deadline for providers who did not use all PRF funds in 2020

Bonadio CARES & More Consulting Team

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- The Bonadio CARES & More Consulting Team is working diligently with clients to assess their eligibility for various stimulus programs, with the objective of maximizing eligible benefits.

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