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**National Rural Health Association
Position Paper
COVID-Related Funding Accounting and Cost Reporting Issues**

(As of May 22, 2020)

A significant amount of discussion on NRHA Connect and in other organizations has focused on accounting and cost report treatment of various funding streams from COVID-19-related legislation. This paper outlines some issues involved and suggests positions providers may consider or discussions they should have with their financial and reimbursement advisers. *The positions of NRHA are not authoritative and should not be solely relied upon for financial or reimbursement reporting.* In addition, governmental agencies are frequently making new pronouncements, including but not limited to the Small Business Administration (SBA), U.S. Dept. of the Treasury, Health Resources and Services Administration, U.S. Dept. of Health and Human Services, and Centers for Medicare and Medicaid Services. Providers should frequently monitor the agencies' websites for the latest information.

NRHA staff is actively working with representatives from these agencies and members of Congress to clear confusion and resolve issues as they arise. NRHA will provide updates through social media and publications as new information is received.

Revenue recognition questions are resulting from various funding streams. Financial reporting may be different for governmental, nonprofit, and proprietary organizations. While general positions are noted in this paper, providers are highly encouraged to consult with their financial auditors for definitive assistance in these matters.

SBA/PPP Loans:

Several questions relate to revenue recognition and cost reporting regarding the SBA Payroll Protection Program (PPP).

Need for the loan: SBA has noted in its frequently asked questions (FAQ) several key factors related to need. FAQ 31 says, in part, that certification is required to demonstrate that "current economic uncertainty makes this loan necessary to support the ongoing operations of the applicant." NRHA believes that each applicant's situation is different and that each applicant should develop and document their own story about why the loan is necessary for continued operation and patient care. FAQ 31 also notes that borrowers should take into consideration other sources of liquidity sufficient to support ongoing operations. NRHA believes that if the application was made prior to the publication of this FAQ on April 23, the documentation should

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be available prior to an application for forgiveness. On May 13, SBA issued FAQ 46, which provides a safe harbor related to economic uncertainty certification for PPP loans of less than \$2 million. FAQ 46 also provides a safe exit for loans over \$2 million. On May 15, SBA posted the application with instructions for calculating and documenting forgiveness.

Governmental hospitals: Following much confusion about the eligibility of governmental hospitals, SBA published FAQ 42. This FAQ notes a requirement that hospitals reasonably determine and document in a written record that the organization meets the description of a 501(C)(3) organization. We recommend hospitals consult with their legal, tax, or financial advisers to develop this documentation prior to their application for forgiveness.

Revenue recognition: Accounting standards are still being developed on this issue. Under accounting standards for debt, forgiveness cannot be recognized until the loan is legally released. Providers may believe they have met all of the terms for forgiveness, but the loan will need to remain on their balance sheet until the loan, or a portion thereof, has been released. These transactions may transpire beyond the current fiscal year. Until forgiven, the final loan balance and accrued interest will be recognized as any other loan. For cost-reimbursed providers, the amount of revenue to be recognized may be impacted by the potential cost reporting treatment.

Cost reporting: A significant issue remains unresolved related to the potential offset of costs in the cost report. It is possible that CMS will require “forgiven” costs to be removed from the provider’s cost report as non- allowable costs. Sections in the Provider Reimbursement Manual (PRM 15-1) could be interpreted as the basis of this position since the forgiveness will be based on specific expenses. Providers should consult with their financial and reimbursement advisers regarding how to report the forgiveness and related revenue and liability. Cost-based providers may want to record a potential liability to Medicare and/or Medicaid for the potential impact related to forgiveness.

NRHA is seeking an opinion from CMS since this is a national issue impacting all providers who have completed a cost report and received a PPP loan with forgiveness. Due to the possible cost report impact of loan forgiveness and its interaction with the HHS Provider Relief Fund, there may be circumstances in which a critical access hospital would be better off not applying for PPP loan forgiveness; however, this should be evaluated based on the portion of services that are not cost-based. NRHA recommends providers consult with their financial and cost report advisers concerning the impact of PPP loan forgiveness.

HHS Provider Relief Fund Payments:

Several questions regarding revenue recognition and cost reporting relate to funding received from the Public Health and Social Services Emergency Fund (relief fund) that originated in the CARES Act and was expanded in the PPP and Health Care Enhancement Act (COVID 3.5). The following comments relate to funds received from the general distribution, rural-specific distribution, and others yet to be determined.

Attestations: HHS requires that each provider receiving and accepting the distributions complete an attestation for each distribution. The attestations contain criteria related to eligibility, use of funds, and reporting. Providers should carefully read the attestations and be prepared to fully comply with the terms and conditions.

Revenue recognition: The attestation indicates that relief funds shall reimburse the recipient only for health care-related expenses or lost revenues attributable to coronavirus. The funds may not be used to reimburse expenses or lost revenues that have been reimbursed from other sources or that other sources are obligated to reimburse – no double-dipping. HHS has indicated in FAQs possible calculations of lost revenue and expenses related to COVID. HHS also indicated in a May 6 FAQ that “generally, HHS does not intend to recoup funds as long as a provider’s lost revenue and increased expenses exceed the amount of provider relief funding a provider has received.” The FAQ goes on to say that HHS reserves the right to “collect any relief fund amounts that were made in error or exceed lost revenue or increased expenses due to COVID-19.” Also uncertain is the impact of cost reimbursement (such as increased cost per day) in the determination of lost revenue.

In discussions with HHS, NRHA has received assurances that HHS will not attempt to recover amounts; however, at the present time, the FAQ and attestation must be the basis for revenue and potential liability recognition. Therefore, NRHA recommends that the amount of relief funds received be considered a liability until COVID-related expenses or lost revenue can be quantified. At the time of identification of expenses and lost revenue, the appropriate revenue may be recognized, and the liability reduced. Cost-based providers should consider releasing lost income after consideration for higher costs and lower volumes caused by COVID. At this time HHS has not stipulated a time period over which this assessment of expenses and lost revenues will be made. NRHA is encouraging HHS to take a “long view” since there is uncertainty about how long the public health emergency will last or if there will be COVID-related impacts well into the future. NRHA is also advocating for a significant amount of flexibility in determining expenses and lost revenue that can be attributed to the relief funds.

Cost reporting: Based on the language in the CARES Act, NRHA believes that Congress’ intent was for the relief funds to be considered grants. The section that created the relief fund states that the funding will be made “through grants or other mechanisms.” As a grant, NRHA believes the revenue will not be used to reduce expenses on cost reports. NRHA is seeking an opinion from CMS since this is a national issue impacting all providers who complete a cost report.

Medicare Advanced and Accelerated Payments:

The Medicare Advanced and Accelerated Payments (payment) is in effect a loan from CMS for future claims. Therefore, there is no revenue recognition issue. The total of payments received should be recorded as a liability or deferred revenue. Starting with claim payments 120 days after receipt of the payment, CMS will withhold the amount that would normally be paid to the provider. The withholding will be used to reduce the amount of payment. At the end of the withholding period (either 210 days or one year depending upon provider type), the provider will either need to pay the balance to CMS or finance the amount with an extended payment plan.

CMS has not issued detailed instructions regarding the cost reporting treatment of claims payments and outstanding payment balances.

Other credits, grants, etc.:

Other COVID-related funding streams include employee retention credit, coronavirus SHIP grants, and FEMA grants. NRHA recommends providers who take advantage of the other types of credits or grants consult with their financial and reimbursement advisers on how best to report and account for these transactions.

Other potential issues:

Another potential issue is the possible financial audit requirement related to federal expenditures. Generally, organizations that spend more than \$750,000 of federal dollars per year are required to have an audit of those disbursements. At this time, it is unclear if the HHS Provider Relief Funds will be subject to the “single audit” requirements. The Government Audit Quality Center Alert #404 provided guidance, stating that the SBA PPP loans will not be subject to single audit; however, other loans through SBA, such as Economic Injury Disaster Loan, may be subject to single audit.