



# Delta Region Community Health Systems Development Hospital and Clinic Webinar Series - COVID Financial Recovery Part II: Current Funding and Cost Report Implications

## Speakers:

- Derek Pierce, Partner, BKD
- Kristal Creach, Director, BKD
- Julia Mast, Director, BKD
- Steve Parde, Managing Director, BKD

This webinar does qualify for ACHE credits, if you are a member of the American College of Healthcare Executives and would like to receive the 1 hour of credit, please reach out to Program Coordinator, [Synneva Hackman](#).



Derek Pierce



Krystal Creach



Julia Mast



Steve Parde

*This project is supported by the Health Resources and Services Administration ([HRSA](#)) of the U.S. Department of Health and Human Services ([HHS](#)) under grant number U65RH31261, Delta Region Health Systems Development, \$8,000,000 (0% financed with nongovernmental sources). This information or content and conclusions are those of the author and should not be construed as the official position or policy of, nor should any endorsements be inferred by [HRSA](#), [HHS](#) or the U.S. Government.*



# Delta Region Community Health System Development (DRCHSD) Program Supported By:



Delta Regional Authority

U.S. Department of Health & Human Services



**HRSA**

Federal Office of Rural Health Policy

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# COVID Recovery Series

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## Financial Recovery Part II: Current Funding Guidance and Cost Report Implications 7.24.2020



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# Agenda

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SBA , PPP and Tracking

2

Business Interruption

3

New Provider Relief Funds (Medicaid, CHIP and Safety Net)

4

Cost Report Implications

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# Speakers

**1** Krystal Creach

**2** Julia Mast

**3** Derek Pierce

**4** Steve Parde

**Eric Rogers (Facilitator)**

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# SBA , PPP and Tracking

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# PPP Loan Forgiveness

- Covered Period
  - Automatically extended to 24 weeks
  - Can elect as early as 8 weeks or as soon as funds are used and requirements are met
- Alternative Covered Period
  - Beginning with next payroll period after loan disbursement
  - Only available for payroll costs
- Costs paid and incurred

# PPP Loan Forgiveness, Continued

- Eligible payroll costs
- Non-payroll costs
  - Must use covered period only
- Payroll costs must be at least 60% of loan proceeds for forgiveness



# PPP Loan Forgiveness, Once More

- Employee counts
  - No more than 25% reduction in FTE or average salaries during the period
- FTE restoration deadline extended to December 31
- Exceptions for:
  - Those who were laid off or reduced hours if written offer is given to return but declined
  - Terminations for cause
  - Voluntarily resignation or reduction in hours

# PPP Loan Forgiveness, Final

- Loan maturity
  - 5 years for any portion not forgiven (previously 2 years)
  - Applies to loans received after the enactment date of the bill
  - Existing loans can be modified
- No principal and interest payments until SBA remits forgiveness amount
- Forgiveness request deadline within 10 months of covered period

# Payroll tax deferral

- Deferral of 6.2% FICA from 3/27/20-12/31/20
- 50% due December 31, 2021 and remainder December 31, 2022
- Latest bill removes any restriction related to PPP loans

# Open Discussion Session:

How are you calculating/tracking PPP loan forgiveness?



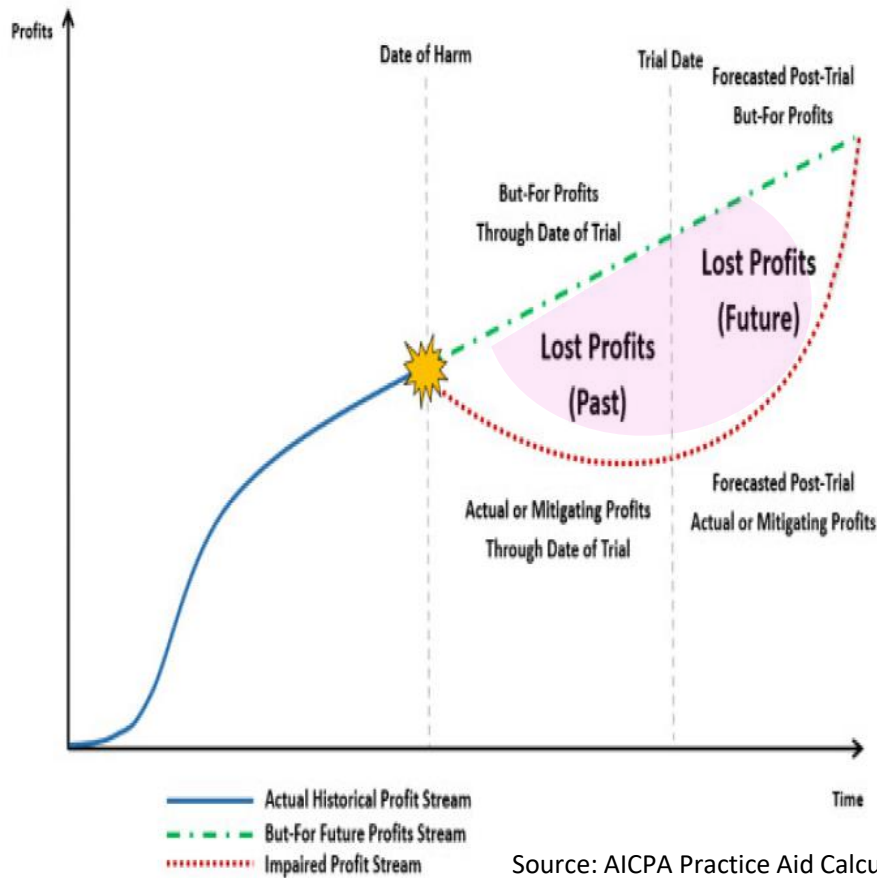
# Business Interruption

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# Lost Business Income & Extra Expenses



Blue- Income before COVID-19

Red- Actual income during loss period/restoration

Green- Expected/Projected Revenue

Pink Shading- Business interruption loss

## Extra expenses incurred as a result

- Cost of a temporary alternative location for operations
- Cost of alternative delivery to keep operations going
- Temporary equipment/services to operate or recover
- Other expense incurred to lessen impact of a shutdown

Source: AICPA Practice Aid Calculating Lost Profits

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# Example

## Time Element Loss Example Calculation

Projected Revenue (Less: Actual Revenue)	<hr/>	Lost Revenue <b>A</b>
Projected Expenses Plus: Saved Expenses (Less: Additional Expenses)	<hr/>	(Expenses) <b>B</b>
Net Income Loss		<b>(A-B) = C</b>
Less: Waiting period		<b>E</b>
Less: Deductible	<hr/>	<b>F</b>
Gross Earnings Loss	<hr/>	<b>(C-E-F) = G</b>
Extra Expenses	<hr/>	<b>H</b>
<b>Time Element Loss</b>	<hr/>	<b>(G + H)</b>
Insurance Recovery	<hr/>	<b>I</b>
<b>Unrecovered Loss</b>	<hr/>	<b>(J)</b>



CARES Act



Business Interruption



FEMA (plus deductible & waiting period)

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# What To Do

- Assess your policies— get a complete copy, including all endorsements
- Put your insurance company on notice of a potential claim
- Get immediate tracking in place for extra expenses (new G/L codes)
- Begin to track revenue & profit impacts – contemporaneous documentation has benefits
- Track saved expenses

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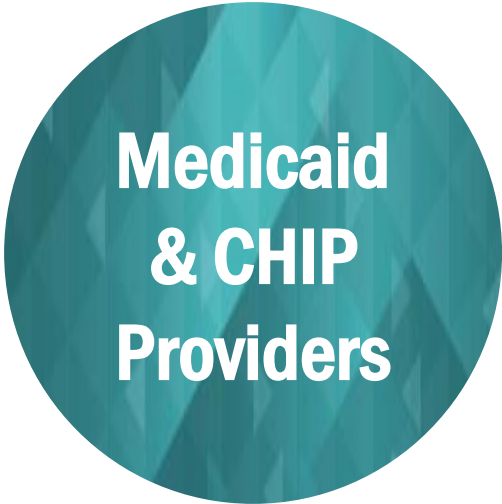
# New Provider Relief Funds (Medicaid, CHIP and Safety Net)

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# New Provider Relief Fund Distributions



## Medicaid & CHIP Providers

- \$15 Billion
- Allocated to those providers that have not yet received a payment from the general allocation
- At least 2% of revenue
- Enhanced portal permits stuck these providers to report revenue & other data that will be used to determine payment methodology
- Must have submitted application by August 3, 2020
- 90 days to accept Terms and Conditions

# New Provider Relief Fund Distributions, Continued



## Safety Net Hospitals

- \$10 Billion
- Based on three criteria found in the cost report
  - A. Medicare disproportionate payment percentage of 20.2
    - Not the DSH adjustment percentage
  - B. Uncompensated care of \$25,000 or more per bed
  - C. Profitability of 3% or less
- 758 hospitals to received payments;  
\$5M < \$50M

# New Provider Relief Fund Distributions, Once More



## Safety Net Hospitals, Round 2

- \$3 Billion
- Certain acute care hospitals service a large percentage of vulnerable populations on thin margins
- Profitability assessed over a 5-year period
- 215 hospitals to received payments

# New Provider Relief Fund Distributions, Final



**High  
Impact  
Area,  
Round 2**

- \$10 Billion
- Hospitals with COVID-19 admission counts over 160 between January 1 and June 10, 2020.
- \$50,000 per eligible admission
- Over 1,000 hospitals received payments

# New Provider Relief Fund FAQs – 7/22/2020

- Clarified providers will have through the end of the pandemic to accumulate costs & lost revenue
- Targeted distributions can not be transferred to parent
- Will be subject to single audit requirements
  - If over \$750,000 is attributed in any one fiscal year
- Lost revenue to be used to cover any cost the lost revenue would have covered

# Reporting Requirements

- Notice posted July 20 that indicated the initial quarterly reporting will not be required in 2020
- Annual report will be due February 15, 2021
- Allows for expenditures into 2021
- Detailed instructions will be released by August 17



# Cost Report Implications

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# Cost Report Implications

- Treatment of funds received
  - Accelerated payments
  - Provider relief funds
  - Paycheck Protection Program (PPP) loan forgiveness
  - Grant revenue

# Cost Report Implications, Continued

- Critical Access Hospitals
  - Factors that impact Medicare reimbursement and settlement
    - Expenses
    - Volume
      - Patient days
      - Outpatient visits
    - Payer mix
      - Medicare utilization
    - Reimbursement rates
  - Prepare an interim cost report or estimate interim settlement

# Cost Report Implications, Once More

- PPS Hospitals
  - Sole Community Hospitals (SCH) and Medicare Dependent Hospitals (MDH) volume decrease payment adjustments
    - Decrease in total inpatient discharges of more than 5%
  - Potential Medicare DSH uncompensated care (UCC) receivable
  - Medicare bad debt reimbursement
  - Future implications
    - Wage index
    - DRG recalibrations
    - Medicare DSH UCC payments
    - Medicare DSH SSI ratios

# Cost Report Implications, Final

- RHCs provider-based to a hospital with less than 50 beds, including Critical Access Hospitals
  - Expanded telehealth regulation implications
    - RHC cost per visit
    - RHC productivity limits
    - Medicare utilization
    - RHC reimbursement
  - RHC productivity exception request



# Thank You!

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For questions please contact Eric Rogers at  
[erogers@bkd.com](mailto:erogers@bkd.com)

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# DRCHSD COVID 5-Part Financial Recovery Webinar Series with BKD

- [Part I: Financial I - How to keep your funding](#)  
Friday, July 17, 2020 at 11:00am CST
- [Part II: Financial II - Current Funding Guidance and Cost Report Implications](#)  
Friday, July 24, 2020 at 11:00am CST
- [Part III: Operational Considerations](#)  
Friday, July 31, 2020 at 11:00am CST
- [Part IV: Revenue Cycle Strategies](#)  
Friday, August 7, 2020 at 11:00am CST
- [Part V: Physician Practice Considerations](#)  
Friday, August 14, 2020 at 11:00am CST

