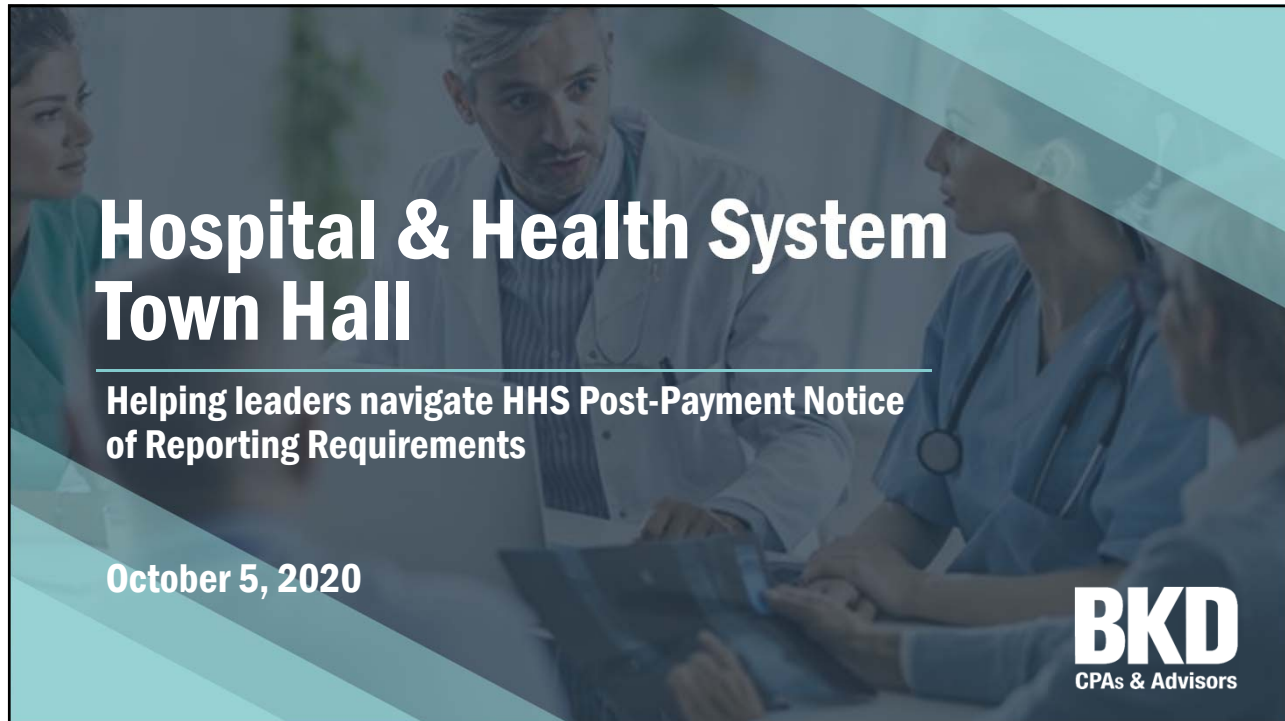



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Hospital & Health System Town Hall

Helping leaders navigate HHS Post-Payment Notice of Reporting Requirements

October 5, 2020



Introductions



Danielle Solomon
National Industry Partner



Kevin Gore
Partner
Audit & Advisory



Kimberly McKay
Managing Partner
AICPA Health Care Expert Panel
FASB NFP Advisory Committee



Agenda

- 1 PRF & FAQ Summary
- 2 Post-Payment Notice - 9.19.20
- 3 Revenue Recognition Guidance
- 4 Questions with Post-Payment Guidance
- 5 Recommendations/Actions
- 6 Q&A

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DISCLAIMER

- › Information in this presentation is as of October 5
- › At this time, HHS has not issued any guidance or clarification on the September Notice
- › The AICPA has issued guidance for revenue recognition for proper accounting for Provider Relief Funds
- › HFMA, AHA, the AICPA Health Care Expert Panel and others are reviewing the Notice and looking to provide guidance and insight
- › Stay tuned for further developments through **BKD Thoughtware™**

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PRF & FAQ Summary

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Provider Relief Fund Summary

Phase 1 & 2 General Distribution (\$68 Billion in total) April / June

T A R G E T E D	Rural	COVID-19 High Impact Area	Skilled Nursing Facilities	Indian Health Services	Safety Net & Children's	Nursing Home	Medicaid & CHIP
	May	May	May	May	June	June	July
	\$11B	\$22B	\$4.9B	\$500M	\$14.4B	\$2.5B	\$15B

Phase 3 General Distribution (\$20 Billion) October

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Provider Relief Fund Terms & Conditions

- › The terms & conditions of Provider Relief Funds (PRF) state that relief fund payments will only be used to prevent, prepare for, & respond to coronavirus & shall reimburse the recipients only for healthcare-related expense or lost revenue attributed to coronavirus
- › The Recipient certifies that it provides or provided after January 31, 2020 diagnoses, testing, or care for individuals with possible or actual cases of COVID-19
- › The Recipient certifies that it will not use the Payment to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse

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HHS Issued Frequently Asked Questions to Address Terms & Conditions

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CARES Act Provider Relief Fund Frequently Asked Questions

Provider Relief Fund General Information

Overview
Attestation
Rejecting Payments
Terms and Conditions
Ownership Structures and Financial Relationships
Auditing and Reporting Requirements
Balance Billing
Appeals
Publication of Payment Data

General Distribution

Phase 1

Overview and Eligibility
Determining Additional Payments
Provider Relief Fund Payment Portal – Phase 1 - General Distribution
Data Sharing

Phase 2

Overview and Eligibility
Tax Identification Number (TIN) Validation Process
Application Process

Targeted Distributions

Rural Targeted Distribution
COVID-19 High Impact Area Targeted Distribution
Skilled Nursing Facilities Targeted Distribution
Indian Health Service Targeted Distribution
Safety Net Hospitals Targeted Distribution
Nursing Home Infection Control Distribution

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HHS FAQ Answers Impacted by HHS Post-Payment Notice of Reporting Requirements

- › If a provider secures COVID-19-related funding separate from the Provider Relief Fund, such as the Small Business Administration's Paycheck Protection Program, does that affect how they can use the payments from the Provider Relief Fund? Does accepting Provider Relief Fund payments preclude a provider organization from seeking other funds authorized under the CARES Act? (Added 5/29/2020)
- › There is no direct ban under the CARES Act on accepting a payment from the Provider Relief Fund & other sources, so long as the payment from the Provider Relief Fund is used only for permissible purposes & the recipient complies with the Terms & Conditions. By attesting to the Terms & Conditions, the recipient certifies that it will not use the payment to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse.

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HHS FAQ Answers Impacted by HHS Post-Payment Notice of Reporting Requirements

- › Is there a set period of time in which providers must use the funds to cover allowable expense or lost revenues attributable to COVID-19? (Modified 7/30/2020)
- › As explained in the notice of reporting requirements on the Provider Relief Fund website, reports on the use of Provider Relief Fund money must be submitted no later than July 31, 2021, & accordingly HHS expects that providers will fully expend their payments by that date. HHS will provide directions in the future about how to return unused funds. HHS reserves the right to audit Provider Relief Fund recipients in the future & collect any Relief Fund amounts that were used inappropriately. All payment recipients must attest to the Terms & Conditions, which require the submission of documentation to substantiate that these funds were used for increased healthcare-related expenses or lost revenue attributable to coronavirus.

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HHS FAQ Answers Impacted by HHS Post-Payment Notice of Reporting Requirements

- › The Terms & Conditions state that Provider Relief Fund payments will only be used to prevent, prepare for, & respond to coronavirus & shall reimburse the Recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. **What expenses or lost revenues are considered eligible for reimbursement?** (Modified 6/19/2020)
- › The term “healthcare-related expenses attributable to coronavirus” is **a broad term that may cover a range of items & services purchased to prevent, prepare for, & respond to coronavirus.**

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HHS FAQ Answers Impacted by HHS Post-Payment Notice of Reporting Requirements

- › The term “**lost revenues that are attributable to coronavirus**” means **any revenue that you as a healthcare 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 healthcare delivery capacity.**

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HHS FAQ Answers Impacted by HHS Post-Payment Notice of Reporting Requirements

- › You may use any reasonable method of estimating the revenue during March & April 2020 compared to the same period had COVID-19 not appeared. For example, if you have a budget prepared without taking into account the impact of COVID-19, the estimated lost revenue could be the difference between your budgeted revenue & actual revenue. It would also be reasonable to compare the revenues to the same period last year.

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Post-Payment Notice - 9.19.20

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Post-Payment Notice of Reporting Requirements Issued September 19

- › Guidance initially expected August 17
- › Does not apply to SNF Infection Control or Rural Health Clinic Testing Funds
- › Potentially significant changes:

- ⚙️ **2-step process**
- ⚙️ **Expenses – expansion of definition**
- ⚙️ **Expenses – apparent addition of cap ex , *i.e.* ventilators & updates to HVAC**
- ⚙️ **Lost revenues – entirely new approach**

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Post-Payment Notice Reporting Requirements

How will the information be reported to HHS?

**Reporting entity
follows TIN (or NPI option)**

**Reporting of expenditures:
Through December 31, 2020 – due February 15, 2021
From January 1, 2021 through June 30, 2021 – due July 31, 2021**

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Post-Payment Reporting Guidance on Use of Funds

Step 1 – Expenses attributable to coronavirus

- General & Administrative expenses
 - Healthcare related expenses
- **Exclusive of other reimbursement sources**

Step 2 – Unused funds applied to Lost Revenue

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Post-Payment Notice of Reporting Requirements Changes to Expenses - Expansion

General and Administrative Expenses Attributable to Coronavirus²

The actual G&A expenses incurred over and above what has been reimbursed by other sources.

- a. **Mortgage/Rent:** Monthly payments related to mortgage or rent for a facility.
- b. **Insurance:** Premiums paid for property, malpractice, business insurance, or other insurance relevant to operations.
- c. **Personnel:** Workforce-related actual expenses paid to prevent, prepare for, or respond to the coronavirus during the reporting period, such as workforce training, staffing, temporary employee or contractor payroll, overhead employees, or security personnel.²
- d. **Fringe Benefits:** Extra benefits supplementing an employee's salary, which may include hazard pay, travel reimbursement, employee health insurance, etc.
- e. **Lease Payments:** new equipment or software lease.
- f. **Utilities/Operations:** Lighting, cooling/ventilation, cleaning, or additional third party vendor services not included in "Personnel".
- g. **Other General and Administrative Expenses:** Costs not captured above that are generally considered part of overhead structure.

Healthcare Related Expenses Attributable to Coronavirus²

The actual healthcare related expenses incurred over and above what has been reimbursed by other sources.

- a. **Supplies:** Expenses paid for purchase of supplies used to prevent, prepare for, or respond to the coronavirus during the reporting period. Such items could include: personal protective equipment (PPE), hand sanitizer, or supplies for patient screening.
- b. **Equipment:** Expenses paid for purchase of equipment used to prevent, prepare for, or respond to the coronavirus during the reporting period, such as ventilators, updates to HVAC systems, etc.

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² As noted above, expenses attributable to coronavirus may be incurred in both direct patient care overhead activities related to treatment of confirmed or suspected cases of coronavirus, preparing for possible or actual coronavirus cases, **maintaining healthcare delivery capacity which includes operating and maintaining facilities, etc.**

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Post-Payment Notice of Reporting Requirements Changes to Expenses - Expansion

- c. **Information Technology (IT):** Expenses paid for IT or interoperability systems to expand or preserve care delivery during the reporting period, such as electronic health record licensing fees, telehealth infrastructure, increased bandwidth, and teleworking to support remote workforce.
- d. **Facilities:** Expenses paid for facility-related costs used to prevent, prepare for, or respond to the coronavirus during the reporting period, such as lease or purchase of permanent or temporary structures, or to modify facilities to accommodate patient treatment practices revised due to coronavirus.
- e. **Other Healthcare Related Expenses:** Any other actual expenses, not previously captured above, that were paid to prevent, prepare for, or respond to the coronavirus.

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Post-Payment Notice of Reporting Requirements Changes to Expenses – Apparent Cap

- › May significantly expand the concept of “reimbursed from other sources”

In this section, Reporting Entities that received **between \$10,000 and \$499,999 in aggregated PRF payments** are required to report healthcare related expenses attributable to coronavirus, net of other reimbursed sources (e.g., payments received from **insurance and/or patients**, and amounts received from federal, state or local governments, etc.) in two aggregated categories: (1) G&A expenses and (2) other healthcare related expenses. These are the actual expenses incurred over and above what has been reimbursed by other sources.

Recipients who received **\$500,000 or more in PRF payments** are required to report healthcare related expenses attributable to coronavirus, **net of other reimbursed sources**, and they must do so by reporting more detailed information within the two categories of G&A expenses and other healthcare related expenses, according to the following sub-categories of expenses:

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Post-Payment Notice of Reporting Requirements Changes to Lost Revenue

› Fundamental Change in Approach

- Removes previously indicated flexibility to determine the appropriate methodology.
- Defines lost revenue as the **negative change in year-over-year net operating income from patient care related sources for calendar year 2019 to 2020**
- Non-GAAP definitions
 - Revenues are “actual revenues/net charges from patient care” & are required to be reported by payor by quarter & net of uncollectible patient service revenue recognized as bad debts
 - Patient care means healthcare, service & supports as provided in a medical setting, at home, or in the community
 - Patient care does not include insurance, retail, real estate values (except for SNFs where that is patient care) grants or tuition

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Post-Payment Notice of Reporting Requirements Changes to Expenses – Potential Implications

› Potential implications of including claims payments:

Capacity to claim expenses could be limited to the amount of the loss on patient care

Because HHS uses non-GAAP definitions, the financial statements may not be the source of this. Purchases that would be capitalized under GAAP potentially included as expenses

AHA pushing HHS to clarify that patient revenue should NOT be considered as an “other source”. Views language as ambiguous.

HRSA plans to offer a webinar in advance of the reporting deadline & as needed issue FAQs

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Year-end Before September 19 Considerations

Subsequent event consideration – type 1 or 2

Must follow new guidance post Sept 19

Warrants discussion based on your individual circumstance

Revenue recognition *may be* different than PRF reporting requirements

Examples after this are assuming year-end after September 19, 2020

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Identifying Patient Care Expenses

	Patient Care	Non-Patient Care	Total
Operating Revenues			
Net patient service revenues	\$ 469,851,889		\$ 469,851,889
Other	3,935,246	750,456	4,685,702
Total operating revenues	473,787,135	750,456	474,537,591
Operating Expenses			
Salaries & benefits	235,119,221	450,312	235,569,533
Other expenses	204,313,339	274,057	204,587,396
Depreciation	21,039,969	45,609	21,085,578
Interest expense	6,488,101		6,488,101
Total operating expenses excluding COVID	466,960,630	769,978	467,730,608
Expenses Attributable to COVID			
Patient service expenses	5,039,101		5,039,101
General & administrative expenses	3,511,901		3,511,901
Total operating expenses attributable to COVID	8,551,002		8,551,002
Total operating expenses	475,511,632	769,978	476,281,610
Operating Income (Loss)	\$ (1,724,497)	\$ (19,522)	\$ (1,744,019)

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› Must be done on a quarterly basis

› Non-patient care examples

- Retail
- Insurance
- Real estate values
- Other

› Expenses Attributable to COVID

- May not be necessary
- Seeking further clarification

› The actual reporting required may be more detailed

Post-Payment Notice of Reporting Requirements Changes to Lost Revenues

- › Expenses covered in step 1 are not included in operating income calculation for 2020
- › Additional clarification needed on how to deal with one-time “expenses” (including COVID capex)
- › New revenue streams/service lines
- › List monthly payments related to mortgage – additional clarification needed
- › Potentially significant reduction in what providers will be able to claim (especially for those who had a bad 2019 &/or got a PPP loan)
- › Potentially benefits entities that did not reduce expenses & not those who did adjust expenses
- › If funds remain unused after December 31, 2020, recipients will have an additional six months to generate a negative change in net operating income from patient care as compared to the same period in 2019

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Lost Revenue – 2019 Operating Income

	2020	2019
Operating Revenues		
Net patient service revenue	\$ 469,851,889	\$ 460,751,261
Other	3,935,246	4,229,423
Total operating revenues	473,787,135	464,980,684
Operating Expenses		
Salaries & benefits	235,119,221	225,349,497
Other expenses	204,313,339	194,052,052
Depreciation	21,039,969	20,828,692
Interest expense	6,488,101	5,576,295
Total operating expenses excluding COVID	466,960,630	445,806,536
Expenses Attributable to COVID		
Patient service expenses	5,039,101	
General & administrative expenses	3,511,901	
Total operating expenses attributable to COVID	8,551,002	
Operating Income (Loss)	\$ (1,724,497)	\$ 19,174,148
Maximum Lost Revenue	\$ 20,898,645	
	(Difference in operating results)	

- › Quarterly Reporting
- › Unknown if recognition will be quarterly or annual
- › Expenses attributable to COVID may not be required
- › Adjustments likely need to be made for salary limits

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Lost Revenue – 2019 Operating Loss

	2020	2019
Operating Revenues		
Net patient service revenue	\$ 469,851,889	\$ 430,751,261
Other	3,935,246	4,229,423
Total operating revenues	473,787,135	434,980,684
Operating Expenses		
Salaries & benefits	235,119,221	225,349,497
Other expenses	204,313,339	194,052,052
Depreciation	21,039,969	20,828,692
Interest expense	6,488,101	5,576,295
Total operating expenses excluding COVID	466,960,630	445,806,536
Expenses Attributable to COVID		
Patient service expenses	5,039,101	
General & administrative expenses	3,511,901	
Total operating expenses attributable to COVID	8,551,002	
Operating Income (Loss)	\$ (1,724,497)	\$ (10,825,852)
Maximum Lost Revenue	\$ 1,724,497	
	(Limited to operating result of breakeven)	

Calculations are for illustration purposes only.

- › Quarterly Reporting
- › Unknown if recognition will be quarterly or annual
- › Expenses attributable to COVID may not be required
- › Adjustments likely need to be made for salary limits

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Lost Revenue – 2019/2020 Operating Loss

	2020	2019
Operating Revenues		
Net patient service revenue	\$439,851,889	\$ 430,751,261
Other	3,935,246	4,229,423
Total operating revenues	443,787,135	434,980,684
Operating Expenses		
Salaries & benefits	235,119,221	225,349,497
Other expenses	204,313,339	194,052,052
Depreciation	21,039,969	20,828,692
Interest expense	6,488,101	5,576,295
Total operating expenses excluding COVID	466,960,630	445,806,536
Expenses Attributable to COVID		
Patient service expenses	5,039,101	
General & administrative expenses	3,511,901	
Total operating expenses attributable to COVID	8,551,002	
Operating Income	\$ (31,724,497)	\$ (10,825,852)
Maximum Lost Revenue	\$ 31,724,497	
	(Limited to operating results of breakeven)	

Calculations are for illustration purposes only.

- › Quarterly Reporting
- › Unknown if recognition will be quarterly or annual
- › Expenses attributable to COVID may not be required
- › Adjustments likely need to be made for salary limits

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Lost Revenue – 2019/2020 Operating Income

	2020	2019
Operating Revenues		
Net patient service revenue	\$ 483,851,889	\$ 460,751,261
Other	3,935,246	4,229,423
Total operating revenues	487,787,135	464,980,684
Operating Expenses		
Salaries & benefits	235,119,221	225,349,497
Other expenses	204,313,339	194,052,052
Depreciation	21,039,969	20,828,692
Interest expense	6,488,101	5,576,295
Total operating expenses excluding COVID	466,960,630	445,806,536
Expenses Attributable to COVID		
Patient service expenses	5,039,101	
General & administrative expenses	3,511,901	
Total operating expenses attributable to COVID	8,551,002	
Operating Income	\$ 12,275,503	\$ 19,174,148
Maximum Lost Revenue	\$ 6,898,645	
	(Difference in operating results)	

- › Quarterly Reporting
- › Unknown if recognition will be quarterly or annual
- › Expenses attributable to COVID may not be required
- › Adjustments likely need to be made for salary limits

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Lost Revenue – 2020 Operating Income > 2019

	2020	2019
Operating Revenues		
Net patient service revenue	\$ 490,851,889	\$ 460,751,261
Other	3,935,246	4,229,423
Total operating revenues	494,787,135	464,980,684
Operating Expenses		
Salaries & benefits	235,119,221	225,349,497
Other expenses	204,313,339	194,052,052
Depreciation	21,039,969	20,828,692
Interest expense	6,488,101	5,576,295
Total operating expenses excluding COVID	466,960,630	445,806,536
Expenses Attributable to COVID		
Patient service expenses	5,039,101	
General & administrative expenses	3,511,901	
Total operating expenses attributable to COVID	8,551,002	
Operating Income	\$ 19,275,503	\$ 19,174,148
Maximum Lost Revenue		
	(Difference in operating results)	

- › Quarterly Reporting
- › Unknown if recognition will be quarterly or annual
- › Expenses attributable to COVID may not be required
- › Adjustments likely need to be made for salary limits

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Revenue Recognition Guidance

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AICPA Revenue Recognition Guidance

› Technical Questions & Answers 6400

- .63 – Background on CARES Act
- .64 – Accounting for PRF Phase 1
- .65 – Recognition of Uncertainties of PRF Funds
- .66 – Period of Accounting for PRF Funds
- .67 – Accounting for Uninsured Pool
- .68 – Accounting for Medicare Accelerated & Advance Payments
- .69 – Accounting for Temporary Increases in Medicare/Medicaid Payments
- .70 – FEMA Public Assistance Payments to NFP entities

(<https://www.aicpa.org/content/dam/aicpa/interestareas/frc/downloadabledocuments/tqa-sections/tqa-section-6400-63-70.pdf>)

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6400.64 – Accounting for PRF Phase 1

› Not For Profit Entities

- Non-exchange transaction under ASC 958-605 (ASU 2018-08)
- Conditional versus Non-Conditional
- ▶ Revenue is recognized when barriers are met
- Requires consideration of restricted use of the funds, but can have a policy election to be released in the same period as the funds are spent
- Payments received that exceed recognizable contribution revenue are reported as refundable advances
- When is the barrier met & do you have measurement uncertainty?

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6400.64 – Accounting for PRF Phase 1

› For-profit entities – have options

- Analogize to ASC 958-605 (ASU 2018-08)
- International Accounting Standard (IAS) 20
 - Recognize income when there is reasonable assurance that a recipient will comply with the conditions of the grant & has received the grant
 - Once reasonable assurance is met recognize revenue on a systematic basis over the period
- FASB ASC 450 – 30 Gain Contingencies
 - Recognize revenue when all contingencies have been met

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Factors to consider in Recognizing Revenue



Everyone has different facts & circumstances



May have to use a combinations of actual & budgeted amounts to analyze the measurement uncertainty under ASC 2018-08



Should disclose your accounting policy in the footnotes to the financial statements

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Questions with Post-Payment Guidance

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What Does it Not Address?

Normalization of operating income

- One time expenses/events
- New revenue streams/service lines

GASB vs. FASB presentation of operating income

- Interest expense for example

Clarifications of Patient Care-Related Sources

- Other funding sources (NPSR included or excluded)
- Maintaining healthcare delivery capacity which includes operating & maintaining facilities, etc.

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Reporting Requirements – General

Total Revenue/Net Charges from Patient Care-Related Sources

› Calendar year by quarter (Jan-Mar; Apr-Jun; Jul-Aug; Sep-Dec)

› By Payer Mix

Medicare A+B

Commercial

Medicare Part C

Self-pay

Medicaid

Other

Patient care – healthcare, services & supports. Excluding – insurance, retail or real estate values, except SNF & grants or tuition.

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Reporting Requirements

Financial

- › List other Assistance
 - PPP Loan
 - Cares Act
 - FEMA
 - Reimbursement for COVID testing
 - Business Interruption
 - State, local & tribal assistance
 - Other

Non-Financial

- › Change in Ownership
- › Personnel Metrics
- › Patient Metrics
- › Facility Metrics

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Recommendations/Actions

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Recommendations

- › Identify & document expenses attributable to coronavirus
- › Allocate expenses to funding sources (no double dipping)
- › Consider Capital projects
- › Begin to prepare to gather quarterly reporting information
 - Focus on patient service-related items (revenue/expense)
 - Highlight unique one time items
 - Compare to the prior year
- › Discuss with your auditor
- › Remember Single Audit requirement over \$750,000 expended

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Action Steps

- Contact your Congress person
- Work with state hospital association lobby
- Work with HFMA lobby
- Work with AHA lobby
- AICPA - Healthcare Entities Expert Panel

This notice informs recipients of the categories of data elements that recipients must submit for calendar years 2019 and 2020 as part of the reporting process. HRSA plans to offer Question & Answer Sessions via webinar in advance of the reporting deadline, and as needed, HRSA will also issue Frequently Asked Questions to aid in the reporting process.

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+ **Q&A**

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Upcoming Subniche-Specific Guidance

Event	Date	Time
Long-Term Care Townhall	October 7 th	2:00 – 3:00 pm CDT
CHC Townhall	October 9 th	2:00 – 3:00 pm CDT
Home Care & Hospice Townhall	October 13 th	2:00 – 3:00 pm CDT

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Thank You!

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