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## **Covid-19 Accounting and Financial Reporting** **July 21, 2020**

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# Agenda

- Federal/ State Response to Covid 19
  - What funds are currently available
  - What strings might be attached
  - How is my accounting and financial reporting affected?

# Disclaimers

- This is an overview and not meant to capture all elements of the programs.
- The regulations are being added and amended every day.
- As flaws are found in the law there may be amendments.
- The information contained in this PowerPoint is provided for informational purposes only and is not intended to substitute for obtaining accounting, tax, or financial advice from a professional tax planner or financial planner.
- Presentation of the information in this webinar is not intended to create, and receipt does not constitute, a tax planner-client or financial-planner-client relationship.

# Coronavirus Relief Legislation

- Phase 1 – Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020
- Phase 2 – Families First Coronavirus Response Act (FFCRA)
- Phase 3 – The Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

Phase 4 - ????????

# Opening Thoughts



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The Rules Keep Changing

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Document your thoughts  
and track expenses

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Take your time

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Keep Safe

# Coronavirus Aid, Relief and Economic Security (CARES) Act

# CARES Act

- Signed into law -  
March 27, 2020
- The CARES Act is 854  
pages long
  - Interim rules are coming  
out every day



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# CARES Act

- Title I – Keeping American Workers Paid and Employed Act (1xxx)
- Title II – Assistance for American Workers, Families and Businesses (2xxx)
- Title III – Supporting America’s Health Care System in the Fight Against the Coronavirus (3xxx)
- Title IV – Economic Stabilization And Assistance to Severely Distressed Sectors of the United States Economy (4xxx)
- Title V – Coronavirus Relief Funds (5001)
- Title VI – Miscellaneous Provisions (6xxx)



# Some Sections of CARES

- Section 1102 – Paycheck Protection Program (PPP)
  - <500 employees
- Section 2301 – Employee retention credits
- Section 2302 – Delay in Employer Payroll Taxes
- Section 5001 – Coronavirus Relief Fund

**Paycheck  
Protection Program  
& Loan Forgiveness  
(PPP)**

# Paycheck Protection Program (PPP) – Sec 1102

- The Paycheck Protection Program is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll.
- SBA will forgive loans if all employee retention criteria are met, and the funds are used for eligible expenses.

# Paycheck Protection Program (PPP) – Sec 1102

- Allowable use of covered loans
  - Payroll costs
  - Payment of interest on any mortgage obligation
  - Rent
  - Utilities
  - Interest on any debt obligations incurred before the covered period

# Paycheck Protection Program (PPP) – Sec 1102

- Payroll Costs Include
  - Salary, wages, commissions
  - Tips
  - Paid Leave
  - Healthcare payments
  - Retirement benefit payments

# Paycheck Protection Program (PPP) – Sec 1102

- Payroll Costs Do NOT include
  - Compensation of an individual employee in excess of an annual salary of \$100,000 as prorated for the covered period
  - Qualified sick leave wages for which a credit was allowed under section 7001 of the FFCRA
  - Qualified family wages for which a credit was allowed under section 7003 of FFCRA

# Paycheck Protection Program (PPP) – Sec 1102

- Basic Eligibility
  - Any business concern, 501(c)(3) non-profit, veterans' organization or Tribal business
  - Not more than 500 employees
- Eligibility Details
  - Self-employed and independent contractors are eligible

# Deadlines

- Loan Application Deadline just got extended to August 8th
- You have maximum of 10 months to make Application for Forgiveness



# AICPA Loan Forgiveness Tool

- Borrowers can log onto the platform to fill out the forgiveness application
- Tool then produces all government-mandated forms automatically
- Required source documents will also be included in a downloadable file
- Will be updated to support further developments

# PPP Flexibility Act

- Key points
  - Existing borrowers have the option to elect the 8 week period or the 24 weeks
  - New borrowers have a 24-week period, expiring on Dec 31, 2020
  - The 75% payroll expenditure requirement is reduced to 60%
  - Reminder – **loan amount is based on 10 weeks of payroll**

# PPP Flexibility Act

- Key points
  - FTE Reduction Safe Harbor rolled back from June 30<sup>th</sup> to December 31st
  - New exceptions for FTE Reduction calculation:
    - Could not rehire employees (Feb 15,2020)
    - Could not find qualified employees for unfilled positions
    - Unable to restore business activity to Feb 15, 2020 levels due to COVID 19 related operating restrictions

# PPP Flexibility Act

- Key points
  - New loans have a 5 year maturity
    - Existing loans can be modified to a 5 year maturity if lender agrees
    - Interest rate to remain at 1%
    - Loan payments deferred until SBA determines amount of forgiveness
      - Had been a 6 month deferral
  - Can now qualify for the deferral of employer's share of payroll taxes

# Financial Statement Presentation-NPO

- AICPA TQA 3200.18
- NPO may account for loan as a liability in accordance with ASC 470
- Proceeds would remain recorded as a liability until
  - the loan is, in part or wholly, forgiven and the debtor has been “legally released” or
  - the debtor pays off the loan to the creditor.

# Financial Statement Presentation-NPO

- May choose not to follow FASB ASC 470 if expects to meet the PPP's eligibility criteria and concludes that the PPP loan represents, in substance, a grant that is expected to be forgiven
- it should account for such PPP loans in accordance with FASB ASC 958-605 as a conditional contribution.

# PPP with Other Awards

- PPP loan forgiveness is based on specified expenditures only and economic uncertainty
  - Does not look to other revenue streams
- M-20-26 – Issued June 18, 2020
  - *Payroll costs paid with the Paycheck Protection Program loans or any other Federal CARES Act programs must not be also charged to current Federal awards as it would result in the Federal government paying for the same expenditures twice*

*Vendor fee for service is not the same as a federal grant*

# Document

- Document your thoughts at time of application for the loan
- Document your thoughts on bonuses, hazard pay....
- Document your thoughts on which expenses to use for forgiveness
- Document your thoughts at time of application for forgiveness
- Document inter-relation with other funding streams

Must retain information for 6 YEARS



# Resources

[CARES Act information](#)

[PPP Frequently Asked Questions FAQ](#)

[PPP Frequently Asked Questions for Faith-Based Organizations Participating in the PPP and EIDL](#)

[Paycheck Protection Program Loan Forgiveness Application and Instructions](#)

**Employee retention  
credit for employers  
subject to closure due  
to Covid-19**

## Employee retention credit (2301)

- Refundable payroll tax credit for 50% of wages paid by employers to employees
- Available to employees whose
  - operations were fully or partially suspended, due to a COVID-19-related shut-down order, or
  - gross receipts declined by more than 50 percent when compared to the same quarter in the prior year

## Employee retention credit (2301)

- Credit against employer 6.2% FICA payroll taxes for 50% of wages for each quarter
- Limit of \$10,000 per employee, cumulatively (i.e.: \$5,000 credit)
- Limited to employment taxes
- Refundable if in excess – IRS Form 7200

## Employee retention credit (2301)

- Which wages qualify
- < 100 employees; the credit is based on wages paid to all employees, regardless if they worked or not
- >100 employees; the credit is allowed only for wages paid to employees who did not work during the calendar year
  - Shall not include any wages taken into account under section 7001 or 7003 of FFCRA

## Employee retention credit (2301)

- Qualified wages include an allocable portion of qualified health plan expenses
- Qualified health plan expenses "are amounts paid or incurred by the Eligible Employer to provide and maintain a group health"

# Employee retention credit (2301)

## FAQs

- FAQ 28 - Added mandate from a local health department to close business for cleaning or disinfecting to definition of gov't order.
- FAQ 30
  - Clarified that employer operating essential business may have partial suspension of operations if > nominal part of business suspended by gov't order.
  - Clarified that a business may have partial suspension of operations if it continues operations closes for a period of time during normal working hours due to a gov't order.
- FAQ 33 – Clarified that if workplace closed due to gov't order and suspends business operations for “certain purposes, but not others,” it may have a partial suspension of operations.

# Employee retention credit (2301)

## FAQs

### IRS FAQs Revised in June & July

- FAQ 34 – Added examples.
- FAQ 35 – Added examples.
- FAQ 46 – Defined gross receipts for tax-exempt employer.
- FAQ 77 – Limits filing of Forms 7200 after July 2, to those with refund claims over \$25.
- FAQ 77a – Provides information on who can sign Form 7200.



# Employee retention credit (2301)

- FAQs on IRS website

<https://www.irs.gov/newsroom/faqs-employee-retention-credit-under-the-cares-act>

# **Delay of payment of employer payroll taxes**

## Payroll tax delay (2302)

- Allows employers and self-employed individuals to defer payment of the employer share of the Social Security tax
- deferred employment tax to be paid over the following two years, with half of the amount required to be paid by December 31, 2021 and the other half by December 31, 2022.

# Coronavirus Relief Funds

## Coronavirus Relief Fund (5001)

- Funds for States, Tribal Gov't, and units of Local Government
- Are necessary expenditures incurred due to the public health emergency with respect to COVID-19
- Not accounted for in the budget most recently approved as of March 27<sup>th</sup>
- Incurred period March 1, 2020 and ends December 31, 2020

# Overview of State Distribution

- \$175M RRHC
- \$245M Nursing facilities
- \$140M OLTL personal assistance providers
- \$50M assisted living and personal care homes
- \$14M adult day and res. habilitation services
- \$50M CHC MCOs
- \$260M through the ID community waiver

# Overview of State Distribution

- \$10M to Life programs
- \$720K through Autism services
- \$116M Childcare providers
- \$10M DV programs and housing support
- \$10M HAP
- \$10M hospitals
- \$8M Legal services
- \$625M counties that did not receive direct federal funds

## PA - ODP Announcement 20-070

- Funds must be spent by November 30th
  - Necessary expenditures incurred due to the public health emergency
  - Not accounted for in the budget most recently approved at March 27<sup>th</sup>
- Intellectual disabilities and autism
  - One-time gross adjustment for Providers of Residential, Respite and Shift Nursing services
- Automatic payment June 24<sup>th</sup>
- CARES Act section 5001: CFDA # 21.019



## PA - ODP Announcement 20-074

- CPS Retainer Payments March-June 2020
  - 75% of average monthly billing (7/1/19-2/29/20)
- Funds must be spent by November 30th
  - Must be used for COVID-19 related expenses
- CARES Act section 5001: CFDA # 21.019
- July- September payments are a different funding stream.

# PA - ODP Announcement 20-085

[redacted] I attest that any retainer payments received by (name of provider) will be subject to recoupment if inappropriate billing or duplicative payments for services occurred, or if expenses were reimbursed by duplicative funding streams, as identified in a state or federal audit or any other authorized third party review.

[redacted] I attest that (name of provider) has not and will not lay off staff, and has and will maintain staff wages at or above existing levels from the period beginning July 1, 2020 through the end of any period covered by the retainer payments.

[redacted] I attest that (name of provider) has not received funding from any other sources, including but not limited to unemployment benefits and Small Business Administration loans, that would cause current quarterly revenue to exceed revenue from the quarter 10/1/19 through 12/31/19. I further attest that any anticipated retainer payments will not cause current quarterly revenue to exceed revenue from the quarter 10/1/19 through 12/31/19.

# Financial /Audit related issues



Revenue recognition (fee for service) vs contribution



If contribution: is the contribution conditional?



Will you need a Single Audit?

# Provider Relief Fund

# Provider Relief Funds

- \$50B General Distribution
- \$15B Medicaid and CHIP Allocation
- Targeted Allocations

Targeted Distribution	Total Amount	Recipients
High-Impact Distribution	\$12 billion	395 hospitals in high-impact areas
Rural Distribution	\$10 billion	Almost 4,000 rural health care providers
	\$1 billion	Close to 500 specialty rural hospitals, urban hospitals with certain rural Medicare designations, and hospitals in small metropolitan areas
Allocation for Skilled Nursing Facilities (SNFs)	\$4.9 billion	Over 13,000 skilled nursing facilities
Allocation for Tribal Hospitals, Clinics, and Urban Health Centers	\$500 million	Around 300 Tribal Hospitals, Clinics, and Urban Health Centers
Allocation for Safety Net Hospitals	\$10 billion	Eligible safety net hospitals
	\$3 billion	215 acute care facilities

# CARES Act Funding for Medicaid and CHIP Providers

- Separate from PA funds released from the CARES Act on June 24<sup>th</sup>
- Deadline to request funding is August 3
- Will be at least 2% of reported gross revenue from patient care
  - Final amount determined after the data is submitted
- This is not Medicaid payments- emergency federal relief
- Funds will be distributed directly from the Federal Government.

# CARES Act Funding for Medicaid and CHIP Providers

- **Maintain careful records of fund use**
- May be used to cover lost revenue attributable to COVID-19 or health related expenses purchased to prevent, prepare for, and respond 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
  - Reporting COVID-19 test results to federal, state, or local governments

# CARES Act Funding for Medicaid and CHIP Providers

- **Maintain careful records of fund use**
- May be used to cover lost revenue attributable to COVID-19 or health related expenses purchased to prevent, prepare for, and respond to coronavirus
  - Building or constructing temporary structures to expand capacity
  - Acquiring additional resources
  - Developing/staffing emergency operations



## FAQ on “lost revenue”

*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, such as **using Provider Relief Fund payments to cover:***

- *Employee or contractor payroll*
- *Employee health insurance*
- *Rent or mortgage payments*
- *Equipment lease payments*
- *Electronic health record licensing fees.*

# Attestation

## Attestation Terms and Conditions\*

Payment Recipient must attest to the following within 90 days of receiving payment:

- ✓ Recipient provided, on or after January 31, 2020, diagnosis, testing or care for COVID-19 patients; is not terminated, revoked, or precluded from participating in Medicare, Medicaid or other Federal health care programs
- ✓ Payment must be used to prevent, prepare for, and respond to coronavirus, and reimburse health care related expenses or lost revenues attributable to coronavirus
- ✓ Payment does not reimburse for expenses or losses that have been reimbursed from other sources, or that other sources are obligated to reimburse
- ✓ Recipient shall comply with all reporting and information requirements
- ✓ Recipients consents to public disclosure of payment

# CARES Act Funding for Medicaid and CHIP Providers

- PPP loan does not prevent this funding
- No double dipping
- Currently funding is subject to Single Audit and also sections B,D,E of Uniform Guidance

<https://www.hhs.gov/coronavirus/cares-act-provider-relief-fund/for-providers/index.html>

## A few last items..

- BHMCOs making payments via APA
- Remains available through 9/30
- No less than 30-day notice will be given if ending 9/30
- All APAs now include a reconciliation to ensure no overpayments
- Providers open and billing at 100% do not need to be included in COVID APA

## A few last items..

- Pa Hazard Pay Grant
- Pay Grant Program Guidelines and application can be accessed at <https://dced.pa.gov/programs/covid-19-pa-hazard-pay-grant/>

## Closing thoughts – Common themes

- Documentation
- No double dipping
- Potential changes to revenue recognition
- Potential for new federal funds
- Expect more guidance/changes

# Questions?



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# Questions? Contact Me!



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