

Revenue Recognition – CARES Act Funding

This document discusses the background and timing of revenue recognition for CARES Act funding.

Background

There has been some confusion and differing opinions on revenue recognition for funds received under the CARES Act. Care providers have been flooded with multiple tranches of funding under the CARES Act: provider relief funds (general distributions and targeted distributions) and Paycheck Protection Program (PPP). They have also received funding through multiple outside sources of COVID-19-related funding including Medicaid, Federal Emergency Management Administration (FEMA), and insurance. The critical question is whether these should be entered on the provider's ledger as revenue or as a liability as deferred revenue. The answer depends on whether the provider is reasonably certain [GAAP] the provider will meet all the requirements outlined in the Terms and Conditions and reporting standards and that the funds will not be repaid.

The guidance that has been received shows that the Health and Human Services (HHS) intends to apply the provider relief funds to reimburse COVID expense and revenue loss as the payor of last resort. Funding from insurance and patients, and local, state, and tribal governmental sources (Medicaid, PPP, FEMA) is to be used prior to the application of the CARES Act funds.

Terms and conditions vary by PRF tranche but essentially the Provider must meet the following conditions:

1. Billed Medicare in 2019
2. Provides or provided after January 31, 2020 diagnoses, testing, or care for individuals with possible or actual cases of COVID-19
3. Not currently terminated from participation in Medicare
4. Not precluded from receiving payment through Medicare Advantage or Part D
5. Not currently excluded from participation in Medicare, Medicaid, or other Federal health care programs
6. Doesn't currently have Medicare billing privileges revoked
7. Payment will only be used to prevent, prepare for, and respond to coronavirus
8. Payment shall reimburse only for health care related expenses or lost revenue attributable to coronavirus (other than infection control distribution)
9. Payment shall reimburse for cost associated with administering COVID-19 testing, reporting COVID-19 test results to government agencies, hiring staff to provide patient care or administrative support, expenses incurred to improve infection control (including mentorship programs or changes made to physical facilities), and providing additional services to residents including technology to connect with families (infection control distribution)
10. Payment will not be used to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse
11. Submit reports as the Secretary determines are needed in a format prescribed by the Secretary
12. The original Terms and Conditions indicate that reports are to be submitted within 10 days after the end of each calendar quarter for recipients receiving \$150,000 or more. This was superseded to filing a first report by February 15, 2021, and a second report by July 31, 2021, if needed
13. Maintain appropriate records and cost documentation
14. Collect out-of-pocket expenses from patients that are not greater than they would have been for in-network services

Once the provider has determined it is in compliance with the Terms and Conditions; an analysis of incremental expense and lost revenue should be conducted in accordance with HHS guidance.

It is important to understand the eligible expense and lost revenue recognition under the various programs.

Covered Expenses

PPP – Expenses that are covered include payroll (salary, wage, vacation, parental, family, medical or sick level, health benefits), business mortgage interest, rent, and utilities, over a 24-week or an 8-week time period. 60% of the covered expense must be for payroll and related cost.

CARES Act Provider Relief Fund – Expenses incurred to prevent, prepare for, and respond to coronavirus, and lost revenues that are attributable to coronavirus, may be offset under the initial \$30 billion general, the \$20 billion general, and the \$4.9 billion skilled nursing facility targeted distributions.

For the infection control funding tranche, allowed expenses are related to infection control including testing and reporting those test results, hiring staff to provide patient care or administrative support, infection control improvements, and additional services, such as technology, that permit residents to connect with families.

Lost Revenue

CARES Act Provider Relief Fund – Lost revenue under the initial \$30 billion general distribution, the \$20 billion general distribution, and the \$4.9 billion skilled nursing facility targeted distribution, is calculated as the reduction in patient care revenue between 2019 and 2020, excluding relief funds.

Issues To Consider

1. Since providers have until June 30, 2021 to utilize the provider relief funds, it is difficult to determine the amount of revenue for 2020. Revenue losses in the first 6 months of 2021 and coronavirus expenses incurred in the first six months of 2021 are eligible to be covered under the 2 general distributions and the \$4.9 billion SNF targeted distribution.
2. The funding from other sources (PPP, insurance, patients, local, state, and tribal governments) must be taken into consideration before applying covered expenses and lost revenue against the provider relief funds.
3. An individual analysis of funds received from Medicaid agencies needs to be performed to determine if they are funds to cover COVID-19 expense or lost revenue, or they were made available for other reasons.

Payroll Protection Program loans should be recorded as deferred revenue until such time as the provider is reasonably assured the loan will be forgiven. A basis analysis should include:

- Was the provider in compliance with the terms and conditions when the loan was received?
- Was the funding spent in accordance with SBA guidelines?
- Has the provider determined whether it wants to seek forgiveness or repay the loan?
- Has the provider applied for forgiveness?

It is important to note that PRF funding nor PPP funding can be examined in isolation given all these funding sources interact with all over COVID 19 related funding. All of these issues make it difficult to determine the appropriate time to recognize revenue associated with the CARES Act funds.

The Financial Standards Accounting Board criteria for revenue recognition can be found at ASC 606-10-05-3, which state that revenue recognition should “depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.” Reporting entities are to follow a five-step approach:

1. Identify the contract with customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

In this case,

1. The contract is between Health and Human Services (HHS) as the customer and the provider as the supplier of service. The contract must meet the following criteria:
 - a. Approval and commitment of the parties
 - b. Identification of the rights of the parties
 - c. Identification of the payment terms
 - d. The contract has commercial substance
 - e. It is probable that the entity will collect the consideration (HHS funds) to which it will be entitled in exchange for the goods and services that will be transferred to the customer (COVID-related expense and lost revenue).
2. The performance obligations in this contract are that the provider will be incurring COVID-related expense and loss of revenue, and that HHS will “reimburse” the provider for this expense and lost revenue, if there is no other source of reimbursement.
3. The transaction price is the amount of COVID-related expense and lost revenue.
4. It is difficult to allocate the transaction price between the components (COVID-related expense and lost revenue), due to their equal weight and the method that the “revenue” is earned. As the provider incurs COVID-related expense and loses revenue, based on the measurement period, there is an expectation that HHS will “reimburse” for those items.
5. The advances (provider relief funds) received from HHS will be earned through incurring COVID-related expense and loss of revenue as these terms are defined by HHS. It important to note that HHS has changed its original June guidance twice and continues to “clarify” both the concept of lost revenue and the definition of incremental COVID related expense.

Once this occurs, the supplier should recognize revenue, when it is determine that the expense incurred and lost revenue satisfies the provider relief fund guidelines.

It is our recommendation that all CARES Act funding be recorded as deferred revenue, a liability, when received. Revenue should be recorded only when it is reasonably expected that the expense and lost revenue meets requirements under provider relief fund reporting and PPP loan forgiveness.

The team at CBSI is available to assist you in the CARES Act reporting process.

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