COVID PRF Phase 3 Disbursements and Reporting

Updated 10/7/20

Introduction/Disclaimer

This is not official AAP guidance or advice. This is Suzanne Berman's summary and interpretation of The Rules. I am not a health care attorney, a CPA, or an HHS staffer. I just like spreadsheets. All errors are MINE. If you find some, or even just embarrassing typos not already identified by the proofreader (thank you, Chip Hart), please let me know at sberman@plateaupediatrics.com.

Also, some stuff we just don't know yet, either because the rules are vague or because HHS is silent on the matter.

If you don't have a copy of the Phase 2 guidebook referred to in the document, you may download one at https://bit.ly/caresprfphase2

Where are the Official Rules from HHS on how to complete a Phase 3 Disbursement?

https://www.hhs.gov/sites/default/files/provider-distribution-instructions.pdf
This document is hereafter referred to as "The Instructions."

Do I qualify to apply for a Phase 3 disbursement?

On Monday, October 5, 2020, the CARES Act Provider Relief Fund re-opened for Phase 3 of applications. The third phase will close on November 6, 2020. The official announcement may be found at:
https://www.hhs.gov/about/news/2020/10/1/trump-administration-announces-20-billion-in-new-phase-3-provider-relief-funding.html

Practices that should consider applying include:

- Practices that opened between January 1 and March 31, 2020;
- Practices that received a small (e.g., $85) payment from Medicare but did not get a second payment of 2% of prior-year revenues;
- Practices that did receive a 2%-of-prior-year-revenues payment but still have a financial need

The requirement to take Medicare, Medicaid, or CHIP still holds.

This disbursement is first-come, first-serve, so don't delay.

What data will I need to provide on the Phase 3 disbursement application?

Here are the key "data" elements of the Phase III application:

REVENUES

(10) Revenues: $

(11) Fiscal Year of Revenues: -- select --

(12) Percentage of Revenue from Patient Care: %

13. OPERATING REVENUES FROM PATIENT CARE

(13.1) 2020 Q1 (Jan 1 – Mar 31):

(13.2) 2020 Q2 (April 1 – June 30):

(13.3) 2019 Q1 (Jan 1 – Mar 31):

(13.4) 2019 Q2 (April 1 – June 30):

14. OPERATING EXPENSES FROM PATIENT CARE

(14.1) 2020 Q1 (Jan 1 – Mar 31):
(14.2) 2020 Q2 (April 1 – June 30):
(14.3) 2019 Q1 (Jan 1 – Mar 31):
(14.4) 2019 Q2 (April 1 – June 30):

SUPPORTING DOCUMENTS

(15) Upload Revenues Worksheet (if required):
Optional
(16) Upload Federal Tax Form:
(17) Upload supporting documents for 2019 Q1-Q2 operating revenues and expenses from patient care:
(18) Upload supporting documents for 2020 Q1-Q2 operating revenues and expenses from patient care:

Fields 19 - 32 have been intentionally removed

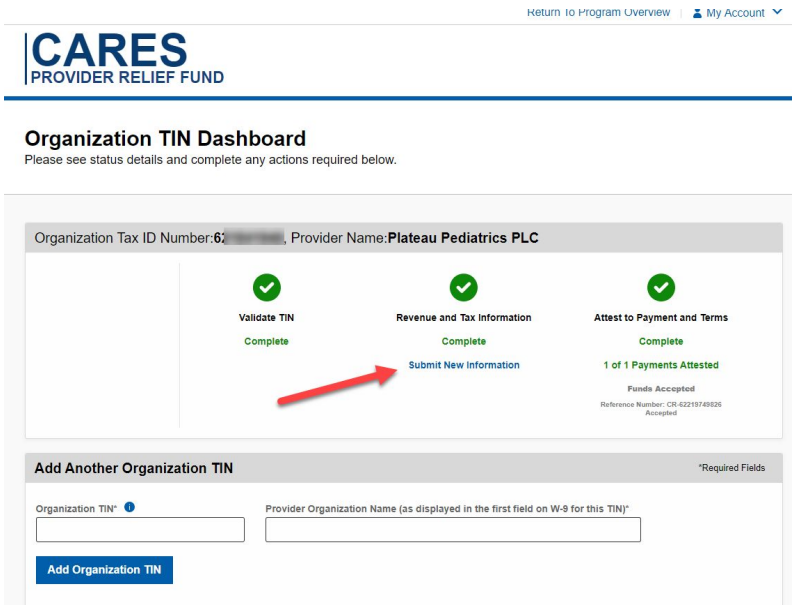
BANKING INFORMATION

(33) Bank Name:
(34) ABA Routing Number:
(35) Account Holder Name:
(36) Account Number:

How do I apply for a Phase 3 disbursement?

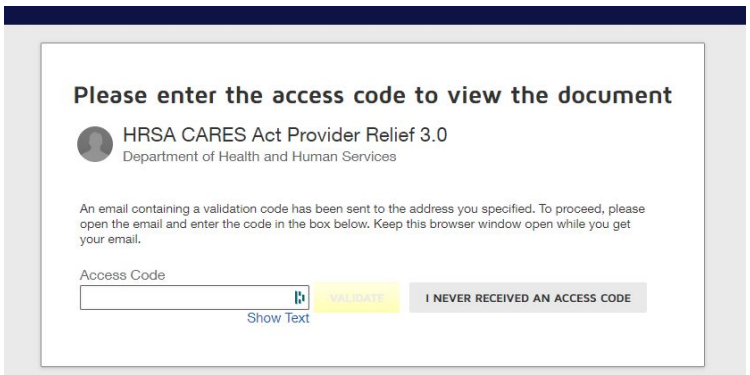
If you have not previously received an Optum ID and password, and/or you have not validated your practice TIN(s) through the CARES PRF platform, please see *Step 1: Get an Optum ID* and *Step 2: Sign in and Validate Your TIN* in the previous CARES PRF guidebook.

Assuming that your practice has already applied for and received a prior Phase 2 (Medicaid/CHIP) disbursement of 2% of your previous year's medical revenue, your Organization TIN Dashboard should look something like this:



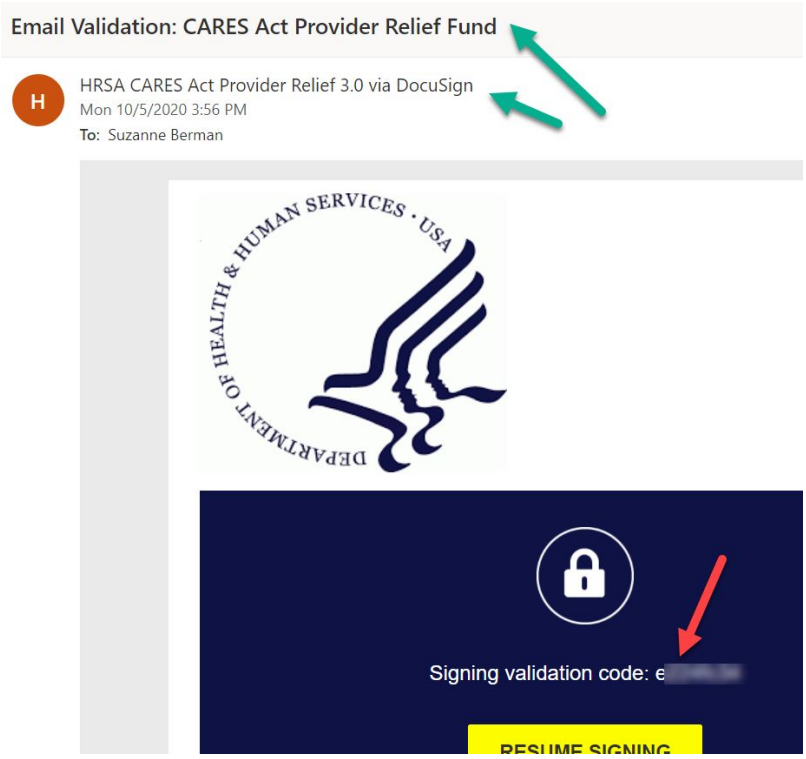
To apply for additional disbursements for a practice that has already received at least one General Distribution disbursement, click the **Submit New Information** link.

You'll be redirected to the Docusign platform, where you'll be asked for an Access Code.



The Access Code should be immediately (<2 minutes) sent to the email address of record for your Optum ID. To track it, the title of the message is "Email Validation: CARES ACT Provider Relief Fund," the sender "name" is HRSA CARES ACT Provider Relief 3.0 via Docusign, and the sender email is dse_na3@docusign.net.

Enter the signing validation code (red arrow, redacted in the image below) from this email into the Docusign field.

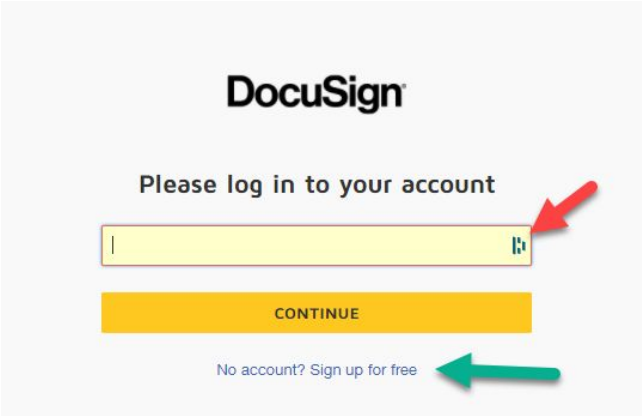


You will be emailed a fresh Access Code every time you try to enter your practice's application; do not use previous Access Codes.

What if I don't get this email?

Generally, this is because your email service "spam filtered" out the email from dse_na3@docusign.net. However, there is a way to jump directly to the DocuSign portal to find your application.

Go to DocuSign.com. In the upper right hand corner, click **Login**.



If you have a DocuSign login for the email address associated with your Optum ID, enter that email address, click **Continue**, and then enter the password for that account.

If you do not have a DocuSign account, or you don't have an account for email linked to your Optum ID, click the "**No account? Sign up for free**" link (green arrow). Follow the registration instructions.

Once you are on the DocuSign home page, your screen will look like this:

Click the **Action Required** link. You should then see a document called Cares Act Provider Relief Fund at the top of your inbox, with the status "Need to Sign":

Phase 3 Application: Questions 1-9

For questions 1-4, enter the demographic information (name, title, phone number, and email, respectively) of the person in your practice who can answer questions about this data.

For question 5 (Applicant/Provider Type), select the categorical description most appropriate for your practice. We expect most FAAPs will enter **Outpatient and Professional - Pediatrics Practice**, **Outpatient and Professional - Primary Care Practice** (e.g., for a group of pediatricians, internists, and family medicine physicians), or **Outpatient and Professional - Multi-Specialty Practice** (e.g., for a group of pediatricians, internists, surgeons, OB-GYNs, etc.)

Questions 6, 7 and 8 have been removed from the application.

Question 9 should be left blank for practices that do not have CCNs (most independent pediatric practices do NOT have CCNs.) Only hospital-based practices, FQHCs, rural health clinics (RHCs), and a few other rare practice types with facility designations will have a CMS Certification Number (CCN), which is a 6-digit number issued by Medicare. If your practice has a CCN, enter it here.

Phase 3 Application: Questions 10-12

Questions 10, 11, and 12 involve data from a Reference Year. The "Reference Year" is the most recent prior year (2017, 2018, 2019) in which you filed a federal tax return for your practice. We expect that, by October 2020, most practices have already filed federal tax returns for 2019. Thus, these practices would use 2019 as their Reference Year.

Only new practices/TINs that came into existence on or after 1/1/2020 may use 2020 as their reference year.

Practices that opened in 2020 should see The Instructions section called “Additional Instructions for New 2020 Providers,” which gives specific guidance on how to complete Questions 10, 11, 13, 14, 16, and 17.

Note that this may be a different Reference Year than you used in the Medicaid/CHIP Phase 2 disbursement, especially if you applied in June or July.

For Question 10, you’ll enter a number that’s on the practice tax return from your Reference Year:

sole proprietor or disregarded entity owned by an individual:	Enter Line 3 from IRS Form 1040, Schedule C excluding any income reported on W-2.
partnership:	Enter Line 1c minus Line 12 from IRS Form 1065.
C corporation:	Enter Line 1c minus Line 15 from IRS Form 1120.
S corporation:	Enter Line 1c minus Line 10 from IRS Form 1120-S.
tax-exempt organization:	Enter Line 9 from IRS Form 990 minus any joint venture income, if included in Part VIII lines 2a – 2f .
trust or estate:	Enter Line 3 from IRS Form 1040, Schedule C.
entity not required to file any of the previously mentioned IRS forms:	Enter a “net patient service revenue” number or equivalent from the applicant’s most recent audited financial statements (or management-prepared financial statements)

If you acquired or disposed of subsidiaries with different TINs in your Reference Year, you may need to enter a different number here. You’ll need to complete the Gross Revenues Worksheet found at https://hhs.gov/sites/default/files/prf-gross-revenues-worksheet.xlsx and enter a different number as per The Instructions, page 8. This uncommon situation might occur if your practice absorbed another practice into its operations during your Reference Year.

For Question 11, enter the Reference Year (i.e., the year of the tax form you used in Question 10).

For Question 12, find the amount of non-patient-care revenue you posted in your Reference Year, determine what percent this is of your gross revenue from Question 10, and subtract that percent from 100%. This question makes an adjustment for any nonmedical revenue. The calculations and logic for this question are best illustrated by an example.

EXAMPLE, QUESTIONS 10-12

Maria is completing the CARES submission for her practice. The practice, which has no subsidiaries, is using 2019 as their Reference Year. The practice reported $1,835,039 on their 2019 IRS Form 1120 line 1c. Line 15 on the same form is $ 0.00. The practice will enter $1,835,039 for Question 10, and 2019 for Question 11.

The practice now must figure out how much of the total gross revenue was “patient care.” Maria knows that the vast majority of the revenue was patient care related, but reviews her Quickbooks data for 2019 to find out.

The “income” section of the practice’s Profit and Loss Statement looks as follows:

Ordinary Income/Expense	
Income	
Consulting/Medical Research	8,228.00
Fees	
Capitation	1,724.45
Fee Refunds	-1,154.25
Fees - Other	1,770,148.97
Total Fees	1,770,719.17
Grant Income	13,000.00
Miscellaneous Income	
Medical Records Fee	663.11
Miscellaneous Income - Other	305.87
Total Miscellaneous Income	968.98
Pay for Performance Income	36,377.50
Teaching	5,378.06
Total Income	1,834,671.71

The total income in Quickbooks is $1,834,671.71; the total revenue from the tax return is $1,835,039. Maria knows that the difference between the two figures ($367.29) is minimal (0.02%) and is likely explained by a small end-of-year adjustment or journal entry.

Maria now reviews the various sources of income for the practice. Patient and insurance payments for services are logged under **Fees - Other**. These are clearly “patient care.” But what about the other categories? **Consulting/medical research** was for participating in an ACO research project. **Grant income** was for two providers who received Meaningful Use money. **Capitation** was PMPM revenue for a small plan. **Pay for performance** income was a bonus for high quality care in a BCBS program. **Teaching** is a stipend from the local residency program for accepting a second-year resident for 6 months in a continuity clinic. **Miscellaneous income - Other** includes several small amounts from multiple sources, including interest payment from the bank and an unclaimed $20 that was found in the parking lot.

Because there is no guidance from CMS on determining exactly where to draw the line, Maria asks herself:

- Did we get this money in exchange for providing patient care?
- Is this money we expected to get for patient care?
- Can it easily be ascribed to particular patients/payers?

- Is the intent of the CARES act to replace this money?

If the answer to these questions tends toward “yes,” she marks the cells in green; if the answers are “no,” she marks them red:

Ordinary Income/Expense	
Income	
Consulting/Medical Research	8,228.00
Fees	
Capitation	1,724.45
Fee Refunds	-1,154.25
Fees - Other	1,770,148.97
Total Fees	1,770,719.17
Grant Income	13,000.00
Miscellaneous Income	
Medical Records Fee	663.11
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Teaching	5,378.06
Total Income	1,834,671.71

Maria then subtotals by color. She gets $1,807,096.67 for patient care revenue and $ 27,575.04 for other revenue. The non-patient-care revenue is relatively small, but not trivial.

To compute the percentage of medical revenue, Maria divides $1,807,096.67 by $1,835,039 (from the tax return) which yields 98.48%. If Maria had decided to divide $1,807,096.67 by $1,834,671.71 (her Quickbooks total revenue), this would yield 98.50% (again, a trivial difference).

Maria rounds to the nearest tenth percent and enters 98.5%.

Phase 3 Application: Questions 13-14

Practices that started in 2019 or 2020 should read The Instructions sections “Additional Instructions for New 2019 Providers” and “Additional Instructions for New 2020 Providers” for guidance on Questions 13 and 14.

Questions 13 and 14 ask you to give patient care revenue and patient care expense information for both 2019 and 2020 Q1 and Q2. This can be retrieved readily from your practice’s accounting software.

Note that Question 13, asking for patient care revenue totals, instructs you to exclude Provider Relief Fund Payments received during these periods. A practice who received a PRF payment of $30,000 during 2020 Q2 should not include this in their total for that quarter.

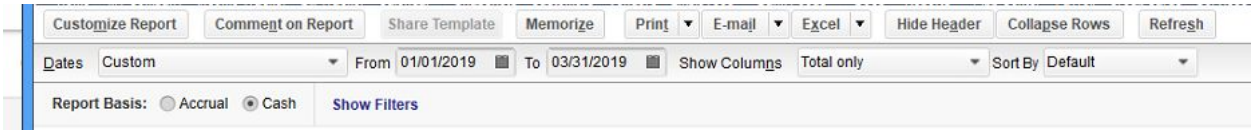
Note that Question 14, asking for patient care expense information, **is not asking for COVID-specific expenses**. It refers to ALL patient care expenses during the reference quarter.

For practices that received a PPP loan, the PPP loan is not counted as income in Question 13. Nor are the qualified expenses paid with the PPP loan counted in Question 14. See EXAMPLE, QUESTIONS 13-14 - PPP NUMBERS below.

EXAMPLE, QUESTIONS 13-14 - REPORT CREATION

Lashaunda is completing Questions 13 and 14 for her practice, which uses Quickbooks (Desktop Edition). To find the report she needs, Lashaunda goes to **Reports**, then **Company & Financial**, then **Profit & Loss Standard.**

She sets the Dates dropdown to Custom, then enters the date range for 2019 Q1 and clicks Refresh:



After her report appears, she clicks Excel then Create New Worksheet. She confirms that she wants to create a new worksheet in a new workbook, then clicks Export. When the report opens in Excel, she saves it as 2019 Q1.xlsx.

Lashaunda then repeats these steps to create reports for 2019 Q2, 2020 Q1, and 2020 Q2.

EXAMPLE, QUESTIONS 13-14 - CLASSIFYING REVENUE AND EXPENSES

Lashaunda now opens her 2019 Q1.xlsx file and begins to evaluate it. Using Maria's method of green (patient care) and red (non-patient-care) color classification described as in the EXAMPLE, QUESTIONS 10-12 section, she marks the cells in her spreadsheet as follows:

She marks the Income section like this:

	Jan - Mar 19
Ordinary Income/Expense	
Income	
Fees	
Capitation	317.75
Fees - Other	513,274.79
Total Fees	513,592.54
Miscellaneous Income	
Medical Records Fee	280.90
Miscellaneous Income - Other	149.33
Total Miscellaneous Income	430.23
Rebate Income	439.00
Value Based Payment Income	38,284.93
Total Income	552,746.70
Gross Profit	552,746.70

Capitation (from one small payer) and **Fees - Other** (the bulk of the practice's insurance company and patient cost share revenue) are definitely operating revenue from patient care. Lashaunda looks at **Rebate Income** - this was a manufacturer rebate for a new eye screener the practice purchased. Whether booked as a negative expense or here, as a positive income line item, this is patient care related. Similarly, the practice's Value Based Payment Income is patient care related. Lashaunda excludes **Medical Records Fee**, in which attorneys paid the practice for medical records to support their clients' disability claims, and **Miscellaneous Income - Other**, which represents a small honorarium one of the doctors received for giving a presentation.

Lashaunda now totals all the patient care revenue for 2019 Q1, and adds it directly to the spreadsheet:

	Jan - Mar 19			
Ordinary Income/Expense				
Income				
Fees				
Capitation	317.75			
Fees - Other	513,274.79			
Total Fees	513,592.54		Total Patient Care Revenue	
Miscellaneous Income			2019 Q1	552,316.47
Medical Records Fee	280.90	paid from lawyers for records		
Miscellaneous Income - Other	149.33	Dr. Gomez honorarium		
Total Miscellaneous Income	430.23			
Rebate Income	439.00			
Value Based Payment Income	38,284.93			
Total Income	552,746.70			

Lashaunda now can enter this figure ($552,316) into Question 13.3.

Now she looks at her practice's expenses for the same quarter.

Lashaunda knows that most of her practice's expenses are genuine operating expenses that went toward patient care. Thus, most of her $495,172.01 in expenses -- payroll, rent, medical supplies, staff health insurance, EMR fees -- are marked in green.

Lashaunda does find the following three expenses which she classifies as non-patient-care oriented and marks them red:

- A $200 donation to a local charity in honor of a special needs patient
- $75 for a plant arrangement gift to a new OB-GYN in the community
- Half ($1000) of Dr. Gomez' travel expenses for the year ($2000). Dr. Gomez spent a week in Florida, half of which was at a CME conference, and the other half was visiting friends and family.

Lashaunda now totals her nonpatient care expenses ($200 + $75 + $1000 = $1275), deducts them from the total expenses, and annotates her spreadsheet as follows:

	Building Maintenance	2,199.07		
	Garbage Removal	415.80		
	Infectious Waste Removal	1,204.20		
	Janitorial Service	12,000.00		
	Linen service	722.38		
	Office Decor	14.63		
	Building Expense - Other	2,607.43		
Total Building Expense		19,163.51		
Computer				
	Internet	468.75	Total Patient Care Expenses	
	Maintenance	13,174.74	2019 Q1	493,897.01
	Software	326.40		
	System	309.96		
Total Computer		14,279.85		
Document Destruction		357.28		
Dues and Subscriptions		605.00		
Employee Medical Expense		29.42		

Lashaunda can now enter $493,897.01 in Question 14.3.

Lashaunda continues in this manner for 2019 Q2 and 2020 Q1 and Q2.

She saves all of her completed spreadsheets for uploading in Questions 17 and 18.

EXAMPLE, QUESTIONS 13-14 - PPP NUMBERS

In 2020 Q2, Pediatric Partners received a $185,000 PPP loan and spent it all on qualified expenses (payroll, rent, and utilities) in 2020 Q2 and Q3. However, not all payroll, rent, or utilities were fully covered in both Q2 and Q3. There were some Q2 expenses incurred before receipt of the PPP loan, and the money ran out in Q3 before all expenses were paid.

	2020 Q2	2020 Q3
Regular Income (marked green)	250,000	350,000
Receipt of PPP Loan	185,000	0
Total cash in:	**435,000**	**350,000**
PPP-covered rent	12,000	0
PPP-noncovered rent	6,000	18,000
PPP-covered payroll	123,000	42,000
PPP-noncovered payroll	60,000	141,000
PPP-covered utilities	8,000	0
PPP-noncovered utilities	4,000	12,000
All other expenses (marked green)	125,000	140,000
Total cash out:	**338,000**	**353,000**
Net cash flow	**97,000**	**-3,000**

Because of how the IRS is treating PPP loans, this requires a reclassification of cash in and cash out.

The practice would report **$250,000** in Question 13.2, 2020 Q2 patient care revenue. The PPP loan is, strictly speaking, a loan, and while it helps with cash flow, it is not "revenue" in the sense meant here.

Expenses paid with PPP funds are not considered qualified deductible expenses, even though payroll, rent, and utilities are totally legitimate business expenses. See IRS guidance at https://www.irs.gov/pub/irs-drop/n-20-32.pdf. Operating expenses are thus the sum of non-PPP covered payroll, rent, and utilities, and all other expenses. Therefore, the practice would report **$195,000** in Question 14.2, 2020 Q2 patient care expenses.

If the practice were computing similar numbers for 2020 Q3 (which are not called for in the Phase 3 Application, but for the sake of illustration): The practice would report **$350,000** as 2020 Q3 patient care revenue and **$311,000** as 2020 Q3 patient care expenses.

Note that, as long as your PPP was fully expended by the end of the last reporting quarter, the net income result is the same as the net cash flow result:

	2020 Q2	2020 Q3	Combined Q2 and Q3
Net cash flow	97,000	-3,000	**94,000**
Patient care revenue (PCR)	250,000	350,000	600,000
Patient care expenses (PCE)	195,000	311,000	506,000
Net revenue (PCR - PCE)	55,000	39,000	**94,000**

Phase 3 Application: Questions 15-36

Practices that started in 2019 or 2020 should read The Instructions sections “Additional Instructions for New 2019 Providers” and “Additional Instructions for New 2020 Providers” for guidance on Questions 16 and 17.

Question 15 requires you to upload the Gross Revenues Worksheet discussed above in Question 10. If you do not need to complete the Gross Revenues Worksheet because you have no adjustments to make to the total revenue figure on your tax return, do not attach anything to this question.

Question 16 requires you to upload the Federal Tax Form(s) that is referenced in questions 10 and 11. For example, if your Reference Year is 2019 and your practice is a C-corporation, upload your 2019 Form 1120 here. Upload the complete form, not just the first page.

Don’t upload your personal tax return. If you are a sole proprietor, upload Schedule C.

Questions 17 and 18 require you to upload the reports you created to answer Questions 13 and 14. Upload copies that contain any adjustments or annotations you made.

Questions 19-32 have been removed from the application.

For Questions 33-36, enter the practice’s bank name, ABA routing number, account holder/practice name, and practice bank account number.

Questions 37-48 have been removed from the application.

How much money can I expect to receive from my Phase 3 Application?

It depends. Practices who have not yet received PRF funds at all will receive funds totalling 2% of their reference year revenue. Practices who have received some PRF funds, but not funds totalling 2% of their reference year revenue, will receive funds totalling 2% of their reference year revenue, minus any prior distributions (i.e., a "true-up" to 2%.)

For practices who have received 2% but still want to apply for more funds, we do not know how much you will receive. Because this is a competitive distribution -- all practices who want to get above 2% have to show their need -- it will take into account your actual reduced revenue (2020 compared to 2019) and your actual reduced profit (income minus expenses) comparing 2020 to 2019.

I do qualify for a Phase 3 disbursement, but should I apply? Or rather, what's the downside to applying?

Most recipients of PRF funds will be expected to send in at least one, and possibly two, reports in 2021 documenting their use of the PRF money. See the "Will I have to send a report…?" section below.

We expect most practices who have already gone through the Phase 2 and Phase 3 applications will know how to answer the questions. A practice that has already received at least $10,000 from Phase 2 is committed to completing these reports, so applying for Phase 3 and possibly receiving an additional $20,000 or more should not dissuade a practice from applying.

The main downside is that **if you have not spent all your CARES PRF money in a qualified manner by June 30, 2021, you may be required to return the "unspent" portion to HHS.** There is always a financial risk to being awarded money to be spent in a certain way, spending it, then having it recouped. Thus, it is important for practices to not ask for, or receive, more money than they can spend in a qualified manner. See "How do I spend all my PRF funds in a qualified manner…?" section below.

Will I have to send a report for my utilization of CARES ACT Provider Relief Fund (PRF) monies?

Yes, if you received more than $10,000 in total from any of:

- The general "Medicare distribution" (which a small number of pediatric practices qualified for and received money automatically); or,
- The second ("Medicaid") distribution, for which you had to apply at https://cares.linkhealth.com/dashboard/#/;
- The third distribution (open October 5 through November 6, 2020), for which you must also apply competitively.

Small/solo practices who received less than $10,000 do not have to send any reports.

Note that:

- The $10,000 minimum applies to the *total* funding you received through this program, even if you received it in two payments. For example, a practice that received two PRF payments of $3,000 and $8,500 would have to submit a report, since the aggregate total of the payments exceeds $10,000.
- The $10,000 minimum only applies to the total funding you received through the *CARES Act PRF distribution*. Practices might have received coronavirus relief funds through the Paycheck Protection Program (PPP), FEMA grants, SBA Loans, or other programs. A practice who received $8,000 in PRF monies and also a PPP loan of $75,000 does not have to report their PRF usage, since the PRF funds are less than the $8,000 threshold.

Practices who only received money through the Rural Health Clinic Testing special distribution will report through a separate system.

If you received $500,000 or more, you will be expected to provide more detailed data than is described in this document. Practices receiving payments at this level earned $25M or higher in annual revenue and likely have full-time accounting staff to complete their reports.

What if I had two tax IDs that combined exceeded $500,000?

Let us say a physician group owns two practices, a primary care practice with Tax ID A that received $400,000 in PRF funds, and a second urgent care practice with Tax ID B that received $250,000 in PRF funds. Each practice is still under the $500,000 threshold, so their reporting requirement will not change. The aggregate total of PRF funds amongst different tax IDs is not relevant.

Where, when, and how do I turn my report(s)?

We don't have this information yet. We do know the portal will open on January 15, 2021, and your first report (covering 2019 and 2020 data) will be due on February 15, 2021.

If your first report shows that you have not spent all your PRF money in a qualified way as of December 31, 2020, you will submit a second report for the first two quarters of 2021. (The due date for this report has not yet been defined, although we expect it to be July 15, 2021 through August 15, 2021.)

If you have not spent all your CARES PRF money in a qualified manner by June 30, 2021, you may be required to return the "unspent" portion to HHS.

Where is the official documentation on what HHS wants in its reports?

So far, HHS has released an outline of what it will be asking for here: https://www.hhs.gov/sites/default/files/post-payment-notice-of-reporting-requirements.pdf ("The Reporting Overview.") We do not have access to the actual reporting form at this time.

So, how do I spend all my PRF money in a qualified manner?

According to The Reporting Overview, practices may claim either or both of the following as qualified ways to use PRF funds:

- Expenses attributable to coronavirus not reimbursed by other sources; and,
- Lost revenue/decreased profit (patient care revenue minus patient care expenses) in 2020 compared to 2019.

Based on HHS definitions, most practices will be able to confidently claim decreased profit in 2020 compared to 2019, but their "expenses attributable to coronavirus" will be zero.

Decreased profit

HHS defines this in its Reporting Overview as:

> *lost revenues, represented as a negative change in year-over-year net patient care operating income (i.e., patient care revenue less patient care related expenses for the Reporting Entity, defined below, that received funding)... Recipients may apply PRF payments toward lost revenue, up to the amount of their 2019 net gain from healthcare related sources…*

Your decreased profit is a simple accounting (e.g., Quickbooks or Peachtree) report. Compare your medical-income-minus-medical expenses for 2019 Q1-Q3 to your medical-income-minus-medical-expenses for 2020 Q1-Q3. You can use your answers to Questions 13 and 14 as a guide. Because 2020 Q4 has just started, you'll have to use your best guess where you'll end up at the end of the year.

Let's say a practice reports the following numbers:

	2019 Q1 - Q3	2020 Q1 - Q3
Patient Care Income	1,500,000	1,150,000
Patient Care Expenses (not just coronavirus-related expenses)	1,100,000	975,000
“Net Patient Care Operating Income” / “Net Profit”	400,000	175,000

So far, the practice’s “lost revenues” (i.e., delta in net profit) is $400,000 - $175,000, or $225,000.

However, we have not yet accounted for 2020 Q4. The practice estimates they’ll do about the same income/expenses in Q4 as they did in Q3, so now their adjusted figures read:

	2019 Q1 - Q4	2020 Q1 - Q4
Patient Care Income	2,000,000	1,610,000
Patient Care Expenses (not just coronavirus-related expenses)	1,460,000	1,365,000
“Net Patient Care Operating Income” / “Net Profit”	540,000	245,000

So, our estimate for the practice’s total lost profits for all 2020 compared to all 2019 is $295,000.

Note that HHS’ use of the phrase “net revenue” might be confusing - it does not mean just the **income** delta between 2020 and 2019 (i.e. $2,000,000 - $1,610,000 = $390,000.)

Because the lost profits figure is $295,000, any PRF amount up to and including $295,000 will be considered applied in a qualified manner. Since this practice only got $40,000 in original PRF money (2% of 2,000,000), the practice could apply for

additional PRF money and (theoretically) receive up to $255,000 more without any question of being qualified.

However, let's say the practice really bounces back in 2020 Q4, cutting out unnecessary expenses and ineffective staff, and they do a bang-up job of patient recall. A large payer gives them a capitation bonus which boosts their revenue. They spend a lot more money on PPE and building changes, but they decrease spending on physician CME, employee benefits, and other extras to compensate. They would end the year with these numbers instead:

	2019 Q1 - Q4	2020 Q1 - Q4
Patient Care Income	2,000,000	1,800,000
Patient Care Expenses (not just coronavirus-related expenses)	1,460,000	1,300,000
"Net Patient Care Operating Income" / "Net Profit"	540,000	500,000

Now, the practice's "lost revenues" (i.e., delta in net profit) is $540,000 - $500,000, or $40,000, which is exactly what they have already received in PRF money.

If the practice applied for extra money in Phase 3, and were to receive an extra $15,000 in PRF money, **this would not have been spent "in a qualified manner" in 2020**. **Just having spent $15,000+ on coronavirus related expenses is not enough** (see "Expenses attributable to coronavirus" section below).

While there is still an opportunity to spend unspent PRF money in Q1 and Q2 of 2021 (see "**Where, when, and how do I turn in my report(s)?**" section above), the practice should be aware that they may be expected to return some or all of the extra $15,000.

Expenses attributable to coronavirus

Your practice may have spent a lot of money on coronavirus expenses, but HHS doesn't consider this qualified spending if they have been otherwise reimbursed. **Payments from insurance companies and patients are considered "reimbursements."**

The Reporting Overview from HHS says:

> *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.*

Note that "reimbursement" used in this sense refers to net income minus expenses, not a dollar-for-dollar payback (in the sense of "I reimbursed Wanda for her taxicab fare.")

Example: In 2020, Pediatric Partners took in $750,000 in insurance company and patient payments for claims, $30,000 in bonus pay-for-performance money, a PPP loan of $100,000, CARES Act PRF money of $20,000, and nonpatient-care revenue of $15,000. They spent $550,000 in total expenses in 2020. $100,000 of this was on payroll and other qualified PPP expenses. They estimate that $120,000 of non-PPP reimbursed expenses were coronavirus-related expenses: overtime and hazard pay outside the PPP period, building modifications, a new telehealth license, personal protective equipment, purchase of COVID testing supplies and machines, and more. *Because the $120,000 was more than exceeded just by their claims-related revenues of $750,000, HHS considers all these expenses "reimbursed."*

In other words, the only way you can report qualified COVID expenses is <u>if your practice generated a net loss in 2020</u>. This is only possible if a) you had a huge cash cushion at the start of COVID, which funded you all year; b) you are living on loans, since loans are not "income" for this purpose; c) you closed or opened your practice midway through the tax year or have some other unusual foreshortened fiscal year; or d) you are part of a large hospital system that allocates your revenue in an unusual way.

If your practice took in more patient care revenue from <u>all</u> sources (<u>including</u> insurance companies and patient payments) than it spent on coronavirus-related expenses, which is the case for almost every practice, report $0 here.