THE LATEST ON STIMULUS PACKAGES IMPACT ON NON-PROFIT SENIOR LIVING PROVIDERS

June 3, 2020
PRESENTATION OBJECTIVES

• Provide a summary of working capital loans available to non-profit senior living providers

• Review Medicare Provider Relief Fund

• Provide an update on the Paycheck Protection Program (“PPP”)
SUMMARY OF STIMULUS LOAN PROGRAMS AVAILABLE TO NON-PROFIT SENIOR LIVING PROVIDERS
OVERVIEW OF STIMULUS PROGRAMS

• If considering a working capital loan (in addition to the Paycheck Protection Program and Provider Relief Fund) the following are programs available to non profit senior living providers
  – Federal Payroll Tax Deferral (potentially enhanced with new PPP legislation)
  – Line of Credit with lending institutions

• Programs not currently available or limited success accessing
  – Medicare Advance Payment (Program has been suspended)
  – Economic Injury Disaster Loans & Emergency Advance (Only accepting agricultural applications)
  – Main Street Lending Program
    • Viable program but Federal Reserve still working to operationalize, no guidance on when applications will be accepted
  – FEMA
    • Many have submitted applications, but unaware of funds being received
OVERVIEW OF STIMULUS PROGRAMS
FEDERAL PAYROLL TAX DEFERRAL

• Federal Payroll Tax Deferral
  [link]

• Qualification – Eligible for any provider of payroll

• Structure – 50% of the deferred amount must be deposited by December 31, 2021 with remaining due on December 31, 2022

• Amount Provided – Employer’s portion of Social Security taxes can be deferred through December 31, 2020

• Other Considerations/Stipulations
  – Employers who receive PPP loan CAN defer deposit up until the date the lender issues decision to forgive PPP loan (could be enhance with new Bill)
  – Deferral should NOT cause a conflict with existing legal documents provided it would be classified as a payable rather than a loan

Source: IRS.GOV, as of June 2, 2020
PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND

PROVIDER RELIEF FUND
OVERVIEW OF STIMULUS PROGRAMS
PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND

• Public Health and Social Services Emergency Fund – Provider Relief
  www.hhs.gov/provider-relief/index.html

• Qualification – All facilities and providers that received Medicare fee-for-service reimbursements in 2019 are eligible

• Structure – Payments, not loans, and will not need to be repaid

• Amount Provided – $50 billion distributed based on Net Patient Service Revenue (2018 or 2019 cost report if already reviewed) and $4.9 Supplement

• Other Considerations/Stipulations
  – Payments received by direct deposit on April 10th, April 24th and May 22nd via Optum Bank-HHS PAYMENT
  – Within 90 days of receiving funds, providers must sign attestation confirming receipt of fund and agreeing to terms and conditions

Source: HHS.gov, as of June 2, 2020
OVERVIEW OF STIMULUS PROGRAMS
PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND

• Calculation
  – $50 Billion General Allocation
    2018 Gross Patient Revenue DIVIDED by $2.5 trillion TIMES $50 billion
  – $4.9 Billion Supplement
    Fixed distribution of $50,000 plus add’l $2,500 per Medicare certified bed

• Certification/Requirements
  – Originally 30 days, extended to 45 days now extended to 90 days
  – Payment shall reimburse recipient only for healthcare related expenses or lost revenues that are attributable to coronavirus
  – Not later than 10 days after end of each quarter recipient shall submit a report detailing expenses and lost revenue attributed to coronavirus

Source: HHS.gov, as of June 2, 2020
PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND REPORTING REQUIREMENTS

• General Distribution Portal

  – All providers who received distribution payments prior to April 24\textsuperscript{th} must provide HHS with accounting of their annual revenues by \textbf{June 3\textsuperscript{rd}}

  – To be considered for future payments providers must also submit revenue information by \textbf{June 3\textsuperscript{rd}}

  – Information needed for submission to portal
    • Providers program service revenue as submitted on most recent tax return
    • Estimated revenue losses in March and April 2020 due to COVID-19
    • Copy of most recently filed tax forms
    • Listing of TINs for subsidiary organizations that received funds but do not file separate tax returns

Source: HHS.gov, as of June 2, 2020
PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND REPORTING REQUIREMENTS

- Payment Attestation Portal
  - Sign attestation agreeing to terms and conditions within 90 days of payment
    - Must certify *separately* for each payment received
  - If rejecting funds, must complete attestation indicating this
  - Recipient certifies that:
    - Payments shall reimburse only for health care related expenses or lost revenues attributed to coronavirus
    - Will NOT use payments to reimburse expenses or losses that have been reimbursed from other sources

Source: HHS.gov, as of June 2, 2020
PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND REPORTING REQUIREMENTS

• Quarterly Reporting
  – Recipients who accept terms and conditions and received funds in excess of $150,000 are required to submit reports no later than 10 days after end of quarter (starting with quarter ending June 30, 2020)
  – Report must include:
    • Total amount of funds received from HHS
    • Amount of funds received that were expended or obligated to each project/activity
    • Detailed list of all projects/activities including name and description

Source: HHS.gov, as of June 2, 2020
PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND REPORTING REQUIREMENTS

• Has HHS defined lost revenue?
  – Not clearly but FAQ noted that lost revenue can be estimated by comparing year-over-year OR budget to actual OR historic trend before COVID-19

• Has HHS defined what expenses qualify for funding?
  – All non-reimbursable expenses attributable to COVID-19 qualify for funding

• HHS has not clarified time period eligible for incurring lost revenue or increased expenses

• What should a provider be doing to track lost revenue and expenses?
  – Create general ledger accounts to track COVID-19 expenses, by department if possible
  – Maintain all invoices related to COVID-19
  – Establish and document lost revenue methodology
  – IMPORTANT – cannot submit same costs (payroll for example) to be compensated from two separate stimulus programs

Source: HHS.gov, as of June 2, 2020
PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND
FREQUENTLY ASKED QUESTIONS

• Will there be future payments?
  – CARES Act allocated $175 billion to healthcare providers of which HHS has distributed $77.4 billion to date. No guidance has been provided on how/when remaining funds will be distributed.

• Can a provider accept one payment and reject another?
  – YES – a provider may reject any payment and still be eligible for future distribution payments

• If a provider wishes to return a payment, how does it do so?
  – Contact financial institution and initiate a ACH return using return code “R23 - Credit Entry Refused by Receiver”

• Will those receiving funds and the amount received be public?
  – YES – HHS will post bi-weekly public list of providers and their payments received once they attest receiving funds and agree to terms and conditions

https://data.cdc.gov/Administrative/HHS-Provider-Relief-Fund/kh8y-3es6

Source: HHS.gov, as of June 2, 2020
• What is the accounting entry when funds are received?
  – Most accountants recommending debt cash and credit deferred revenue
  – Timing to recognize into income will vary based on when revenue losses and COVID expenses are experienced

• Will a single audit be required?
  – Recipients recognizing more than $750,000 in a fiscal year will be required to complete a single audit
PAYCHECK PROTECTION PROGRAM
OVERVIEW OF STIMULUS PROGRAMS
PAYROLL PROTECTION PROGRAM

• Payroll Protection Program

• Qualification – Generally for organizations with less than 500 employees

• Structure – All/portion of loan forgiven should certain conditions be met

• Amount Provided – 2.5 times average monthly payroll

• Other Considerations/Stipulations
  – Requires certifications, most applicable likely being “Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant”
  – Proceeds must be spent on payroll, rent, interest on loans and utilities

Source: Small Business Administration, as of June 2, 2020
## PPP STATISTICS

<table>
<thead>
<tr>
<th>Lender Count</th>
<th>Loan Count</th>
<th>Net Approved Dollars</th>
<th>Avg. Loan Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Round One</td>
<td>4,975</td>
<td>1,661,367</td>
<td>$342.3B</td>
</tr>
<tr>
<td>Round Two</td>
<td>5,454</td>
<td>2,814,232</td>
<td>$167.9B</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan Size</th>
<th>Loan Count</th>
<th>Net Dollars</th>
<th>% of Count</th>
<th>% of Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$350k and under</td>
<td>4,196,555</td>
<td>$217,574,329,726</td>
<td>93.7%</td>
<td>42.6%</td>
</tr>
<tr>
<td>$350K - $1M</td>
<td>196,770</td>
<td>$111,974,156,942</td>
<td>4.4%</td>
<td>21.9%</td>
</tr>
<tr>
<td>$1M - $2M</td>
<td>52,577</td>
<td>$72,839,574,524</td>
<td>1.2%</td>
<td>14.3%</td>
</tr>
<tr>
<td>$2M - $5M</td>
<td>24,857</td>
<td>$73,888,784,828</td>
<td>0.6%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Above $5M</td>
<td>4,840</td>
<td>$33,957,652,904</td>
<td>0.1%</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

## PPP STATISTICS – NAICS SECTOR DESCRIPTION

<table>
<thead>
<tr>
<th>NAICS Sector Description</th>
<th>Loan Count</th>
<th>Net Dollars</th>
<th>% of Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care and Social Assistance</td>
<td>470,369</td>
<td>$65,928,653,513</td>
<td>12.96%</td>
</tr>
<tr>
<td>Professional, Scientific, and Technical Services</td>
<td>581,708</td>
<td>$65,086,484,846</td>
<td>12.79%</td>
</tr>
<tr>
<td>Constructions</td>
<td>429,185</td>
<td>$63,441,199,379</td>
<td>12.47%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>218,021</td>
<td>$53,490,261,475</td>
<td>10.51%</td>
</tr>
<tr>
<td>Accommodation and Food Services</td>
<td>339,642</td>
<td>$40,907,011,686</td>
<td>8.04%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>416,972</td>
<td>$39,625,529,718</td>
<td>7.79%</td>
</tr>
<tr>
<td>Other Services (except Public Administration)</td>
<td>468,297</td>
<td>$29,878,333,377</td>
<td>5.87%</td>
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<tr>
<td>Wholesale Trade</td>
<td>157,079</td>
<td>$27,382,331,546</td>
<td>5.38%</td>
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<tr>
<td>Admin. and Support and Waste Management and Remediation Svcs.</td>
<td>223,910</td>
<td>$26,055,244,298</td>
<td>5.12%</td>
</tr>
<tr>
<td>Transportation and Warehousing</td>
<td>152,461</td>
<td>$16,157,416,945</td>
<td>3.18%</td>
</tr>
<tr>
<td>Real Estate and Rental and Leasing</td>
<td>221,738</td>
<td>$15,154,047,215</td>
<td>2.98%</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>154,191</td>
<td>$11,934,915,042</td>
<td>2.35%</td>
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<tr>
<td>Educational Services</td>
<td>73,098</td>
<td>$11,735,623,051</td>
<td>2.31%</td>
</tr>
<tr>
<td>Other (Total of Sectors with Less than 2.00% of Total Amount)</td>
<td>568,928</td>
<td>$43,457,446,832</td>
<td>8.55%</td>
</tr>
</tbody>
</table>

SELECT SENIOR LIVING STATISTICS

• Ziegler has kept a data base of senior living providers who have applied for PPP loans

• Key statistics – Sample Size of 130 Communities:
  – Avg./Median number of employees per community – 333/294
  – Avg./Median PPP loan application amount - $2,433,143/$2,127,260
  – Number of banks application submitted to – 52
  – Number of communities who qualify but did not apply/returned – 13
  – Qualifying using alternative size standard – 6
  – Qualifying using religious exemption – 5

• We are not aware of anybody who applied and has been denied by either the Lender or SBA

Source: Ziegler Investment Banking, as of June 2, 2020.
On May 28th, House of Representatives approved (417-1) PPP Flexibility Act:

- Extension of covered period for allowable used of loan from June 30, 2020 to December 31, 2020
- Extension of covered period for forgiveness from 8 weeks to 24 weeks or December 31, 2020 whichever is earlier
- Changes 75% payroll requirement to 60%
- Extension of maturity of loan from 2 years to 5 years
- Extends first required payment on loan from 6 months to the date of forgiveness is determined or 10 months
- Changes safe harbor period for rehires from June 30, 2020 to December 31, 2020
- Allows borrowers of PPP to take full advantage of Payroll Deferral Program

Source: CNN.com June 2, 2020
HOUSE APPROVED PPP FLEXIBILITY ACT – SENATE REACTION

• On June 1, 2020 Senate Majority Leader Mitch McConnell and Senator Marco Rubio supported house bill
  – Senator McConnell hoped to approve legislation with a unanimous consent agreement the week of June 1st

• On June 2, 2020 several Republican Senators express disagreement with House proposal
  – Unlikely to pass on unanimous consent
  – Senator Johnson (Republican from Wisconsin) “There is no rush right now and we really ought to consider if there is a better way to do things”

• Appears likely an adjusted bill will pass but timing specifics on changes and timing unknown

Source: Marketwatch.com June 1, 2020 and CNN.com June 2, 2020
PPP CERTIFICATION

“Current economic uncertainty makes this loan request necessary to support on going operations of the applicant”

• Clarification on April 23, 2020 via FAQ #31
  – “Borrowers must make certification in good faith, taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business”

• Clarification on April 29, 2020 via FAQ 39
  – SBA and Department of Treasury will review all loan in excess of $2 million following the lender’s submission of borrower’s loan forgiveness application

Source: Small Business Administration, as of May 27, 2020
PPP CERTIFICATION

• Clarification on May 13, 2020 via FAQ #46 and #47
  – All borrowers of loans less than $2 million will be deemed to satisfy the good-faith certification requirement
  – Borrowers of loans with greater amounts can still satisfy the requirement but the SBA will review individual circumstances
  – If SBA determines borrower did not have an adequate basis for making good-faith certification, SBA will notify borrow and if borrower repays loan the SBA will NOT refer for administrative enforcement

• Summary
  – It is applicants responsibility to make good-faith certification of qualification based on all published Treasury and SBA guidance
  – If audited and SBA determines borrower did not have adequate basis for making good-faith certification, penalty is to repay loan plus interest accrued
  – Headline risk – publicity associated with having to justify or repay loan

Source: Small Business Administration, as of May 27, 2020
PPP TIMING

• Lender must disburse funds no later than ten calendar days after date of SBA approval of loan

• Lenders must make decisions on forgiveness within 60 days of the applicant’s request

• Once lender issues decision on forgiveness, SBA has 90 days to confirm loan forgiveness
  – For loans over $2 million, SBA will review loans for compliance with PPP rules during this 90 day period

• No guidance on when forgiveness application must be filed
  – When submitting application it is important to consider when first interest payment is due in relation to lender/SBA time parameters

Source: Small Business Administration, as of June 2, 2020
PPP LOAN FORGIVENESS

• SBA issued PPP Loan Forgiveness Application with instructions on May 15, 2020

• Applications consist of:
  – PPP loan forgiveness calculation form
  – PPP Schedule A
  – PPP Schedule A worksheet
  – Optional demographic information form

• Forgiveness application answers many questions but similar to program application it is anticipated further guidance will continue to be provided through FAQs

Source: Small Business Administration, as of June 2, 2020
PPP LOAN FORGIVENESS DOCUMENTATION

• Payroll
  – Bank account statements
  – Tax forms (941, state quarterly reporting requirements)
  – Payment receipts, cancelled checks or account statements documenting employers portion of insurance/retirement

• FTE
  – Payroll tax forms (941, state quarterly) for:
    • February 15, 2019 – June 30, 2019
    • January 1, 2020 – February 29, 2020
  – Documents may cover periods longer than specific time period

• Non-payroll
  – Copy of amortization schedules, lease agreements and invoices (or cancelled checks) for all cost included in application

• Application includes detailed list of documents each borrower needs to maintain but not required to submit

Source: Small Business Administration, as of June 2, 2020
PPP BEST PRACTICES

• File with Trustee additional debt compliance certificate

• Set up dedicated bank account to track use of PPP proceeds
  – If unable to create separate bank account, develop a clear system that confirms proceeds were spent on allowable expenditures

• Include in files as much documentation as possible

• Certifications
  – Application for PPP – document and include in files rationale for requesting
  – Forgiveness certification requires a lot of math based certifications, review with knowledgeable third party to confirm interpretation/accuracy

Source: Small Business Administration, as of June 2, 2020
ACCOUNTING TREATMENT

<table>
<thead>
<tr>
<th>At Incurrence</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td></td>
<td>Long-Term Debt</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Monthly Interest</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Expense</td>
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<td>Interest Payable</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount Forgiven</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Term Debt</td>
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<td>Revenue*</td>
</tr>
<tr>
<td>Interest Payment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Latest guidance from leading senior living accounting firms is:
  - PPP loans will NOT be subject to single audit
  - Grant accounting could potentially be used which could allow recording of revenue earlier (still under review)

Source: Ziegler Investment Banking, as of June 2, 2020
QUESTIONS
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