



12-14-2020

Dear Colleagues,

There has been much confusion about the use of government COVID assistance program money that the clinic has received. This letter is to clarify the rules for the appropriate use of the funds. The clinic has received funds from 3 different programs; the Medicare advance program, the HHS program and the payroll protection program (PPP).

The government sent an advance of Medicare billings to help with cash flow. This was an advance and not a grant. The amount was 3.3 mm dollars. We had no cash flow issues and this money was returned.

The HHS funds sent by the government equaled 2.1 mm dollars. These funds are tightly regulated and can only be used for specific COVID related expenses. We are estimating that we will only have about 500k-750k dollars of expense. The current plan approved by the board is to use the amount needed and send the rest back. Else, the balance is a loan and must be paid back with interest.

The clinic applied for and was given a PPP loan from the government in the amount of 9mm dollars. This is a loan they will forgive if used as stated by the government. We spent all 9mm dollars exactly the way indicated by the government and have applied for the loan to be forgiven. Any portion of the loan not forgiven must be paid back with interest. We will not know what portion, if any, will be forgiven until the first quarter of 2021 but are expecting it will all be forgiven. Contrary to popular misconception, these funds cannot be given to the doctors. It is specifically stated that funds cannot be used for anyone who makes over 100k per year. There have been rumors that other clinics have "cut a check to the doctors" from PPP funds. If that is the case, the funds will not be forgiven and the money will be required by the government in 2021 with interest.

The other problem with the PPP funds loan is that COVID expense which would have greatly affected overhead will not end in 2020. The question then became how do we keep available funds from PPP to use for 2021 COVID expenses? This led to the idea of paying 2021 expenses in 2020, which would effectively free up funds for next year. Please note that no funds were considered for use for any items that would not have ordinarily been purchased in 2021 anyway. Examples of these are advance payments for work to doctors, paying the 2021 malpractice premium in December, pre-paying expensive drug invoices, pre-paying rent, etc. This approach and specific examples were discussed with and approved by our professional tax accountant.

Money not spent in a calendar year is a profit which is subject to a 26% tax. Hence, using the money to pre-pay expenses not only saves the tax cost but also strengthens our financial position for 2021 as described above.

The board has been involved with PPP decisions throughout the process. Their conservative approach to use funds to pay COVID expenses over two years is to be commended. COVID caused production to go down while new expenses went up, but the PPP money allows us to keep distribution percentage equivalent to previous years. And moving some of that to next year, while COVID expenses continue, will help us do the same again. This approach is a long-sighted view which may make the finances seem less favorable this year, but exceptionally better and more consistent over the next year.

It is our sincere hope that this clarifies for each of you the questions about government money received by the clinic. Please call us with any concerns or questions.

Thank you for all you do. Thank you for your patience with the incredibly complex and constantly moving target of COVID related government support.

Be Safe,

Steve and Theron

# Net Production Comparatives 2020 vs 2019

