

## CY 2016 Fiscal Soundness Reporting Requirements

CMS is responsible for reviewing and monitoring the fiscal soundness of organizations (see Appendix 1: Regulatory References). The purpose of this document is to summarize the overall reporting process and define deadlines and information for each organization type. Since reporting requirements vary by organization type, this document is structured into the following categories based on information that it applies to: (1) All Organizations; (2) MAOs, MMPs, and 1876 Cost Plans; (3) PDPs; and (4) PACE organizations. In addition, the document includes appendices summarizing regulatory references (Appendix 1) and frequently asked questions (Appendix 2: General FAQs and Appendix 3: PACE FAQs). Organizations should use this document in conjunction with other available documentation discussed below. Questions not addressed by available documentation can be emailed to: [Financialreview@cms.hhs.gov](mailto:Financialreview@cms.hhs.gov).

Medicare Advantage Organizations (MAOs), Medicare-Medicaid plans (MMPs), Programs of All Inclusive Care for the Elderly (PACE) organizations, 1876 Cost Plans and Prescription Drug Plans (PDPs), are to upload a PDF or zip file of their previous year's (2015) audited annual financial statements into the Health Plan Management System (HPMS) Fiscal Soundness Module. These financial statements must be prepared using statutory accounting principles (unless the Domestic State requires otherwise) and are due to CMS not later than 120 days after the organizations' fiscal year ends (April 30<sup>th</sup>) of the current contract year unless an extension has been granted by CMS. PACE organizations are to submit audited annual financial statements prepared on an accrual basis and in accordance with generally accepted accounting principles, which are due to CMS 180 days after its fiscal year end date. Some organizations may also be required or notified by CMS to submit quarterly statements in certain situations.

A new organization without any audited annual financial statements for the previous period should upload the audited annual financial statements of its parent organization if it has a parent. Note: All new organizations will be placed on quarterly financial reporting throughout the first contract year until the organization's submission of its next audited annual financial statements.

For further guidance, please refer to the Clarification of Fiscal Soundness Requirements memorandum issued on November 17, 2015. This can be located under the "Documentation and Forms" of the fiscal soundness module in HPMS and at <https://www.cms.gov/Medicare/Health-Plans/HealthPlansGenInfo/FSRR.html>.

### All Organizations

Organizations must submit all required financial statements and information through the Health Plan Management System (HPMS) Fiscal Soundness Module which is updated and released annually at the end of March. This module tracks, monitors, and serves as a data repository for current and historical financial information. To access the HPMS fiscal soundness module, plan users must have a four digit CMS User ID and Internet access. Questions regarding connectivity or access to the appropriate information can be emailed to [HPMS\\_Access@cms.hhs.gov](mailto:HPMS_Access@cms.hhs.gov). For more information on how to obtain a four digit CMS User ID, please visit our CMS page at <https://www.cms.gov/Research-Statistics-Data-and-Systems/Computer-Data-and-Systems/HPMS/Overview.html>. Note: that all organizations are required to upload a PDF or zip file of their financial statements and no hardcopy documents will be accepted by CMS. Moreover, the PDF or zip file must include all pages including any associated letters, opinions, the signature page, and all other documentation.

Organizations are also responsible for accurately maintaining the names, telephone numbers, and email addresses of company personnel under the Contract Management section of HPMS. From a fiscal soundness perspective, the present Chief Financial Officer, Medicare Compliance Officer, and financial reporting

contacts must be included in the event CMS needs to contact organizational personnel. In addition, the Accounting Fiscal Year End information in the Contract Management section of HPMS must be accurate.

To access the HPMS Fiscal Soundness Module, plan users must logon to HPMS and from the “Monitoring” section of the main menu toolbar select “Fiscal Soundness”. Once the Fiscal Soundness Start page displays, the plan user will have the option to select navigation links from the Fiscal Soundness Secondary Menu. We encourage plan users to review all materials provided under the category “Documents and forms” and, in particular, the “Plan User Guide” is a valuable resource that provides step-by-step instructions for navigating the fiscal soundness module for either new, updates, or resubmissions of financial information.

Organizations making a new submission through the Fiscal Soundness Module will be prompted to select a “Contract Type” (i.e., “PDP”, “Non-PDP”, or “Both”) which is determined by what contract(s) are included in the financial statement being submitted. Most licensed insurance companies have been issued a National Association of Insurance Commissioners (NAIC) number. CMS requires that all organizations enter the NAIC number in HPMS for each contract number as well as for each parent organization. Organizations that do not have a NAIC number for the contract and/or parent organization must indicate that no NAIC number has been assigned. If a single financial statement covers multiple contract numbers, the financial report is to be submitted only once in accordance with the NAIC number including all of the covered contract numbers at that time. Organizations can satisfy this requirement by choosing either “PDP”, “Non-PDP”, or “Both” and this will allow organizations to submit a financial statement for a single contract or multiple contracts at the same time. For example:

1. PDP:                 Select for Single or NAIC groups that only include PDP Contracts.  
Example: Contract S8888 is a single PDP contract. The 'Type' will be 'PDP' because the contract is only a PDP plan.
  
2. Non-PDP:         Select for Single or NAIC groups that only include Non-PDP Contracts.  
Example: Contracts H0000 and H9999 are within same NAIC grouping. The 'Type' will be 'Non-PDP' because neither plan is a PDP.
  
3. Both:                Select for NAIC groups that contain both PDP and Non-PDP Contracts.  
Example a: Contracts H0000 and S9999 (PDP) are within the same NAIC grouping. The 'Type' will be 'Both' because one is a PDP and one is a Non-PDP.  
Example b: Contracts H0000 and S9999 (PDP) are within same NAIC grouping. H0000 is not required to submit quarterly. The 'Type' will be 'Both'

Organizations are required to submit specific financial statements to CMS by established deadlines throughout the year (summarized later in this document). The HPMS Fiscal Soundness Module requires the plan user to identify the financial statement as one of the following “Submission Types” (Note: All quarterly financial statements must be based on current year-to-date information):

- Audited Annual – The audited annual financial statements cover the closure of the previous fiscal year.
- Reporting Period Ending 3/31 – For quarters ending between 1/1 - 3/31
- Reporting Period Ending 6/30 – For quarters ending between 4/1 - 6/30
- Reporting Period Ending 9/30 – For quarters ending between 7/1 - 9/30
- Reporting Period Ending 12/31 – For quarters ending between 10/1- 12/31 (PACE contracts only)

As part of filing the audited annual financial statements, the organization is required to enter four or five specified data elements from the corresponding statements into HPMS. The required data elements vary by organization type, but examples include Total Assets, Total Liabilities, and Net Income. The plan user must

enter the specified data element numbers into the Fiscal Soundness Module as they appear on the financial statement being submitted. The appropriate number of zeroes should be added rounded numbers (e.g., add three zeroes (000) if numbers are rounded to the closest thousand). Plan users are also reminded to submit the correct information from the financial statements because the financial data elements will be verified by CMS. Errors identified during review will result in an email from CMS requesting a resubmission of corrected financial information. For example, a common error is that CMS requires “Total Cash Flow from Operations” and not any other Cash Flow total.

State insurance regulators may provide an organization with a deadline that is later than the CMS deadline to submit financial statements. CMS will accept a later filing date if an organization is able to provide/upload documentation such as, the Annual Statement Filing Checklist and Instructions for Health Entities as part of its submission of request for extension, as required by its Domestic State. Organizations can request the CMS extension by using the Submission of Extension Request function in the HPMS Fiscal Soundness Module. The plan user will identify the contract(s), requested extension date, reason for the extension, and upload the required supporting documentation as mentioned above and follow the instructions in the Fiscal Soundness Module User Guide for submitting extension requests. All contracts included in a same NAIC number must be included in the extension request and multiple contracts covering multiple NAIC numbers may be submitted together. In addition, an organization is able to designate the request as “Perennial” and will not have to make similar extension requests in the future. Extension requests must be made in a timely manner to avoid compliance issues.

**MAO, MMP and 1876 Cost Plan Organizations**

As part of filing the audited annual financial statements, the organization is required to enter the following four data elements from the corresponding statements into the HPMS Fiscal Soundness Module (same elements as stand-alone PDPs):

1. Total Assets
2. Total Liabilities
3. Net Income (current year-to-date)
4. Cash Flow from Operations (current year-to-date)

Organizations are required to submit specific financial statements to CMS by the deadlines established in the table below. The “Audited Annual” financial statement must be submitted by organizations for each contract by April 30th unless an extension has been granted and approved by CMS. CMS will notify organizations if quarterly reports must be submitted for certain contracts based on the deadlines below. A report for quarters ending between October 1 and December 31 is not required for any contract.

<b>Submission Type</b>	<b>Description</b>	<b>Submission Deadline</b>	<b>Requirement</b>
Audited Annual	Closure of previous fiscal year	120 days after the Fiscal Year Ends	All contracts
Reporting Period Ending 3/31	For quarters ending between 1/1 - 3/31	May 15	CMS identified contracts
Reporting Period Ending 6/30	For quarters ending between 4/1 - 6/30	August 15	CMS identified contracts
Reporting Period Ending 9/30	For quarters ending between 7/1 - 9/30	November 15	CMS identified contracts
Reporting Period Ending 12/31	For quarters ending between 10/1- 12/31	Not Applicable	Not Applicable

CMS contracts with legal entities whose financial statements are evaluated on their own merit. If the Domestic State permits organizations to submit financial statements that include other lines of business with the legal entity, CMS will accept these financial statements. However, the organization’s resources included in the financial statements submitted, must support and back the line of business contracted with CMS.

**Stand-alone PDP Organizations**

As part of filing the audited annual financial statements, the organization is required to enter the following four data elements from the corresponding statements into the HPMS Fiscal Soundness Module (same elements as MAO, MMP and 1876 Cost Plan Organizations).

1. Total Assets
2. Total Liabilities
3. Net Income (current year-to-date)
4. Cash Flow from Operations (current year-to-date)

Organizations are required to submit specific financial statements to CMS by the deadlines established in the table below. The “Audited Annual” financial statements must be submitted by organizations for each contract by April 30th unless an extension has been granted by CMS. In addition, all PDPs must submit quarterly reports based on the deadlines below. A report for quarters ending between October 1 and December 31 is not required for any contract.

Submission Type	Description	Submission Deadline	Requirement
Audited Annual	Closure of previous fiscal year	120 days after the Fiscal Year Ends	All contracts
Reporting Period Ending 3/31	For quarters ending between 1/1 - 3/31	May 15	All contracts
Reporting Period Ending 6/30	For quarters ending between 4/1 - 6/30	August 15	All contracts
Reporting Period Ending 9/30	For quarters ending between 7/1 - 9/30	November 15	All contracts
Reporting Period Ending 12/31	For quarters ending between 10/1- 12/31	Not Applicable	Not Applicable

All PDP contracts must submit the following (based on the deadlines in the table above):

- A copy of their audited annual financial statements (statutory or GAAP) within 120 days following their fiscal year end or within 10 days of receipt of those statements, whichever is earlier unless an extension has been granted by CMS. Licensed entities may not report under GAAP for a period longer than 36 months.
- Quarterly NAIC Health Blank form pages including: Jurat, Assets, Liabilities, Capital and Surplus, Statement of Revenue and Expenses, Capital and Surplus Account, and Cash Flow. CMS will accept a PDF or zip file of the Health Blank form submitted to the state in its entirety.

PDP organizations with any state licensure waivers must submit quarterly updates on the status of obtaining licensure for each waived state, as specified in the table above.

All PDP organizations must report to CMS annually, within 120 days of the end of the fiscal year, significant business transactions between the organization and a party in interest (42 CFR § 423.514). Definitions for significant business transactions and a party in interest can be found in 42 CFR § 423.501 and documentation submitted must include the following:

- A description of the transaction or transactions taking place with the party in interest.
- Identification of the party in interest and an explanation of how that party meets the definition of a party in interest.
- The costs incurred during the fiscal year relating to the transactions between the party in interest and the organization and what those costs would have been if incurred at fair market value. If the costs incurred exceed fair market value, provide an explanation justifying that the costs are consistent with prudent management and fiscal soundness requirements.
- Combined financial statements for the organization and a party in interest if 35% or more of the costs of operation of the organization go to a party in interest, or 35% or more of the revenue of a party in interest is from the Part D sponsor.

If a PDP organization did not have significant business transactions with a party in interest as prescribed in CFR § 423.501, then the organization must submit an attestation signed by its President, CEO, or CFO indicating that the contracting entity did not have significant business transactions with a party in interest as prescribed in CFR § 423.501.

**Direct Contract PDPs must submit:**

- A copy of their audited annual financial statements (statutory or GAAP) within 120 days following their fiscal year end or within 10 days of receipt of those statements, whichever is earlier unless an extension has been granted by CMS.
- Quarterly un-audited financial statements (first, second, and third as specified in the table above), which convey the same information contained in the NAIC Health Blank form (the organization may complete the NAIC Health Blank pages as required for licensed PDP contracts).
- Documentation showing that an insolvency deposit of \$100,000 is being held in accordance with CMS requirements by a qualified financial institution (unless CMS waived this requirement in writing for the organization).
- An ERISA Sec. 411(a) attestation directly to CMS by April 30th with their Annual submission.
- A copy of their credit rating (or, if they have no credit rating, a Dun & Bradstreet report) on a quarterly basis directly to CMS as follows:

For Quarters ending January 31, or February 28, or March 31:	May 15th
For Quarters ending April 30, or May 31, or June 30:	Aug. 15th
For Quarters ending July 31, or August 31, or September 30:	Nov. 15th
Annual:	April 30th

**PACE Organizations**

As part of filing the audited annual financial statements, the organization is required to enter the following five data elements from the corresponding statements into the HPMS Fiscal Soundness Module:

1. Total Assets
2. Total Liabilities (including subordinated debt), if applicable
3. Subordinated debt, if applicable
4. Net Income (current year-to-date)
5. Cash Flow from Operations (current year-to-date)

## Subordinated Debt

Subordinated debt is defined by CMS as an unsecured debt whose repayment to its parent company ranks after all other debts have been paid when the subsidiary files for bankruptcy. PACE organizations that report subordinated debt must complete a “Attestation of Subordinated Debt Arrangement” form and upload a signed version into the HPMS Fiscal Soundness Module and must be included with both annual and quarterly financial statements submissions. The PACE Organization Attestation of Subordinated Debt Arrangement form has been updated for 2016 and can be located under the “Documentation and Forms” section of the fiscal soundness module in HPMS.

For Fiscal Soundness Module data entry purposes, if subordinated debt is identified by the PACE organization on the balance sheet, it should be included in the total PACE liabilities, and the amount of subordinated debt should be entered for the subordinated debt financial data element. CMS also expects the amount on the Attestation of Subordinated Debt Arrangement form to also match the amount entered for the subordinated debt data element.

## Reporting Requirements

Organizations are required to submit specific financial statements to CMS by the deadlines established in the table below (based on a Calendar Year reporting cycle). Organizations are not required to report quarterly, unless CMS notifies the organization and/or the organization is operating during its trial period which is explained below.

<b>Submission Type</b>	<b>Description</b>	<b>Submission Deadline</b>	<b>Requirement</b>
Audited Annual	Closure of previous fiscal year	180 days after Fiscal Year Ends	All contracts
Reporting Period Ending 3/31	For quarters ending between 1/1 - 3/31	May 15	CMS identified contracts and trial period contracts
Reporting Period Ending 6/30	For quarters ending between 4/1 - 6/30	August 15	CMS identified contracts and trial period contracts
Reporting Period Ending 9/30	For quarters ending between 7/1 - 9/30	November 15	CMS identified contracts and trial period contracts
Reporting Period Ending 12/31	For quarters ending between 10/1 - 12/31	February 15	CMS identified contracts and trial period contracts

All fiscal soundness requirements must be met by the individual PACE legal entity, not the parent organization, and any substitutions are unallowable. If the PACE organization is a line of business of the parent organization, and audited annual financial statements are not available at the PACE legal entity level, audited annual financial statements may be provided for the parent organization. However, the PACE organization must report the required financial data elements: Assets, Liabilities, Subordinated Debt (if applicable), Net Income/Loss, and Cash Flow from Operations and provide supporting annual financial statements for the corresponding period at the PACE legal entity level.

Note: Organizations may reference the HPMS memorandum dated 2/19/2016, “Annual Verification of Parent Organization and Legal Entity Name” for instructions regarding updates to parent organization and/or legal entity names.

### New PACE Organizations

New PACE organizations operate during a trial period which is defined as the first three contract years the organization operates under a program agreement with CMS. For purposes of fiscal soundness, the trial period ends when CMS has reviewed audited annual financial statements covering three full 12-month financial reporting periods. A PACE organization operating within the trial period must submit quarterly financial statements to CMS throughout the trial period within 45 days after the last day of each quarter of their fiscal year. The financial statements must include a balance sheet, income statement, Attestation of Subordinated Debt Arrangement form (if applicable), and cash flow statement and have cumulative totals, not just totals for that particular quarter.

### Fiscal Year-End Reporting

Since many PACE organizations do not use standard calendar year financial reporting cycles, we have established the table below to determine your organization’s reporting schedule. The first column in the tables below is the fiscal year-end date for the organization and the other columns indicate deadlines to submit required financial statements based on the organization’s fiscal year-end.

**PACE Organization Submission Deadlines**

<b><u>HPMS -- Contract Year 2016</u></b>					
<b><u>PACE Fiscal Year End Dates</u></b>	<b><u>Audited Annual</u></b>	<b><u>Period Ending 3/31</u></b>	<b><u>Period Ending 6/30</u></b>	<b><u>Period Ending 9/30</u></b>	<b><u>Period Ending 12/31</u></b>
<b>07/31/2015</b>	Audited Annual by 3/31/2016	PE 1/31/2016 due by 3/31/2016	PE 4/30/2016 due by 06/15/2016	PE 7/31/2016 due by 09/15/2016	PE 10/31/2016 due by 12/15/2016
<b>08/31/2015</b>	Audited Annual by 3/31/2016	PE 2/29/2016 due by 4/15/2016	PE 5/31/2016 due by 07/15/2016	PE 8/31/2016 due by 10/15/2016	PE 11/30/2016 due by 1/15/2017
<b>09/30/2015</b>	Audited Annual by 3/31/2016	PE 3/31/2016 due by 5/15/2016	PE 6/30/2016 due by 08/15/2016	PE 9/30/2016 due by 11/15/2016	PE 12/31/2016 due by 2/15/2017
<b>10/31/2015</b>	Audited Annual by 4/30/2016	PE 1/31/2016 due by 3/31/2016	PE 4/30/2016 due by 06/15/2016	PE 7/31/2016 due by 09/15/2016	PE 10/31/2016 due by 12/15/2016
<b>11/30/2015</b>	Audited Annual by 5/31/2016	PE 2/29/2016 due by 4/15/2016	PE 5/31/2016 due by 07/15/2016	PE 8/31/2016 due by 10/15/2016	PE 11/30/2016 due by 1/15/2017
<b>12/31/2015</b>	12/31/2015 Audited Annual by 6/30/2016	PE 3/31/2016 due by 5/15/2016	PE 6/30/2016 due by 08/15/2016	PE 9/30/2016 due by 11/15/2016	PE 12/31/2016 due by 2/15/2017
<b>01/31/2016</b>	Audited Annual by 7/31/2016	PE 1/31/2016 due by 3/31/2016	PE 4/30/2016 due by 06/15/2016	PE 7/31/2016 due by 09/15/2016	PE 10/31/2016 due by 12/15/2016
<b>02/28/2016</b>	Audited Annual by 8/31/2016	PE 2/29/2016 due by 4/15/2016	PE 5/31/2016 due by 07/15/2016	PE 8/31/2016 due by 10/15/2016	PE 11/30/2016 due by 1/15/2017
<b>03/31/2016</b>	Audited Annual by 9/30/2016	PE 3/31/2016 due by 5/15/2016	PE 6/30/2016 due by 08/15/2016	PE 9/30/2016 due by 11/15/2016	PE 12/31/2016 due by 2/15/2017
<b>04/30/2016</b>	Audited Annual by 10/31/2016	PE 1/31/2016 due by 3/31/2016	PE 4/30/2016 due by 06/15/2016	PE 7/31/2016 due by 09/15/2016	PE 10/31/2016 due by 12/15/2016
<b>05/31/2016</b>	Audited Annual by 11/30/2016	PE 2/29/2016 due by 4/15/2016	PE 5/31/2016 due by 07/15/2016	PE 8/31/2016 due by 10/15/2016	PE 11/30/2016 due by 1/15/2017
<b>06/30/2016</b>	Audited Annual by 12/31/2016	PE 3/31/2016 due by 5/15/2016	PE 6/30/2016 due by 08/15/2016	PE 9/30/2016 due by 11/15/2016	PE 12/31/2016 due by 2/15/2017

**PACE Organization Submission Deadlines**

**HPMS -- Contract Year 2017 (To be released in March, 2017)**

<b><u>PACE Fiscal Year End Dates</u></b>	<b><u>Audited Annual</u></b>	<b><u>Period Ending 3/31</u></b>	<b><u>Period Ending 6/30</u></b>	<b><u>Period Ending 9/30</u></b>	<b><u>Period Ending 12/31</u></b>
<b>07/31/2016</b>	Audited Annual by 3/31/2017	PE 1/31/2017 due by 3/31/2017	PE 4/30/2017 due by 06/15/2017	PE 7/31/2017 due by 09/15/2017	PE 10/31/2017 due by 12/15/2017
<b>08/31/2016</b>	Audited Annual by 3/31/2017	PE 2/28/2017 due by 4/15/2017	PE 5/31/2017 due by 07/15/2017	PE 8/31/2017 due by 10/15/2017	PE 11/30/2017 due by 1/15/2018
<b>09/30/2016</b>	Audited Annual by 3/31/2017	PE 3/31/2017 due by 5/15/2017	PE 6/30/2017 due by 08/15/2017	PE 9/30/2017 due by 11/15/2017	PE 12/31/2017 due by 2/15/2018
<b>10/31/2016</b>	Audited Annual by 4/30/2017	PE 1/31/2017 due by 3/31/2017	PE 4/30/2017 due by 06/15/2017	PE 7/31/2017 due by 09/15/2017	PE 10/31/2017 due by 12/15/2017
<b>11/30/2016</b>	Audited Annual by 5/31/2017	PE 2/28/2017 due by 4/15/2017	PE 5/31/2017 due by 07/15/2017	PE 8/31/2017 due by 10/15/2017	PE 11/30/2017 due by 1/15/2018
<b>12/31/2016</b>	12/31/2016 Audited Annual by 6/30/2017	PE 3/31/2017 due by 5/15/2017	PE 6/30/2017 due by 08/15/2017	PE 9/30/2017 due by 11/15/2017	PE 12/31/2017 due by 2/15/2018

## **APPENDIX 1: Regulatory References:**

### **MA and MMP Organizations**

42 CFR §422.2 Definitions

42 CFR §422.504(a)(14) Contract provisions

42 CFR §422.516(a)(5) Validation of Part C reporting requirements

### **1876 Cost Plans**

42 CFR §417.120 Fiscally sound operation and assumption of financial risk

42 CFR §417.126 Recordkeeping and reporting requirements

### **PDP Organizations**

42 CFR §423.4 Definitions

42 CFR §423.505(a)(b)(23) Contract provisions

42 CFR §423.514(a)(4) Validation of Part D reporting requirements

### **PACE Organizations**

42 CFR §460.80(a) Fiscal soundness

42 CFR §460.200 (a) Maintenance of records and reporting of data

42 CFR §460.208 Financial statements

## **APPENDIX 2: General FAQs**

- Q1. Does my organization need to submit an audited annual financial statement if it has not previously contracted with CMS?
- A1. Yes, all new Medicare Advantage Organizations (MAOs), Medicare-Medicaid Plans (MMPs), 1876 Cost Plans, and Prescription Drug Plans (PDPs) must provide through HPMS, the following financial information no later than April 30<sup>th</sup> unless an extension has been granted by CMS.
- A new organization without any audited annual financial statements for the previous period should upload the audited annual financial statements of its parent organization, if applicable. In addition, the organization must submit the quarterly financial statements throughout the first contract year.
- Q2. The figures used in our audited annual financial statements are rounded to the nearest thousand. Should I use this same rounding when I key in the financial data elements in HPMS?
- A2. When you transmit the audited figures that are rounded to the nearest thousand in the financial statements, please add the appropriate number of zeroes to the end of the rounded figures when you enter the figure on the data entry screen. For example, use the exact numbers that appear in the uploaded report plus the three zeroes (000) if the number is rounded to the nearest thousand.
- Q3. How do I contact CMS if I have general questions or questions about my organization's filing?
- A3. You may contact CMS by email at: [FinancialReview@cms.hhs.gov](mailto:FinancialReview@cms.hhs.gov) or contact the financial management specialist assigned to your plan as specified on the last page of the Plan User Guide.
- Q4. Does each contract number (e.g., H or S number) under a multi-contract entity require a separate reporting?
- A4. No. If a single financial statements cover multiple contract numbers, the financial statements are to be submitted only once in accordance with the NAIC# including all of the covered contract numbers at that time.
- Q5. Should I include my organization's "H," "R" or "S" number on the audited annual financial statements?
- A5. Please include the appropriate contract numbers and the NAIC# on the cover page.
- Q6. What if I am unable to submit the audited annual financial statements to CMS by April 30<sup>th</sup>?
- A6. April 30<sup>th</sup> is an established deadline based on a 120-days reporting requirement that organizations with either Medicare health plans (excluding PACE organizations) and or Prescription Drug plans need to submit its audited annual financial statements. However, if your respective state has a different submittal date and you are able to officially demonstrate this, CMS will accept a later filing. However, you must submit an extension request using the Submission of Extension Requests function in the HPMS Fiscal Soundness Module (refer to pages 2-3). You will indicate the contract(s), requested extension date, reason for the extension and upload required support documentation such as, the Annual Statement Filing Checklist and Instructions for Health Entities as part of its submission of request for extension, as required by its Domestic State. Extension requests for multiple contracts covering multiple NAIC numbers may be submitted together however all

contracts under a single NAIC number must be included. Note: You are able to designate your request as Perennial and will not have to make similar extension requests in the future. Failure to submit on time without requesting an extension places your organization in non-compliance status.

- Q7. What should I do if I have financial concerns or issues with my State regarding inadequate State reserves, a corrective action plan, or special monitoring by the State regulator?
- A7. You should immediately contact the CMS financial management specialist assigned to your plan as specified on the last page of the Plan User Guide.
- Q8. If the Organization's State Department of Insurance allows audited annual financial statements to be submitted using GAAP or SAP format, which format should the Organization submit to CMS?
- A8. For organizations with either Medicare health plans (excluding PACE organizations) and or Prescription Drug plans, if the Organization's State Department of Insurance allows either format, CMS will accept the format that the State accepts.
- Q9. If the Organization has a fiscal year end that does not correspond to the calendar year end, when should the Organization submit its audited annual financial statements?
- A9. Organizations with either Medicare health plans (excluding PACE organizations) and or Prescription Drug plans should submit the latest audited annual financial statements 120 days after the end of their fiscal year)
- Q10. Where would I find information when I need to make a correction to my parent organization and or legal entity name?
- A10. Organizations may reference the HPMS memorandum dated 2/19/2016, "Annual Verification of Parent organization and Legal Entity Name" for instructions regarding updates to parent organization and/or legal entity names.

### **APPENDIX 3: PACE FAQs**

P-Q1. Are our financial records subject to audit or inspection by CMS?

A1. Yes, a PACE organization must permit CMS and the State administering agency to inspect any books and records of original entry that pertain to any aspect of services rendered. Onsite reviews of renewing organizations are conducted at least once every two years by CMS and state personnel. Organizations under the trial period have onsite reviews performed every year for the initial three years of the PACE program agreement.

P-Q2. What is the trial period?

A2. For purposes of fiscal soundness, the trial period ends when CMS has reviewed audited annual financial statements covering three full 12-month financial reporting periods.

P-Q3. What are the financial reporting requirements while a company remains under the trial period?

A3. A PACE organization must submit quarterly financial statements to CMS throughout the trial period within 45 days after the last day of each quarter of their fiscal year. The financial statements must include a balance sheet, income statement, Attestation of Subordinated Debt Arrangement form (if applicable) and cash flow statement and have cumulative totals, not just totals for that particular quarter.

P-Q4. If we are in the third year of the trial period, and have a fiscal year-end other than 12/31, when would the trial period come to an end?

A4. The trial period ends when CMS has reviewed audited annual financial statements covering three full 12-month financial reporting periods. For example, if the effective date of your contract is 9/30/16 and a fiscal year ends of 6/30/20 your company would continue to submit quarterly financial statements to CMS until 12/31/20. Thereafter, unless otherwise required by CMS, only annual audited financial reports would be filed with CMS as long as the fiscal soundness requirements are met.

P-Q5. Our organization has an effective date of 03/01/16 and a fiscal year end of 6/30. If we did not have enrollment activity for several months, when should our initial quarterly financial statements be submitted to CMS?

A5. Enrollment activity does not change the due dates for financial submissions. The initial quarterly financial statements should be submitted to CMS after the effective date of your organization's contract with CMS. This means your quarterly for the Reporting Period Ending 3/31 would be due to CMS by 5/15.

P-Q6. What should we do if we cannot submit our financial statements by the regulatory deadlines?

A6. If you cannot file the financial information by the regulatory deadlines defined under CFR 460.208 (a), you must contact CMS before the prescribed due date. Failure to submit on time without notifying CMS places your organization in non-compliance status.

P-Q7. We are a new organization and do not have 12 months of financial information that would warrant the cost of an audit by an independent certified public accountant. How do we ensure we meet fiscal soundness reporting requirements?

A7. If you do not have a parent company, and operate without the financial backing of a larger organization, your organization can wait until you have at least 12 months of accumulated financial operations. For example, if your organization had an effective date of 05/01 with a fiscal year ending date of 09/30, CMS may not expect you to have an audit performed that would contain, as a maximum, only four months of data. Instead, notify the financial management specialist assigned to your organization or, email the CMS Financial Review mailbox at [FinancialReview@cms.hhs.gov](mailto:FinancialReview@cms.hhs.gov), to discuss your situation and the best approach to meet your fiscal soundness reporting requirements. If your organization was operational before signing a PACE contract with CMS, and had an audit completed, that audited annual financial statements would suffice the Fiscal Soundness Reporting Requirements.

P-Q8. Our organization has its financial operations included as part of a consolidated audit of our parent company and its subsidiaries. Can we satisfy the fiscal soundness reporting requirements by submitting to CMS the consolidated audited annual financial statements?

A8. All fiscal soundness requirements must be met by the individual PACE legal entity, not the parent organization, and any substitutions are unallowable. If the PACE organization is a line of business of the parent organization, and audited annual financial statements are not available at the PACE legal entity level, audited annual financial statements may be provided for the parent organization. However, the PACE organization must report the required financial data elements: Assets, Liabilities, Subordinated Debt (if applicable), Net Income/Loss, and Cash Flow from Operations and provide supporting annual financial statements for the corresponding period at the PACE legal entity level.

Note: Organizations may reference the HPMS memorandum dated 2/19/2016, “Annual Verification of Parent Organization and Legal Entity Name” for instructions regarding updates to parent organization and/or legal entity names.

P-Q9. When our company submitted its application package for a PACE contract, we were required to submit an insolvency plan which had to be approved by CMS and the State administering agency. Must we notify CMS and the State if the insolvency plan changes?

A9. Yes. Both the State and CMS will want to review any changes to the insolvency plan.

P-Q10. The fiscal soundness module in HPMS requires our NAIC number. What is this number and do PACE organizations have one?

A10. NAIC is the acronym for the National Association of Insurance Commissioners. It is a five-digit number used to identify Medicare Advantage organizations, PDPs, and other Medicare health plans. PACE organizations generally do not have an NAIC number. Instead, the H contract number is used for PACE identification and should be included in all correspondence (written and verbal) with CMS.

P-Q11. What is subordinated debt?

A11. Subordinated debt is defined by CMS as an unsecured debt whose repayment to its parent company ranks after all other debts have been paid when the subsidiary files for bankruptcy. PACE organizations that report subordinated debt must complete an Attestation of Subordinated Debt Arrangement form and upload a signed version into the HPMS Fiscal Soundness Module and must be included with both annual and quarterly financial statements submissions. The PACE Organization Attestation of Subordinated Debt Arrangement form has been updated for 2016, and

can be located under the “Documentation and Forms” section of the fiscal soundness module in HPMS.

P-Q12. How does CMS want us to report our subordinated debt arrangements?

A12. PACE organizations that report subordinated debt must complete an Attestation of Subordinated Debt Arrangement form and upload a signed version into the HPMS Fiscal Soundness Module. The form must be included with both annual and quarterly financial statements submissions. The PACE Organization Attestation of Subordinated Debt Arrangement form has been updated for 2016, and can be located under the “Documentation and Forms” section of the fiscal soundness module in HPMS.

For fiscal soundness module data entry purposes, if subordinated debt is identified by the PACE organization on the balance sheet, it should be included in the total PACE liabilities, and the amount of subordinated debt should be entered for the subordinated debt financial data element. CMS will calculate total unsubordinated liabilities by subtracting the subordinated debt from the total liabilities prior to making the final fiscal soundness determination. Note that the amount on the Attestation of Subordinated Debt form must also match the amount entered for the subordinated debt data element.

P-Q13. Can our organization report subordinated debt arrangements with entities other than the parent organization as subordinated debt in the fiscal soundness module and on the Attestation of Subordinated Debt Arrangement form?

A13. No. Subordinated debt is defined by CMS as an unsecured debt whose repayment to its parent company ranks after all other debts have been paid when the subsidiary files for bankruptcy. CMS will calculate total unsubordinated liabilities by subtracting the subordinated debt (identified as being with the parent organization) from the total liabilities prior to making the final fiscal soundness determination.

P-Q14. Where would I find information when I need to make a correction to my parent organization and or legal entity name?

A14. Organizations may reference the HPMS memorandum dated 2/19/2016, “Annual Verification of parent organization and legal entity name” for instructions regarding updates to parent organization and/or legal entity names.