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Commonwealth of  
Pennsylvania

Office of Developmental  
Programs

Cost Report Instructions for  
the Mental Retardation  
Program

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# General Instructions for Obtaining and Submitting Cost Reports

## Introduction

The following outlines the instructions for the new cost report required to be submitted by providers of mental retardation (MR) services, including the Consolidated and Person/Family Directed Support (P/FDS) Waivers and Base funded services. Providers rendering services in the Consolidated and P/FDS Waivers will be required to submit a cost report in order to be paid for services rendered unless providers are paid through a fee schedule.

The Administrative Entities (AE) have the option to use the cost report to establish rates for services that are Base funded, but are not required to use the cost report. As such, the cost report includes a Schedule A-1 where costs attributable to Base funded services may be reported.

These instructions and the cost report schedules replace the prior rate setting spreadsheets and instructions.

## Applicability

Providers rendering services to individuals **enrolled** in the Consolidated or P/FDS waivers are required to submit a cost report in order to be reimbursed by the Commonwealth of Pennsylvania Department of Public Welfare (DPW) for services rendered to waiver recipients. Waiver services, herein referred to as “Waiver” are available to individuals with mental retardation ages three and above. However, services funded by the waivers are not available to individuals while they are living or staying in public or private Intermediate Care Facilities for the Mentally Retarded (ICFs/MR), nursing homes, residential treatment facilities, correctional facilities, drug and alcohol facilities or hospitals.

Base funded services, herein referred to as “Base” or “Base funded” which are funded through State-only dollars, are available to individuals with mental retardation of any age. Costs associated with these Base funded services must be reported separately from the

costs to provide waiver services. The AEs may use the cost report to develop rates for Base funded services.

Providers that will be reimbursed on a fee schedule, including those in the Participant Directed Services (PDS) program are not required to submit cost data for those services. All other providers will be required to submit a cost report per these instructions in order to be paid by DPW. The term “providers” refers to both non-agency and agency providers.

## Background

The Consolidated and P/FDS waivers are authorized by the Centers for Medicare and Medicaid Services (CMS) under a 1915(c) Home and Community Based Waiver (HCBW). These services, including the reimbursement methodology, are required to meet federal requirements. As such, the Office of Developmental Programs (ODP) is implementing a prospective cost-based reimbursement methodology.

## Purpose

The purpose of these instructions is to furnish detailed instructions regarding completion of a cost report in order to receive reimbursement for Medicaid covered services under the waivers. In addition, the cost report may be used by AEs to establish rates for Based funded services. Providers shall submit their cost reports using the attached cost reporting forms.

**Costs need to be separated for Waiver (Schedule A) and Base (Schedule A-1) funded services.** The cost report will replace the rate setting spreadsheets, which requested a projected budget. Providers will be required to submit a cost report that reflects actual historical costs related to delivering services to individuals in the Consolidated and P/FDS waivers, separate from the Base-funded program.

The cost report is available electronically in Microsoft Excel software, and must be completed in the Excel format. Electronic versions of the cost report and instructions can be found at the following ODP link:

### To Be Determined

The information reported in the cost report will be used by ODP to develop prospective payment rates for each procedure code billed by the provider. Incurred costs are not necessarily a guarantee of rates to be paid in the future as they are subject to audit and review. ODP will review all allowable costs for reasonableness, as described under General Cost Principles in developing future rates. The allowable costs are further detailed in the instructions.

New providers that do not have historical costs will be paid an average reimbursement rate for providers in the area. ODP will develop an average rate for each procedure code for each geographic area. Only the Certification pages of the cost report are required for new providers. Existing providers that wish to provide a new service, for which historical cost experience is not available, will also be paid an average of reimbursement rates for that service in the area. Only the Certification pages of the Cost Report must be completed for new services.

## Submission Requirements

Providers must submit actual, final cost reports and clearly labeled electronic copies of any supporting documentation no later than the 15th day of the 5th month following the close of the provider's fiscal period or year end. For example, if a provider's fiscal year end is 06/30 then the cost report would be due November 15th. Period end numbers should be restated three months after the close of the year. A provider then has 45 days to submit the cost report using these restated figures.

The receipt date recognized by ODP for the filing of the cost report is the date the electronic cost report is submitted to the designated address AND the Certification Report is received at [address to be determined]. A postmark date is not the receipt date. Failure to file an acceptable cost report within the required time limits may result in termination of the provider agreement and/or no update to the provider's prospective payment rates.

This cost report must cover a prior fiscal year period of twelve consecutive months. Facilities beginning operations during the fiscal period will prepare a report from the date of approval as a provider of service in the Consolidated and P/FDS program to either June 30 or December 31, depending on the fiscal period of the provider. Facilities with a change of ownership during the fiscal period will prepare two reports: a final report submitted by the entity selling the facility for the period of the fiscal year that the entity owned the facility, and a report submitted by the entity buying the facility for the period of the fiscal year that the new entity owned the facility.

A provider that enters into a termination agreement or an agreement of sale, shall file an acceptable final cost report, as well as outstanding annual cost reports with the ODP within 90 days of the effective date of the termination, transfer, withdrawal or change of ownership.

Completed cost reports in Excel format, including supporting information and all completed schedules, must be submitted electronically via e-mail to:

To Be Determined

In addition to submitting an electronic version of the cost report, the provider must also submit a printed, signed copy of the certification page. Send the signed certification page of the cost report to:

To Be Determined

Any questions related to the filing or completion of the cost report shall be directed to:

To Be Determined

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## General Instructions for Completion of Cost Reports

The cost report contains the following pages and schedules:

1. Certification Page
2. Certification Page – Provider Site Sheet
3. Certification Page – Service Selection
4. Schedule A – Expense Report (Waiver)
5. Schedule A-1 – Expense Report (Base)
6. Schedule B – Income Statement
7. Schedule C – Comparative Balance Sheet
8. Schedule D – Direct Care Staffing Expenses
9. Schedule D-1 – Indirect Staffing Expenses
10. Schedule D-2 – Administrative Staffing Expenses
11. Schedule E – Provider Depreciation and Amortization Expenses
12. Schedule F – Administrative and Occupancy Expenses
13. Schedule G – Related Party Transactions
14. Schedule H – Direct Care Expense Allocation Procedures
15. Schedule H-1 – Indirect Program Expense Allocation Procedures
16. Schedule H-2 – Administrative Expense Allocation Procedures

Instructions for completing each schedule of the cost report are provided below. These instructions are not intended to be exhaustive. In completing the cost report, providers must refer to applicable rate setting bulletins related to the prospective cost-based reimbursement system as guides in identifying allowable costs and/or other reporting clarifications. In addition, the results of prior audits (e.g. Independent Public Accountant (IPA), DPW), specific to the provider, must be considered in the preparation of the cost report.

The cost report must be based on financial and statistical records maintained by the provider. These records must be detailed, orderly, complete and available for audit. In general, ensure that supporting documentation is maintained for all costs reported. Providers are required to retain the supporting financial and statistical documentation for a minimum of five years. This documentation must be kept available in a format that can be easily audited

at any time. All reported amounts must allow for reconciliation to the provider's general ledger and audited financial statement.

All schedules must be fully completed. The identifying information (Provider Name, Master Provider Index (MPI) number and Period of Report) at the top of each schedule will automatically populate from the entry made on the Certification Page. All information called for in the schedules must be furnished unless it does not apply. Failure to properly complete applicable schedules will result in rejection of the Cost Report. Round monetary amounts to the nearest whole dollar by increasing any amount of \$0.50 or more to the next highest dollar and reducing any amounts of \$0.49 or less to the next lowest dollar.

Except where specifically stated otherwise, providers may not provide substitute schedules. However, exhibits providing supportive additional information are encouraged. Full disclosure is an important principle in conveying information on these cost report schedules. Full disclosure requires that a knowledgeable financial reader, after reviewing the completed forms and attachments, would not be misled.

Adjustments to convert to an accrual basis of accounting are required if your records are maintained on another accounting basis. The intent of these adjustments is to obtain information concerning costs of providing services on a basis that is fair and comparable among providers of the service and consistent with Generally Accepted Accounting Principles (GAAP).

## General Cost Principles

All payments to providers for waiver services must be based on the reasonable cost of providing the waiver covered services to an eligible individual. As a reminder providers must separately report the costs for services rendered to individuals not eligible for the waiver or for services not covered under the waiver as Base funded program expenses.

In general, the accounting principles in these instructions are based on CMS approval of the prospective cost-based reimbursement methodology, which relies upon the Office of Management and Budget (OMB) Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments", herein referred to as A-87, and apply to the information reported on the cost report. A-87 principles apply even when specific language is not included in the instructions. In some cases, detail from A-87 is included in these instructions to provide additional detail. If A-87 and Cost Report Instructions conflict with each other, the provider shall follow the Cost Report Instructions. Providers must also report in a manner consistent with GAAP, unless otherwise specified in these instructions.

Allowable costs will be limited to those costs that are considered reasonable, necessary and related to the service provided. "Reasonable cost" is defined as that amount of cost or expense that would ordinarily be incurred by similar providers in similar markets. Reasonable cost also assures the proper and efficient delivery of covered services. Alternatively, it is that level of cost which a prudent and cost conscious buyer of goods and services is ordinarily willing to pay for these kinds of services. Only allowable costs are allocable to waiver services.

Principles governing the accumulation and allocation of costs to programs and services include:

- Costs reported for waiver services shall not be reported as reimbursable costs under any other funding source. Costs incurred for non-Waiver services or waiver services rendered to individuals not enrolled in the waiver shall not be reported as reimbursable costs for waiver services.
- A cost is allocable to a particular cost objective (e.g. participant services) if the goods or services involved are chargeable or assignable to such cost objectives in accordance with relative benefits received.
- All activities and services which benefit from the indirect and administrative cost pools, including unallowable activities and services, will receive an appropriate allocation of indirect or administrative costs. That is, unallowable costs should receive an allocation of indirect and administrative costs just as allowable costs do.
- Costs for services must be included for the appropriate procedure code and shall not also be allocated to a separately billable procedure code to ensure that there is not duplication of costs. Costs for goods or services that are not allowable under the waiver programs must not be allocated to waiver procedure codes.
- The provider shall provide a cost allocation plan which identifies their methodology for allocating costs, as described in Schedule H of the Cost Report. The provider's independent auditors shall provide an affirmative attestation that the methodology used for distributing costs in the cost allocation plan result in the fair, consistent and equitable distribution of costs that complies with the cost reporting instructions.

## Exception

The cost report applies to both waiver and Base funded services. For services which are common to both the Waiver and Base funded programs, the instructions will apply. The cost related to residential occupancy attributed to habilitation services is captured in Column E of Schedule A. Residential occupancy cost not attributed to habilitation services are captured in Schedule A, Column D. For services specifically reimbursed under the Base funded program, AEs may employ alternative cost reporting and allowable cost requirements.

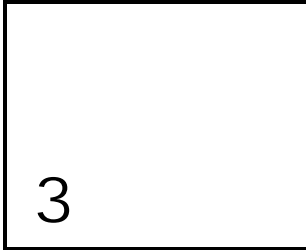
## Instructions for Multi-Site Providers

The instructions below apply to each single cost report submitted by provider under a given provider number and location. Multi-site providers (providers with more than one location) must obtain a nine-digit Master Provider Index (MPI) number and a four-digit service location code for each site or group of sites that is reported via the cost report. A site is described as a unique physical location. All service location codes in the same physical location (site) must be grouped together on the cost report. Providers with multiple sites have the option of completing cost reports as follows:

- Providers may complete one consolidated parent cost report, which would result in the same rates being paid for the applicable procedure codes across all sites.
  - This option may be appropriate for larger providers who do not believe their cost experience varies significantly site to site, or are willing to assume the risk that the average rate will be sufficient to fund services provided at all sites based upon their consolidated average costs, across all sites.

- Providers may complete a cost report by grouping certain sites together, and/or other sites reported individually or similar combinations, which would result in procedure code rates specific to each group of sites reported together.
  - This option may be appropriate for providers that operate in multiple counties or geographical areas where costs vary among groups of sites rather than individual sites.
- Providers may complete a cost report for each site, which would result in procedure code rates specific to each site.
  - This option may be appropriate for providers with one or two sites, or who want rates specific to each site.

Providers must use consistent groupings of facilities for cost reporting from year to year. Providers may request a change from prior years' reporting in writing from ODP by sending the details and rationale for the change to \_\_\_\_\_. If you are granted permission to change your groupings you must submit restated cost reports for affected sites from the prior year using the new groupings along with the current year's Cost Report(s).



## Instructions for Completing Cost Report and Supporting Schedules

### Certification Page

The purpose of the certification page is to report provider identifying information and record the signature of the authorized officer of the provider. The provider must complete every item on this page. A Certification Page must be completed for each filed cost report.

**1, 2 and 3. Provider Name and Address:** Enter the official (1) name, (2) street address and (3) city, state and zip code. Generally, this is the name and address that appears on the license or official provider letterhead.

**1a. MPI Number:** Enter your Master Provider Index Number, a nine-digit number which can be found in PROMISe and HCSIS.

**2a. IRS Tax ID Number:** Enter the number assigned the facility for federal tax purposes (federal withholding, etc.).

**3a. Date of Fiscal Year End:** Enter the end date of your fiscal year in the MM/DD/CCYY format (e.g., 08/30/2009).

**4. Period of Report:** Enter the dates of the year for which the current information is being provided. Enter "from" and "to" dates in the MM/DD/CCYY format (e.g., 08/30/2009).

**4a and 5a. Contact Telephone:** Enter a primary and secondary telephone number where your selected contact person can be reached.

**5. Administrator Name:** Provide the name of the provider's administrator. This must be the same person who signs the certification page.

**6. Name of Person to Contact if Questions About Report:** Provide the name of the person to contact if ODP or its agent has questions about the information provided on the cost report.

**6a. County:** Enter the name of the county that has qualified the provider as a provider of service.

**7. Report Type:** For “Report type,” check either “Actual” for continuing providers or “New Service” for continuing providers or “New Provider” for a new provider. All continuing providers must report historical costs, not projected costs, unless for a new service.

**8. Type of Control:** Indicate the ownership under which your provider is conducted.

**9. Accounting Basis:** Indicate the basis on which *you* keep *your* books.

- Accrual: Record revenue when earned and expenses when incurred
- Modified Cash: Combination of cash and accrual methods
- Cash: Record revenue when received and expenses when paid

The accrual basis is the required method for the purpose of establishing rates and determining settlements based on actual cost. If you do not use the accrual basis of accounting, you must adjust reported amounts to the accrual basis. Keep the accounting work papers used in adjusting your records from cash to accrual.

**10. Years in Business:** Indicate the number of years you have been providing MR services.

**11 and 12. Audit:** Indicate if you have had a certified public accounting firm perform an audit of your financial statements and whether the audit had been submitted. Forward a copy of the latest independent audit and a copy of the A-133 audit when available.

**13. Form of Certification by Officer or Administrator of Provider:** The certification must be signed by the person who is ultimately responsible for the content of the cost report.

**14. Statement of Preparer (If Other than Provider):** The certification must be signed by the person who actually prepared the cost report.

## Certification Page – Provider Site Sheet

**The purpose of Certification Page – Provider Site Sheet is to report all provider sites and to indicate which site's or sites' costs are reported on this cost report.**

**Number of Sites:** Enter the number of sites that the provider operates. The form will automatically populate site address lines needed to support number of sites entered.

**Location Code:** Enter the four-digit location code(s) for each site

**Site Address:** Enter the physical address (street address, city, state and zip code) of all DPW sites for a provider. You must list all sites and indicate whether the site is included in this cost report submission by checking "Yes" or "No."

## Certification Page – Service Selection

**The purpose of Certification Page – Service Selection is to allow the provider to select all services for which the provider will be reporting associated costs.**

**The provider must check each procedure code in the appropriate column (Waiver or Base) for which historical costs will be reported. The Cost Report schedules will automatically populate cost reporting columns for the procedure codes selected.**



## Schedule A – Expense Report (Waiver)

**The purpose of Schedule A – Expense Report (Waiver), is to report total provider site(s) expenses and allocate those expenses to the waiver services provided by the provider site(s) by procedure code. The allocation of costs to a service includes all costs for the provider site(s) selected on the certification page, and must be consistent with the historical costs included in your general ledger and audited financial statements.**

### Column Descriptions

#### **(Column A) Total Provider Expenses:**

This column shows the total operating costs by cost category for the provider (all sites, all lines of business). The expenses reported in this column must equal the total expenses included in the provider's audited financial statements. Any difference between the amounts shown in this column and the audited financial statements, general ledger or working trial balance must be disclosed in a supplemental schedule. All provider site(s) expenses are reported so the method and result of the allocation or apportionment of costs to all services and programs of the provider site(s) is documented. It also permits the review of consistency in these cost allocations from one fiscal period to the next.

#### **(Column B) Excluded Sites Expenses:**

Use Column B to show costs related to excluded sites that are included in another cost report. Expenses related to services to be reimbursed under a fee schedule must also be excluded as these costs are no longer attributable to rates developed for services under the prospective cost-based system. Excluded costs from this column must be excluded using reasonable, logical cost allocation statistics that are consistent with the cost allocation method for the cost category.

**(Column C) Other LOB Expenses:**

Use Column C to show costs related to Other Lines of Business (LOB) that are not reimbursable with Waiver or Base funds. Excluded costs from this column must be excluded using reasonable, logical cost allocation statistics that are consistent with the cost allocation method for the cost category.

**(Column D) Base Expenses:**

Use Column D to show (1) costs related to room and board (2) cost of residential occupancy costs not attributed to habilitation services and (3) costs of providing similar HCBW services to non-waiver participants and ineligible services (e.g. support in a medical environment, family aide, special diet preparation). Excluded costs from this column must be excluded using reasonable, logical cost allocation statistics that are consistent with the cost allocation method for the cost category.

**(Column E) Residential Occupancy Expenses:**

Use Column E to show the cost of residential occupancy costs attributed to habilitation services to Waiver participants.

**(Column F) Excluded Non-Allowable Waiver Expenses:**

Use Column F to show costs of serving waiver participants that are not reimbursed by the HCBW program in accordance with eligible service definitions, A-87 and instructions on supporting schedules. Excluded costs from this column must be excluded using reasonable, logical cost allocation statistics that are consistent with the cost allocation method for the cost category. Examples of non-allowable expenses include, but are not limited to:

- Advertising and public relations costs
- Bad debt
- Book versus straight line depreciation expense
- Benefits for contract staff
- Entertainment costs
- Excess compensation costs
- Fines or penalties
- First Class transportation
- Fund raising costs
- Litigation costs incurred against ODP or any other Commonwealth Agency
- Lobbying costs
- Residential occupancy cost not attributed to habilitation services

**(Column G) Allowable Waiver Expenses:**

This column shows costs that are allowable and allocable (directly or indirectly) to waiver services for the sites included in the cost report. These costs must equal the balance of the expenses after deducting the items reflected in Columns B, C, D, E and F from Column A. The provider must maintain working papers to support the costs reflected in all columns documenting an audit trail from Total Provider cost (expense) through Allowable Waiver cost (expense). These working papers must be organized by individual location or site, in detail by program or service and in an easily audited format traceable to supporting source documents. ODP or its authorized agent may conduct periodic audits of this information. The amounts in Column G are allocated or directly reported across all waiver procedure codes.

**(Columns H +) Waiver Procedure Codes:**

Costs reported in Column G must be directly charged and/or allocated across applicable procedure codes in columns H through the last column for which a provider is reporting costs for a procedure code. Report costs associated with each applicable procedure listed below. Report costs only for those procedure codes you provided during the cost reporting period and only for those procedure codes included in the waiver program in this schedule. Costs for Base services will be reported in Schedule A-1. All procedure codes for the waiver and Base funded services are listed in the following table:

Waiver and Base Funded Services *	Procedure Code	Service Unit
<b>Home and Community Based Services</b>		
Base Staff Support no less than 1:6	W7057	15 min
Staff Support Level 1 of <1:6 to 1:3.5	W7058	15 min
Staff Support Level 2 of <1:3.5 to >1:1	W7059	15 min
Staff Support Level 3 of 1:1	W7060	15 min
Level 3 Enhanced	W7061	15 min
<b>Licensed Day Services</b>		
Base Staff Support no less than 1:6	W7072	15 min
Staff Support Level 1 of <1:6 to 1:3.5	W7073	15 min
Staff Support Level 2 of <1:3.5 to >1:1	W7074	15 min
Staff Support Level 3 of 1:1	W7075	15 min
Level 3 Enhanced	W7076	15 min
Licensed Older Adult Day Services	W7094	15 min
<b>Prevocational Services</b>		
Base Staff Support no less than 1:15	W7087	15 min
Staff Support Level 1 of <1:15 to 1:7.5	W7088	15 min
Staff Support Level 2 of <1:7.5 to >1:1	W7089	15 min
Staff Support Level 3 of 1:1	W7090	15 min
Level 3 Enhanced	W7091	15 min
<b>Residential Habilitation – Licensed</b>		
Child Residential Services – Eligible	W7097	1/2 month
Child Residential Services – Ineligible	W7098	1/2 month
Community Residential Rehab for the Mentally Ill – Eligible	W7202	1/2 month
Community Residential Rehab for the Mentally Ill – Ineligible	W7203	1/2 month
Community Home for Mental Retardation – Eligible	W7220	1/2 month
Community Home for Mental Retardation – Ineligible	W7221	1/2 month
Adult Family Living – Eligible	W7208	1/2 month
Adult Family Living – Ineligible	W7209	1/2 month
Child Family Living – Eligible	W7214	1/2 month
Child Family Living – Ineligible	W7215	1/2 month
<b>Residential Habilitation – Unlicensed</b>		
Unlicensed Community Residential – Eligible	W7226	1/2 month

Waiver and Base Funded Services *	Procedure Code	Service Unit
Unlicensed Community Residential – Ineligible	W7227	1/2 month
Supported Employment	W7235	15 min
Transitional Work Service		
Base Staff Support no less than 1:6	W7237	15 min
Staff Support Level 1 of <1:6 to 1:3.5	W7239	15 min
Staff Support Level 2 of <1:3.5 to >1:1	W7241	15 min
Staff Support Level 3 of 1:1	W7243	15 min
Level 3 Enhanced	W7245	15 min
Respite Services		
In-Home Respite 24 Hours Base Staff Support 1:4	W7247	Day
In-Home Respite 24 Hours Level 1 Staff Support <1:4 to >1:1	W7248	Day
In-Home Respite 24 Hours Level 2 Staff Support 1:1	W7249	Day
In-Home Respite 24 Hours Level 2 Enhanced Staff Support 2:1	W7250	Day
In-Home Respite 15 min Base Staff Support 1:4	W7255	15 min
In-Home Respite 15 min Level 1 Staff Support <1:4 to >1:1	W7256	15 min
In-Home Respite 15 min Level 2 Staff Support 1:1	W7257	15 min
In-Home Respite 15 min Level 2 Enhanced Staff Support 2:1	W7258	15 min
Out-of-Home Respite 24 hours Base Staff Support 1:4	W7259	Day
Out-of-Home Respite 24 hours Level 1 Staff Support <1:4 to >1:1	W7260	Day
Out-of-Home Respite 24 hours Level 2 Staff Support 1:1	W7261	Day
Out-of-Home Respite 24 hours Level 2 Enhanced Staff Support 2:1	W7262	Day
Out-of-Home Respite 15 min Base Staff Support 1:4	W7267	15 min
Out-of-Home Respite 15 min Level 1 Staff Support <1:4 to >1:1	W7268	15 min
Out-of-Home Respite 15 min Level 2 Staff Support 1:1	W7269	15 min
Out-of-Home Respite 15 min Level 2 Enhanced Staff Support 2:1	W7270	15 min
Overnight Camp	W7285	Day
Day Camp	W7286	Day
Transportation		
Mile	W7271	Mile
Public Transportation	W7272	
Per Diem	W7273	Day
Trip – Zone 1 shortest distance from site	W7274	
Trip – Zone 2 based on middle distance from site	W7275	
Trip – Zone 3 based on longest distance from site	W7276	

*\*Based on current procedure codes. To be updated once revised service definition and procedure codes are finalized.*

## Line/Cost Category Descriptions

The three major cost categories on Schedule A are:

1. Direct Care Expenses
2. Indirect Program Expenses
3. Administrative Expenses

Instructions below provide guidance on the type of costs that must be reported for a given cost category and, where applicable, refer to the supporting schedule where those amounts are accumulated or further supported.

Direct care expenses are costs that can be easily and conveniently traced to the particular service provided. Direct care expenses must be directly charged to the appropriate waiver procedure codes, based upon actual costs incurred.

Indirect program expenses include costs that cannot be easily and conveniently traced to the particular service provided.

Administrative expenses include all executive, organizational and clerical cost associated with the general management of the organization.

The Allowable Waiver Expenses in Column G for each cost category on Schedule A must be allocated using reasonable, logical cost allocation statistics or basis. Similarly, the Excluded Costs in Columns B, C, D, E and F in each cost category on Schedule A must be excluded using reasonable, logical cost allocation statistics that are consistent with the cost allocation method for that cost category. Examples of acceptable exclusion and allocation bases by cost category are:

- Direct Care Expenses:
  - Salaries and wages of direct care staff: time studies or actual time spent.
  - Employee related expenses (ERE): salary and wage allocations.
  - All other direct expense: directly related to a service or program.
- Indirect Program Expenses:
  - For supervisory staff of direct care workers, allocate in proportion to direct care expenses for the applicable service code as a percent of all direct care expenses.  
Program Supplies: direct charges or usage (supply allocation may be made based on requisitions from a central storeroom, etc.) or in proportion to direct care expenses for a procedure code as a percent of all direct care expenses for procedure codes for which the supply cost applies. Exclude supplies related to delivery of another service or related to room and board expenses, except as required in Schedule A, Column E and Schedule A-1.
  - Transportation (mileage)
  - All other indirect program expenses: allocate in proportion to direct care expenses for the applicable procedure code as a percent of all direct care expenses for procedure codes for which the expense applies.
- Administrative Expenses:
  - Non-residential occupancy, repairs and maintenance, insurance and depreciation: square footage or allocated in proportion to direct care expenses for procedure codes for which the expense applies.

- All other transportation costs, such as costs incurred for attending trainings, meetings, etc., must be recorded on Line 15 (General & Administrative (G&A) expenses).
- All other administrative expenses: allocated in proportion to direct care expenses for the procedure code as a percent of all direct care expenses for the procedure codes for which the expense applies.

As a reminder, expenses in Column G must be net of allocations made to Excluded Sites, Other LOB, Base, Waiver - Residential Occupancy and Excluded Non-Allowable Expenses. Non-waiver and non-allowable expenses must be allocated an appropriate share of indirect and administrative costs. That is, there will likely be five types of allocations:

- Allocations made to Excluded Sites and Fee Schedule expenses (Column B)
- Allocations made to Other LOB expense including commercial business (Column C)
- Allocations made to Base expenses (Column D)
- Allocations made to Waiver - Residential Occupancy expenses (Column E)
- Allocations made to Excluded Non-Allowable Waiver expenses (Column F)
- Allocations of Allowable Waiver expenses (Column G) across Columns H +

Alternative approaches to what is described above for allocations of costs may be used but must be documented and used consistently each year, and described in Schedules H, H-1 and H-2.

## Compensation

Note that the following rules and limits on compensation apply to all compensation for direct, indirect program and administrative personnel:

- ODP recognizes the responsibility and authority of the board of directors of each provider for establishing employee salaries and benefits. Compensation exceeding the amounts eligible shall be the financial responsibility of the provider and shall be shown as excluded non-allowable expenses in Schedule A, Column F.
- See instructions regarding line 14 Administrative Staff Salary/Wages/ERE for limits on executive compensation.
- Compensation for employees providing waiver services is allowable up to the combined prevailing Commonwealth salaries and benefits for functionally equivalent positions. Functional equivalence will be determined using a crosswalk, such as the Modified Compensation Review System or Personnel Action Plan. The crosswalks will incorporate the chief executive officer reimbursement grid methodology identified below. Job descriptions and organizational information may be requested so that it can be crosswalked to the positions in the appropriate structure.
- Compensation for cost of consultants and contracted personnel when justifiable for programmatic or administrative reasons is allowable. Consultants and personnel obtained through contracts are considered independent contractors engaged for specified services on a fee-for-service or contractual basis. A written agreement shall state the services to be provided, the rate of compensation and the method of payment.
- In addition, ODP will participate in the reasonable and allowable cost of:
  - Overtime paid under formally established and consistently applied provider policies.

- Compensation for employees who are required to be available for emergencies if the standby time is paid under formally established and consistently applied provider policies.
- Compensation for employees who are called to work outside of their regular work schedule if the call time is paid under formally established and consistently applied provider policies.
- Paid vacations and holidays to the extent they are under formally established and consistently applied provider policies.
- Moving expenses for employees only when used as part of a recruitment effort by the provider and when approved by ODP or its authorized agent. The maximum amount is \$1,000 per employee being moved.
- The benefit percentage rate to be applied in determining maximum compensation costs will be published annually in a Departmental bulletin.
- The following provider expenses are considered eligible employee benefits:
  - Hospital and medical insurance
  - Life insurance
  - Retirement
  - Social Security
  - Supplemental health and welfare benefits such as pharmaceutical, dental and vision care
  - Unemployment compensation
  - Workman's compensation insurance

These costs must be included in the compensation costs reported on Schedules D, D-1 and D-2.

## Direct Care Expenses

Direct Care Expenses include all direct personnel and any other costs that can be identified specifically with the provision of a particular service. Expenses other than wages, salaries and Employee Related Expense (ERE) fringe benefits can be charged as direct service expense if they are identifiable to a specific service. In-service training, supervision of direct care staff, continuing education, vacation, non-billable to PROMISE time and nurse aide training must not be included in Direct Care Expenses, but instead, included under Indirect Program Expenses. Direct care expenses reported on Schedule A Columns A, B, C, D, E and F must agree to the supporting schedules for the specific line items where a support schedule is identified.

### **(Line 1) Direct Care Staff Salary/Wages (Schedule D):**

The amount of salaries/wages for direct care staff hours that were spent delivering direct client care services that are billable through PROMISE.

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy. In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show

the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

**(Line 2) Direct Care Staff Employee Related Expenses (ERE) (Schedule D):**

The amount of ERE for direct care staff hours that were spent delivering direct client care services that are billable through PROMISE.

The following provider expenses are considered allowable employee benefits eligible for reimbursement under the waiver:

- Hospital and medical insurance
- Life insurance
- Retirement
- Social Security
- Supplemental health and welfare benefits such as pharmaceutical, dental and vision care
- Unemployment compensation
- Workman's compensation insurance

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy. In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

**(Line 3) Direct Care Contracted Staff (Schedule D):**

Contracted staff performing direct care functions instead of, or in addition to, direct support employees are reported in Line 3. Contract payments are made to persons who are not employees of the provider.

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy. In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

**(Line 4) Transportation (Schedule E for Depreciation):**

Enter the amount of depreciation or leasing expenses charged from motor vehicles if the vehicle can be directly attributed to transporting waiver individuals to their supportive activities for particular procedure codes per the service definition. Or you may enter the actual expenditure of employee paid mileage, rental car expense or transportation fees in lieu of depreciation. If costs cannot be directly attributed to a waiver individual or service then the transportation must be considered an indirect cost. An example of directly attributing transportation to a waiver individual or service would be maintaining a travel log that tracks the usage of the vehicle by service or individual. The log would be used to justify

the portion of expense attributable to waiver individuals. For example, a residential provider required to provide transportation as part of residential habilitation would be required to maintain a log. If the log identified that 70 percent of the vehicles' use was attributable to the service then that portion of expenses would be reported.

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy. In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

**(Line 5) Other Direct Non-Salary Expenses:**

Enter costs that can be directly attributed to a particular procedure code, without allocation. Other direct non-salary expenses include supplies that are required to deliver the service. If other direct non-salary expenses are in excess of five percent of total direct care expenses, the provider must attach a supporting schedule.

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy. In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

**(Line 6) Total Direct Care Expenses:**

Line 6 totals all costs entered in lines 1-5. The amount in Column A must be the same as Schedule B, Column A (Total Provider Expenses), Line 20 (Direct Care) and the amount in Column G must be the same as Schedule B, Column B (Allowable Waiver Revenue/Expenses), Line 20 (Direct Care).

## Indirect Program Expenses

Indirect Program Expenses are costs that cannot be easily and conveniently traced to the specific service provided. These expenses are incurred for a common or joint purpose benefiting more than one waiver procedure code. Indirect Program Expenses reported on Schedule A Columns A, B, C, D, E and F must agree to the supporting schedules for the specific line items where a support schedule is identified.

A separate line item description for any indirect cost that is five percent or more of direct costs must be provided. All indirect program expenses must be allocated to each applicable procedure code using reasonable, logical cost allocation statistics or basis. The overall objective of the allocation process is to distribute the indirect costs of the provider to its various services or cost categories in reasonable proportion with the benefits provided to these services or cost categories.

The cost allocation plan is the document for identifying, accumulating and distributing costs to consuming levels or cost categories within the provider and for identifying the allocation methods used. The provider shall maintain a complete file regarding the cost allocation plan and supporting documentation. The plan shall be summarized in Schedule H.

Distributing indirect costs to the appropriate services requires the development of an allocation methodology. This methodology shall logically apportion these costs among services receiving a benefit. The methodology is at the discretion of the provider; however, it shall result in a fair and equitable distribution of costs, and shall be in direct relation to actual benefits accruing to the services to which costs are charged. The provider shall obtain an opinion from a public accounting firm on the equitableness of its cost allocation plan. The provider's independent auditors shall provide an affirmative attestation that the methodology used for distributing costs in the cost allocation plan result in the fair, consistent and equitable distribution of costs that complies with the cost reporting instructions.

**(Line 7) Indirect Staff Salary/Wages/ERE (Schedule D-1):**

Indirect salary/wages/ERE include vacation, sick and non-productive time associated with staff that are not considered administrative but are not directly attributable to direct care. Examples include:

- House managers
- Quality managers
- Program managers
- Supervisors of direct care and contracted staff

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy. In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

**(Line 8) Indirect Contracted Staff (Schedule D-1):**

Contracted staff performs indirect program functions instead of, or in addition to, employees. Examples include contracted therapists, counselors, etc., who provide support and assistance to waiver participants or support program activities.

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy. In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

**(Line 9) Program Supplies:**

Include the cost of medical and other individual care supplies that are common to all individuals or not readily assignable to a specific procedure code. Include medical and individual care supplies used by day habilitation providers that are not captured under direct care expenses. Do not include the cost of supplies reported under direct care expenses.

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy. In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

**(Line 10) Staff Development and Training:**

Include all time related to training, registration, tuition and lodging expenses incurred by the provider in sending staff members or volunteers to regional and national conferences or to workshops or institutes for employee development related to MR waiver programs for employee development. Show the travel and other costs incurred by a provider in bringing in an outside consultant to conduct training with the primary purpose of information dissemination related to providing MR waiver services. Also include costs associated with maintaining licensure, if required by the position and paid for by the provider. Costs for entertainment are not allowable. Staff development and training of direct care staff for activities not related to the provision of care (training on HR policies or other administrative training) must be included under administration and allocated to waiver services using reasonable, logical cost allocation statistics. Travel must be consistent with State or Federal travel policies.

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy, In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

**(Line 11) Transportation:**

Enter the amount of cost attributable to transportation related to indirect expenses such as a supervisor performing monitoring visits. Report the actual expenditure if the employee is reimbursed mileage or rental car expenditures. If a vehicle is provided for the employee to use, enter the amount of depreciation charged for motor vehicles if the vehicle cannot be directly attributed to a service or individual and is not used for administrative purposes, as defined:

All other transportation costs, such as costs incurred for attending trainings, meetings, etc., must be recorded as General & Administrative (G&A) expenses and included on Line 15.

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy. In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

**(Line 12) Other:**

If there are any expenses that the provider believes are consistent with the definition of indirect program expenses and not captured in Lines 7 – 11, please enter on Line 12. The provider must attach a description of the indirect expense and how it relates to the delivery of services. If other indirect expenses are in excess of five percent of total indirect program expenses, the provider must attach a supporting schedule.

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy. In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

**(Line 13) Total Indirect Program Expenses:**

Line 13 totals all costs entered in lines 7 – 12. The amount in Column A must be the same as Schedule B, Column A (Total Provider Expenses), Line 20 (Direct Care) and the amount in Column G must be the same as Schedule B, Column B (Allowable Waiver Revenue/Expenses), Line 21 (Indirect Care).

## Administrative Expenses

General administration expenses are those expenses that have been incurred for the overall general executive and administrative functions of the provider including:

- Compensation of executives, managers and personnel in the offices of the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Information Officer (CIO), human resources officer, purchasing officer and other general business services including vacation, training and benefits.
- Space used for general administration
- Supplies and equipment used for general admission
- Capital costs associated with general administration

Administrative Expenses reported on Schedule A Columns A, B, C, D, E and F must agree to the supporting schedules for the specific line items where a support schedule is identified.

Distributing Administrative costs to the appropriate services requires the development of an allocation methodology. This methodology shall logically apportion these costs among services receiving a benefit. The methodology is at the discretion of the provider; however, it shall result in a fair and equitable distribution of costs, and shall be in direct relation to actual benefits accruing to the services to which costs are charged. The provider shall maintain a complete file regarding the cost allocation plan and supporting documentation. The provider shall obtain an opinion from a public accounting firm on the equitableness of its cost allocation plan. The provider's independent auditors shall provide an affirmative attestation that the methodology used for distributing costs in the cost allocation plan result in the fair, consistent and equitable distribution of costs that complies with the cost reporting instructions.

**(Line 14) Administrative Staff Salary/Wages/ERE (Schedule D-2):**

Administrative staff salary/wages/ERE includes costs associated with administrative staff, who focus their time on administrative activities. Examples include:

- CEO
- CFO
- CIO
- Human Resources Officer
- Purchasing Officer
- Receptionist
- Accountants

Executive compensation must align with the limitation of the grid below:

Chief Executive Officer Grid for 2007- Allowable Reimbursement Maximums

Pay Range	Annual	Hourly	Total Expenditures of Multiple Service Provider	Total Expenditures of Single Service Provider
54	\$117,223.00	\$59.93	\$7,000,000.00	
53	\$112,157.00	\$57.34		\$7,000,000.00
52	\$112,157.00	\$57.37	\$5,000,000.00	
51	\$102,729.00	\$52.52		\$5,000,000.00
50	\$102,729.00	\$52.52	\$3,000,000.00	
49	\$89,976.00	\$46.00		\$3,000,000.00
48	\$89,976.00	\$46.00	\$1,000,000.00	
47	\$89,976.00	\$46.00		\$1,000,000.00
46	\$78,827.00	\$40.30	\$500,000.00	
45	\$78,827.00	\$40.30		\$500,000.00
44	\$78,827.00	\$40.30	\$300,000.00	
43	\$69,027.00	\$35.29		\$300,000.00
42	\$69,027.00	\$35.29	\$200,000.00	
41	\$69,027.00	\$35.29		\$100,000.00

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy. In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

**(Line 15) Administrative Expenses (Schedule F):**

Administrative Expenses include all executive, organizational and clerical costs associated with the general management of the organization. Administrative expenses include expenses that are reasonable and necessary for administering the program and are not included under direct care or indirect program expenses. Common administrative expenses are:

- Management fees
- Professional services
  - Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the provider.
- Outreach to clients; allowable outreach activities include:
  - Informational mailings to existing clients
  - Informational mailings to prospective clients, upon request by client/family
  - Health/supports related fairs
  - Websites providing information
  - Responding to consumer and family inquiries
  - Consumer Satisfaction surveys
  - Market research
- Advertising expenses
  - Are not allowable with the exception of costs incurred in recruitment activities such as help wanted advertising or the use of employment provider, are allowable. Other marketing and public relations costs are unallowable.
- Telephone/communication expenses
- Insurance expenses
  - Costs of insurance required or approved and maintained, as a requirement of delivering services, are allowable.
- Interest expense
  - Interest expense for short term borrowings
  - Interest attributable to fully depreciated assets is unallowable
- Legal fees
  - Legal expenses required in the administration of Federal programs are allowable.
  - Legal expenses for prosecution of claims against the Commonwealth are unallowable.
  - Costs incurred for claims against ODP or any other Commonwealth Agency are unallowable.
- Accounting and auditing expenses
- Office supplies (that are not capitalized – see Schedule E for guidance on what must be capitalized)

- Information systems (that are not capitalized – see Schedule E for guidance on what must be capitalized)
- Professional dues and membership fees
  - Costs of provider membership in organizations serving the county program are allowable for ODP participation if the membership is in a nonprofit organization and the services provided are related to the waiver services. ODP will not participate in the cost of individual/personal membership, unless cost effective to do so, or in memberships to an organization defined as a lobbying group under the Lobbying Registration and Regulation Act.
- Transportation related to administrative staff or non direct care or program expenses, which are necessary to fulfill the administrative task
- Other
- Taxes
  - Taxes that a provider is legally required to pay are allowable, except for taxes that do not meet Medicaid requirements. Taxes that do not meet Medicaid requirements will be ineligible for inclusion as an incurred expense.
- Library expenses
  - Costs of books, documents and subscriptions to journals pertaining to waiver services and other relevant topics are allowable.

Examples of non-allowable costs include, but are not limited to:

- Advertising, marketing and public relations costs
- Alcoholic beverages
- Contingency reserves (will be allowable if/when incurred)
- Fund raising costs
- Lobbying
- Leases/purchases of luxury or “loaded” vehicles
- Assuming leases of officer owned vehicles

The provider must have all supporting detail of General & Administrative expenses available for audit.

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy. In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

**(Line 16) Occupancy Expenses (Schedule F):**

Occupancy Expenses are the cost of rent and property maintenance related to providing waiver services. The share of residential occupancy expenses related to providing Room and Board is a non-allowable expense except for that portion attributed to habilitation services. As such, room and board related costs and other non-allowable occupancy expenses must be excluded from the allowable waiver expenses reported in Column F and must not be allocated to waiver services.

Subject to the limitations described below, rental costs for administrative buildings are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and, the type, life expectancy, condition and value of the property leased. Rental arrangements must be reviewed periodically to determine if circumstances have changed and other options are available.

## Rent of Space

- Rental costs under “sale and lease back” arrangements are allowable only up to the amount that would be allowed had the provider continued to own the property. This amount would include expenses such as depreciation or use allowance, maintenance, taxes and insurance.
- Rental costs under "less-than-arms-length" leases are not allowable.
- Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount that would be allowed had the provider purchased the property on the date the lease agreement was executed. The provisions of Financial Accounting Standards Board Statement 13, Accounting for Leases, shall be used to determine whether a lease is a capital lease.
- Interest Expense to include but is not limited to:
  - Financing costs (including interest) paid or incurred which are associated with the otherwise allowable costs of building acquisition, construction or fabrication, reconstruction or remodeling completed on or after October 1, 1980, is allowable subject to the conditions in (1) through (3). Financing costs (including interest) paid or incurred on or after September 1, 1995, for land or associated with otherwise allowable costs of equipment is allowable, subject to the conditions in (1) through (3).
    - (1) The financing is provided (from other than tax or user fee sources) by a bona fide third party external to the provider.
    - (2) The assets are used in support of the program.
    - (3) Earnings on debt service reserve funds or interest earned on borrowed funds pending payment of the construction or acquisition costs are used to offset the current period's cost or the capitalized interest, as appropriate.

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy. In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

### **(Line 17) Depreciation – Equipment/Buildings (Schedule E):**

The share of building and fixed asset expenses related to providing room and board is a non-allowable expense except for amounts associated with providing habilitation services. Room and board related costs and other non-allowable building and fixed asset expenses must be excluded from the allowable waiver expenses reported in Column F and must not be allocated to waiver services. Specific instructions regarding depreciation and amortization

are included under instructions for Schedule E. Enter all depreciation amounts attributed to buildings and fixed assets, excluding motor vehicles, on Line 17. Depreciation attributed to motor vehicles used for administrative purposes should be included in Line 15, G&A Expenses. Depreciation from motor vehicles used for direct and indirect cost must be recorded in lines 4 and 11 respectively.

In Column A, show the total of all provider costs for this line item. In Column B, show the amount of those costs that are attributable to Excluded Sites. In Column C show the amount of those costs that are attributable to Other LOB. In Column D show the amount of those costs that are attributable to Base funded services. In Column E show the amount of those costs that are attributable to Waiver - Residential Occupancy. In Column F show the amount of those costs that are attributable to Excluded Non-Allowable Waiver. In Column G show the amount of allowable costs attributable to waiver services that is then allocated or charged directly across columns H+.

**(Line 18) Total Administrative Expenses:**

Line 18 totals all costs reported in lines 14 – 17. The amount in Column A must be the same as Schedule B, Column A (Total Provider Expenses), Line 22 (Administrative Expense) and the amount in Column G must be the same as Schedule B, Column B (Allowable Waiver Revenue/Expenses), Line 22 (Administrative Expense).

**(Line 19) Total Expenses:**

Line 19 totals lines 6, 13 and 18. This amount must be the same as Schedule B, Column A (Total Provider Revenue/Expenses), Line 23 (Total Expenses) and the amount in Column G must be the same as Schedule B, column B (Allowable Waiver Revenue Expenses) Line 23 (Total Expenses).

**(Line 20) Contributions/Revenue (Expense Offset):**

Enter the amount of contributions which were obtained for general use and not assigned to a specified purpose and other income to offset expenses, from Schedule B. The following contributions/revenue reported in Schedule B must offset expenses, and be included in Schedule A, Column G, Line 20:

- Line 6, Investment Income
- Line 7, Other, if applicable
- Line 8, Contributions not Restricted/Appropriated
- Lines 10 – 12, Other Contributions not Restricted/Appropriated
- Lines 16 - 18, Government Grants, if applicable

**(Line 21) Expenses, Net of Contributions/Revenue:**

To calculate Expenses, Net of Contributions/Revenue, subtract Line 20 from Line 19 in Columns A and G.

## Capacity/Units of Service

**(Line 22) Number of Units of Service (Licensed or Staffed) Available:**

Report the number of units of service you are licensed and staffed to provide for the cost report reporting period for the sites included on the cost report. Residential habilitation providers should report the actual number of individual residing in the home at the time the cost report is submitted.

**(Line 23) Type of Unit:**

This field is pre-populated with the unit of each service definition (e.g., 1/2 Month, 15 minute, Day, etc.). Providers do not have to enter anything on this line. Please refer to Certification Page – Service Selection for the units assigned to each procedure code.

**(Line 24) Total Number of Units of Service Provided:**

Enter the total number of allowable units of service provided and billable for the cost report reporting period for the sites included on the cost report. Report the number of units based on the service definitions for Consolidated and Person/Family Directed Support Waiver Services, which can be found at [\[insert link to service definitions\]](#). Report whole units of service only It is important that the provider populate the number of units for all of the procedure codes that are provided to and billable for waiver clients. This must be consistent with the services to which the provider has allocated costs. Total units should be similar to the total units submitted for reimbursement through PROMISe.

**(Line 25) Cost per Historical Unit of Service:**

These cells are automatically calculated by dividing the amount in Line 21 by the corresponding amount in Line 24 for each procedure code for which costs have been allocated and units provided. This amount is not a guarantee of the rate that will be paid because each reported amount is subject to review, verification, trending and appropriations.



## Schedule A-1 – Expense Report (Base)

**The purpose of Schedule A-1 – Expense Report (Base), is to report Base services provided by the provider site(s) by procedure code. Base services are funded through State-only dollars. The allocation of costs to a service includes all costs for the provider site(s) selected on the certification page, and must be consistent with the historical costs included in your general ledger and audited financial statements.**

### Column Descriptions

**(Column A) Base Expenses:**

Use Column A to show Base expenses from Schedule A, Column D.

**(Column B) Base Non-Waiver Services, Excluding Room and Board Expenses:**

Use Column B to show costs of Base services (e.g. support in a medical environment, family aide, special diet preparation) to both Waiver eligible and Base funded participants Do not include cost associated with room and board

**(Column C) Excluded Non-Allowable Expenses:**

Use Column C to show excluded non-allowable costs for Base expenses. See instructions for Schedule A, Column F for non-allowable expense for services specifically reimbursed under the Base program, AEs may employ alternative allowable cost requirements.

**(Column D) Allowable Base Expenses:**

This column shows costs that are allowable and allocable (directly or indirectly) to the Base program. The provider must maintain working papers to support the costs reflected in all columns. These working papers must be organized by individual location or site, in detail by program or service and in an easily audited format traceable to supporting source documents. ODP, or its authorized agent, may conduct periodic audits of this information. The amounts in Column D are allocated or directly reported across all Base-funded procedure codes E+.

**(Columns E+) Waiver Procedure Codes:**

Costs reported in Column D must be directly charged and/or allocated across applicable procedure codes in columns D through the last column for which a provider is reporting costs for a procedure code. Report costs associated with each applicable procedure code identified. Report costs only for those procedure codes you provided during the cost reporting period. Ensure that room and board related costs are allocated to room and board procedure codes.

**Follow the instruction from Schedule A (beginning on page 16) for Lines 1 through 25 reporting expenses in the following columns for the Base-funded services provided:**

In Column A, show the total of all Base costs for this line item. In Column B show the amount of those costs that are attributable to Base Non-Waiver services excluding room and board. In Column C, show the amount of those costs that are attributable to Excluded Non-Allowable. In Column D show the amount of those costs that are attributable to Allowable Base that is then allocated or charged directly across columns E+.



## Schedule B – Income Statement

**The purpose of Schedule B – Income Statement, is to report both Total Provider and Allowable Waiver revenue and expenses. Report all income, including income from other programs and charitable donations. Report all provider expenses by cost center for waiver services.**

Report the total provider revenues or gross income in Column A, “Total Provider Revenue/Expenses” and report Allowable Waiver Revenue/Expenses in Column B. Revenue categories are provided on the schedule for the most common sources. If additional categories are necessary, submit accompanying schedules.

### Line Descriptions

**(Lines 1 – 7) Fee for Service/Other Income:**

Fee for service represent income earned as a result of performing services to all provider participants. List the revenues from all of the sources listed. Gains or losses from the sale of assets should be reported as Other and included on Line 7. Gains or losses from the sale of assets must be calculated by subtracting the sale price from the net depreciated value of the asset. Use Line 7 for all other sources of revenue. Provide a description of the source for where any individual source is greater than five percent of total revenue.

**(Lines 8 – 18) Contributions:**

Contributions include all United Way funding, other contributions (e.g. donations) and government grants that are not designated as fee for service. Report the contributions as follows:

- Restricted or appropriated: Include funds that are restricted by the donor. This includes interest from the contribution, when this interest is also restricted or appropriated and is held separate and not commingled with other funds.
- Unrestricted or appropriated: Include donations that are not appropriated or designated as restricted by the donor. This includes interest from the contribution, when this interest is not restricted or appropriated and is held separate and not commingled with other funds.

- Government grants: Government grants must be explained on an accompanying schedule that sets forth the source of funding, the purpose and the period of the grant, and the program to which the grant pertains.

**(Line 19) Total Revenue:**

Total Revenue is the sum of all revenue sources listed under Fee for Service/Other Income, Contributions and Government Grants.

NOTE: Income generated from provider activities not directly related to the provision of member service and from unrestricted contributions must be reflected on Schedule B as a reduction of related expense (i.e., interest income must be offset to the extent of related interest expense).

**(Lines 20 – 22) Expenses (from Schedule A):**

Enter total provider expenses for each major cost center. These amounts for Direct Care Expenses, Indirect Program Expenses, and Administrative costs must match the total provider expenses for these costs centers on Schedule A, Columns A (Total Provider Expenses) and Column G (Allowable Waiver Expenses).

**(Line 23) Total Expenses:**

Total Expenses is the sum of the amounts entered for each major cost center on lines 20 through 22.

**(Line 24) Net Income (Loss):**

To calculate Net Income or Loss subtract line 23 (Total Expenses) from line 19 (Total Revenue).



## Schedule C – Comparative Balance Sheet

**The purpose of Schedule C – Comparative Balance Sheet, is to report the provider balance sheet as of the end of the reporting period. The provider must either complete this schedule or include a copy of the current or most recent independent audit report.**

### Assets, Liabilities and Equity

The total assets listed under the “Assets” section must equal the total liabilities and equity under the “Liabilities and Equity” section.

### Column Descriptions

**(Column A) Balance at End of Current Period:**

Enter the amount for assets, liabilities and equity in effect for the last day of the current reporting period.

**(Column B) Balance at End of Prior Period:**

Enter the amount for assets, liabilities and equity in effect for the last day of the previous reporting period.

### Line Descriptions

**(Line 5) Buildings and Equipment (Schedule E):**

Amounts entered in Column A, Line 5 should equal total buildings and equipment on Schedule E, Column B, Line 74.

### Reconciliation of Equity or Fund Balance

**(Line 19) Total Equity or Fund Balance Beginning of Period:**

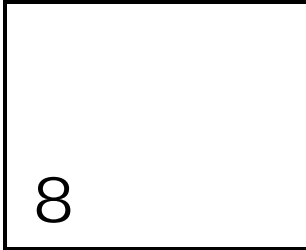
This amount in Column A must be the same as the Total Equity or Fund Balance at end of prior period, Column B, Line 28.

**(Lines 20 – 27) “Add” and “Deduct”:**

The entries must provide an explanation of any difference in the total equity of fund balance between the beginning and end of period.

**(Line 28) Total Equity or Fund Balance End of Period:**

This amount is the total on line 19 plus lines 20 – 23 less lines 24 – 27.



## Schedule D – Direct Care Staffing Expenses

The purpose of Schedule D – Direct Care Staffing Expenses is to collect: (1) the count of full-time and part-time staff hours related to providing direct care waiver services at the provider location, (2) titles of personnel providing waiver services, and (3) salaries, wages and other ERE by position for direct care waiver-related staff. Direct care personnel are those whose hours can be tied to waiver eligible service billed through PROMISE. All other paid time off for vacation leave, sick leave, training, civic duty leave, etc. should be reported as indirect Information on total provider staffing costs is collected to demonstrate the allocation of staff time between waiver and non-waiver programs.

### Column Descriptions

**Position:**

Enter the job titles in the space provided following the major staffing category. All personnel must be separated into the major staffing category which describes the activity and role of that staff member. Providers are required to maintain supporting documentation identifying the number and type of staff and full-time equivalents (FTEs) devoted to waiver services and to each individual waiver service.

**(Column A) Credentials, Licensure or Degree:**

Enter the type of credentials, licensure or degree applicable to the staff in each position. Credentials of RN and MSN have been pre-populated.

**(Column B) Provider Salary/Wages and Provider Fees:**

Enter the provider gross salaries and wages paid to full-time and part-time direct care staff and provider fees paid for direct care contracted staff for providing services. Make sure the salaries and wages here correspond with the respective salary lines on Schedule A, Column A, Line 1 and 3, and direct care staff total Waiver ERE's correspond with the respective fees on Schedule A, Column A, Line 2. These must reflect only the portion of compensation for providing allowable waiver services.

**(Column C) Waiver Salary/Wages and Waiver Fees:**

Enter the salaries/wages allocated to the hours for full-time and part-time direct care staff and fees for direct care contracted staff for providing waiver services to waiver participants. Make sure the salaries and wages correspond with the respective salary lines on Schedule A, Column G, Lines 1 and 3.

**(Column D) Health Benefits:**

Enter the costs of health benefits paid by the employer for waiver related direct care staff for the hours staff provided waiver services to waiver participants.

**(Column E) Retirement Plan:**

Enter the costs of retirement benefits paid by the employer for waiver related direct care staff for the hours staff provided waiver services to waiver participants.

**(Column F) Other Benefits:**

Enter the costs of other benefits paid by the employer for waiver related direct care staff for the hours staff provided waiver services to waiver participants.

**(Column G) Payroll Taxes:**

Enter the costs of payroll taxes paid by the employer for waiver related direct care staff for the hours staff provided waiver services to waiver participants.

**(Column H) Total Waiver ERE:**

Make sure the amounts on Column H, Line 8 equal Schedule A, Column G, Line 2.

**(Columns I and J) Provider Total Hours and Waiver Total Hours:**

Enter the total number of hours for each job title for total provider and the number of hours staff provided waiver services to waiver participants.

## Line Descriptions

Identify each classification or job title of personnel who work for the provider and directly with waiver participants. More than one staff of the same classification or job title may be reported on the same line if they are paid a similar wage and work an equivalent number of hours. It is not necessary to list each employee separately.

**(Lines 1 – 7) Direct Care Staff:**

Enter those positions that will provide direct staffing to waiver participants. Contracted personnel who provide direct care staffing must be entered in the Direct Care Contracted Staff section using only the number of hours they actually spend on direct care.

**(Lines 9 – 15) Direct Care Contracted Staff:**

Enter the contracted positions that are required to meet the needs of the waiver program. If an employee splits time across several programs, only enter the time pertinent to the waiver programs here.



## Schedule D-1 – Indirect Staffing Expenses

The purpose of Schedule D-1 – Indirect Staffing Expenses is to collect: (1) the count of full-time and part-time staff hours related to performing indirect waiver functions (see Schedule A instructions for examples) at the provider location, (2) titles of personnel perform indirect waiver functions, and (3) salaries, wages, and other ERE by position for staff performing indirect waiver functions. Staff providing indirect waiver functions are those whose hours can not be tied to waiver eligible service billed through PROMISe. Information on total provider staffing costs is collected to demonstrate the allocation of staff time between waiver and non-waiver programs.

### Column Descriptions

**Position:**

Enter the job titles in the space provided following the major staffing category. All personnel must be separated into the major staffing category which describes the activity and role of that staff member. Providers are required to maintain supporting documentation identifying the number and type of staff and FTEs devoted to waiver services and to each individual waiver service.

**(Column A) Credentials, Licensure or Degree:**

Enter the type of credentials, licensure or degree applicable to the staff in each position. Credentials of RN and MSN have been pre-populated.

**(Column B) Provider Salary/Wages and Provider Fees:**

Enter the gross salaries and wages paid to full-time and part-time staff and provider fees for contract staff for providing waiver services. This includes all other paid time off for vacation leave, sick leave, training civic duty leave, etc. Make sure the salaries and wages here correspond with the respective salary lines on Schedule A, Column A, Line 8.

**(Column C) Waiver Salary/Wages and Waiver Fees:**

Enter the gross salaries and wages paid to full-time and part-time staff and provider fees for contract staff providing all waiver services. Make sure the salaries and wages and fees here correspond with the respective salary lines on Schedule A, Column G, Lines 1 and 3. These must reflect only the portion of compensation for providing allowable waiver services.

**(Column D) Health Benefits:**

Enter the costs of health benefits paid by the employer for waiver related staff.

**(Column E) Retirement Plan:**

Enter the costs of retirement benefits paid by the employer for waiver related staff.

**(Column F) Other Benefits:**

Enter the costs of other benefits paid by the employer for waiver related staff.

**(Column G) Payroll Taxes:**

Enter the costs of payroll taxes paid by the employer for waiver related staff.

**(Column H) Total ERE:**

Columns D through G will be summed for each position.

**(Column I) Total Waiver Salary/Wages/ERE and Total Waiver Fees:**

Columns C and Columns H will be summed to derive total salary/wages/ERE. These amounts must equal Schedule A, Column G, Lines 7 and Line 8.

**(Columns J and K) Provider Total Hours and Waiver Total Hours:**

Enter the total hours for each job title for Base and waiver programs.

## Line Descriptions

**(Lines 1 – 7) Indirect Staff and (Lines 9 – 15) Indirect Contracted Staff:**

Enter those employees who perform an indirect and/or supervisory function. Identify each classification or job title. If an employee splits time across several programs, only enter the time pertinent to this program here. More than one staff of the same classification or job title may be reported on the same line if they are paid a similar wage and work an equivalent number of hours. Enter Contracted Staff information using only the number of hours actually spent on indirect functions.

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## Schedule D-2 – Administrative Staffing Expenses

The purpose of Schedule D-2 – Administrative Staffing Expenses is to collect: (1) the count of full-time and part-time staff performing administrative functions related to the waiver (see Schedule A instructions for examples) at the provider site(s), (2) titles of staff performing administrative functions related to the waiver, and (3) salaries, wages, and other ERE by position for staff performing administrative functions related to the waiver. Report staff performing administrative functions related to the waiver and only the share of their compensation that is related to waiver services. Information on total provider staffing costs is collected to demonstrate the allocation of staff time between waiver and non-waiver programs.

### Column Descriptions

**Position:**

Enter the job titles in the space provided following the major staffing category. All personnel must be separated into the major staffing category which describes the activity and role of that staff member. Providers are required to maintain supporting documentation identifying the number and type of staff and FTEs devoted to waiver services and to each individual waiver service.

**(Column A) Credentials, Licensure or Degree:**

Enter the type of credentials, licensure or degree applicable to the staff in each position.

**(Column B) Provider Salary/Wages:**

Enter the gross salaries and wages paid to full-time and part-time staff performing administrative functions related to the waiver. Make sure the salaries and wages here correspond with the respective salary lines on Schedule A, Column A, Line 14.

**(Column C) Waiver Salary/Wages:**

Enter the gross salaries and wages paid to full-time and part-time staff for all waiver services. Make sure the salaries and wages here correspond with the respective salary lines on Schedule A, Column G, Line 14. These amounts must reflect only the portion of compensation for providing allowable waiver services, net of any adjustments to reflect allowable compensation costs.

**(Column D) Health Benefits:**

Enter the costs of health benefits paid by the employer for waiver related staff.

**(Column E) Retirement Plan:**

Enter the costs of retirement benefits paid by the employer for waiver related staff.

**(Column F) Other Benefits:**

Enter the costs of other benefits paid by the employer for waiver related staff.

**(Column G) Payroll Taxes:**

Enter the costs of payroll taxes paid by the employer for waiver related staff.

**(Column H) Total Waiver ERE:**

Columns D through G are summed for each position.

**(Column I) Total Waiver Salary/Wages/ERE:**

Columns C and H are summed. This total must equal Schedule A, Column G, Line 14.

**(Columns J and K) Provider Total Hours and Waiver Total Hours:**

Enter the total hours for each job title for Base and waiver programs.

## Line Descriptions

**(Lines 1 – 6) Administrative Staff:**

Enter those staff performing administrative functions related to the waiver. Identify each classification or job title.

## Schedule E – Provider Depreciation and Amortization Expenses

**The purpose of Schedule E – Depreciation and Amortization Expenses, is to report information related to tangible and intangible depreciable assets, leaseholds and start-up costs. The schedule is completed for total provider costs. Schedule A shows the allocation of total provider depreciation to allowable waiver costs.**

**ODP is considering the development of a grandfathering policy for existing buildings and providers. This would apply to all new buildings purchased before a date to be communicated.**

Schedule E includes the original acquisition costs, capital improvements and depreciation on buildings and equipment owned by the provider. If property is being leased from a related party, information regarding the lessor's costs must be submitted on Schedule G.

The provider must make sure the depreciation expense on this schedule corresponds with the depreciation lines on Schedule A – Line 17. Total provider ongoing expenses, such as maintenance and repairs for this property, are entered on Schedule A, Column A, Line 16. Occupancy/Building Expenses are allocated to each applicable procedure code using reasonable, logical cost allocation statistics or basis.

Calculate depreciation expense on a straight-line basis over the estimated useful life of the assets. The estimated useful life used should be consistent with what is used in GAAP financial statements.

- If a depreciable asset has at the time of its acquisition an estimated useful life of at least two years and a historical cost of at least \$5,000.00, its cost must be capitalized and written off ratably over the estimated useful life of the asset using one of the approved methods of depreciation.
- If a depreciable asset has a historical cost of less than \$5,000.00, or if the asset has a useful life of less than two years, its cost is allowable in the year it is acquired.

The straight-line depreciation method is required for waiver services rate setting purposes. Any difference between the amount of depreciation recorded in your general ledger and the straight-line method must be reflected on Schedule A, Column F, Line 17, excluded Non-Allowable Waiver Expenses.

The provider must establish and apply a depreciation policy consistently from one fiscal period to the next to determine how much depreciation to claim in the first and last years if a purchase is made mid-year. Available methods include:

- Taking a full year in the year of acquisition and none in the year of disposal
- Taking no depreciation in the year of acquisition and a full year in the year of disposal
- Calculating the exact months' worth in both these years

Providers are asked to itemize fixed assets on this schedule where different depreciable lives are used. Smaller fixed assets may be grouped together for reporting purposes as long as each group of assets is being depreciated over the same useful life.

## Depreciation and Use Allowances

- Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances. A combination of the two methods may not be used in connection with a single class of fixed assets (e.g., buildings, office equipment, computer equipment, etc.).
- The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved. The value of an asset donated to the provider by an unrelated third party shall be its fair market value at the time of donation.
- The computation of depreciation or use allowances will exclude:
  - The cost of land
  - Any portion of the cost of buildings and equipment donated to the provider
- Where the depreciation method is followed, the period of useful service (useful life) established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment used, historical usage patterns, and technological developments. The useful life used should be consistent with the useful life used for GAAP purposes.
- When the depreciation method is used for buildings, a building's shell may be segregated from the major component of the building (e.g., plumbing system, heating, and air conditioning system, etc.) and each major component depreciated over its estimated useful life, or the entire building (i.e., the shell and all components) may be treated as a single asset and depreciated over a single useful life.
- Where the use allowance method is followed, the use allowance for buildings and improvements (including land improvements, such as paved parking areas, fences and sidewalks) will be computed at an annual rate not exceeding two percent of acquisition costs. The use allowance for equipment will be computed at an annual rate not exceeding XX percent of acquisition cost. When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building's components (e.g., plumbing system, heating and air condition, etc.) cannot be segregated from the building's shell. The X percent limitation, however, need not be applied to equipment which is merely attached or fastened to the building but not permanently fixed to it and which is used as furnishings or decorations or for specialized

purposes (e.g., counters, laboratory benches bolted to the floor, dishwashers, modular furniture, carpeting, etc.). Such equipment will be considered as not being permanently fixed to the building if it can be removed without the destruction of, or need for costly or extensive alterations or repairs, to the building or the equipment. Equipment that meets these criteria will be subject to the X percent equipment use allowance limitation.

- The use allowance will be permitted for any assets that are considered to be fully depreciated, after taking into consideration the amount of depreciation previously charged, the estimated useful life remaining at the time of negotiation, the effect of any increased maintenance charges, decreased efficiency due to age, and any other factors pertinent to the utilization of the asset for the purpose contemplated.
- Charges for use allowances or depreciation must be supported by adequate property records. Physical inventories must be taken at least once every two years (a statistical sampling approach is acceptable) to ensure that assets exist, and are in use. When the depreciation method is followed, depreciation records indicating the amount of depreciation taken each period must also be maintained.

## Start-Up Cost

In April 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-5, Reporting on the Costs of Start-Up Activities. SOP 98-5 stated that start-up costs are those incurred during the course of undertaking one-time activities related to:

- Opening a new facility
- Introducing a new product or service
- Conducting business in a new territory
- Conducting business with a new class of customer or beneficiary
- Initiating a new process in an existing facility
- Commencing some new operation
- Organizing a new entity (frequently referred to as organization costs)

Start-up cost within the scope of SOP 98-5 are required to be expensed as they are incurred, rather than capitalized, which has been the usual practice. Costs defined to be outside of the scope of the SOP include:

- Costs of acquiring or constructing long-lived assets and preparing them for intended uses.
- Costs of acquiring or producing inventory.
- Costs of acquiring intangible assets.
- Costs related to internally developed assets.
- Costs that are within the scope of FASB Statement No. 2, Accounting for Research and Development Costs, and FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation.
- Costs of raising capital.
- Costs incurred in connection with existing contracts as stated in paragraph 75d of SOP No. 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts.

The cost outside of the scope of SOP 98-5 must be accounted for in accordance with other existing authoritative accounting recommendations.

## Column Descriptions

### **(Column A) Year Acquired:**

Record the year the asset was acquired.

### **(Column B) Original Cost:**

Record the property and equipment at its original cost. Each asset or group of like assets must be reflected individually. When items are purchased as an integrated system, all items must be considered as a single asset when applying the capitalization threshold. Items that have a stand-alone functional capability may be considered on an item-by-item basis. For example:

- An integrated system of office furniture (interlocking panels, desktops that are supported by locking into panels) must be considered as a single asset when applying the threshold.

Stand-alone office furniture (e.g., chairs, free standing desks) is considered on an item-by-item basis.

### **(Column C) Depreciation Recorded Prior Years:**

Obtain this information by adding the depreciation accumulated from previous years less any disposals.

### **(Column D) Depreciation Method:**

This column will be pre-populated to indicate that the straight-line method of depreciation was used. As stated above, this method is required.

### **(Column E) Annual Rate:**

Enter the annual percentage rate used in calculating the depreciation. NOTE: The annual percentage rate and the recorded depreciation expense must correlate.

### **(Column F) Depreciation Expense:**

Enter the total amount of straight-line depreciation. If the provider uses a method other than straight-line, any difference between the amount of depreciation recorded in the general ledger and the straight-line method must be reflected on Schedule A as an adjustment of expense. The amount recorded here must equal the amount shown on Schedule A, Column A, Line 17.

## Line Descriptions

Identify the type of depreciable equipment, vehicles and buildings following the appropriate category and subcategory. Use additional spaces if needed.

### **Total Occupancy & Buildings:**

(Line 24) Subtotal Occupancy/Buildings

**Motor Vehicles:**

Depreciable transportation costs should be categorized as direct, indirect or administrative as defined in the instructions for Schedule A.

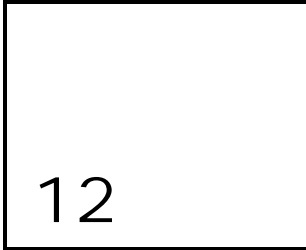
(Line 37) Total Transportation – Note that the totals of depreciation related to transportation may not equal amounts on Schedule A if non-depreciable transportation costs are incurred.

**Total Fixed Assets/Equipment:**

(Line 73) Represents Total Fixed Assets/Equipment

**Total (Depreciation/Fixed Assets/Buildings):**

(Line 74) Is the total of Lines 24 and 73. This total must equal Schedule A, Column A, Line 17. Note that transportation costs have been excluded from this subtotal since transportation costs are charged to Schedule A – Lines 4, 11 and 15.



## Schedule F – Administrative and Occupancy Expenses

**The purpose of Schedule F – Administrative and Occupancy Expenses is to further disclose administrative and general expenses. See Section 5 for a description of administrative expenses.**

General administration expenses are those expenses that have been incurred for the overall general executive and administrative functions of the provider such as: management fees, professional services, advertising/marketing, telephone, insurance, interest – short-term borrowings, legal fees, accounting and auditing, office supplies, etc. Occupancy expenses are rent of space, utilities and maintenance, interest expense – buildings, insurance, property taxes, and other.

### Line Descriptions

**(Line 5) Insurance:**

All insurance expense including property, vehicle, and liability except those types of insurance related to mortgages or bonds, and insurance considered as employee fringe benefits such as health and workers compensation.

**(Line 6) Interest:**

This represents interest paid for short term borrowing.

**(Line 12) Administrative Transportation:**

This amount is comprised of transportation costs related to administration that are not included in the direct or indirect expense. This should include the depreciation expense from Schedule E, if appropriate.

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## Schedule G – Related Party Transactions

**The purpose of Schedule G – Related Party Transactions is to disclose related party transactions and make appropriate adjustments to reported costs.**

A related party is defined as an organization related through control, from ownership, capital investment, directorship or other means. Organizations are required to disclose their financial and statistical records to determine whether a related party relationship exists and to document the validity of costs.

If property is leased from a related party, the actual cost of the property must be substituted on Schedule A, Column A, Line 16. A schedule of lessor's cost is included on Schedule G for purposes of identifying the actual cost incurred by the related party landlord.



## Schedules H, H-1 and H-2: Expense Allocation Procedures

**The purpose of Schedules H, H-1 and H-2 – Direct, Indirect and Administrative Expense Allocation Procedures, is to report information related to provider operations and accounting procedures. Schedules H, H-1 and H-2 must be completed in their entirety.**

Cost allocations are required for direct costs benefiting more than one program or procedure code and for indirect and administrative costs.

Direct costs are costs that are directly identifiable to services. Indirect costs, although they may benefit all services, generally are not readily identifiable with each service or service component but are incurred as a part of providing a direct service. Administrative costs are costs that cannot be directly related to any specific service or program and are reasonable and necessary for providing the service. (See Schedule A for examples of all costs.)

The schedule provides questions about methods used in allocating expenses that benefit more than one service or service component. The provider must be able to support the basis used in allocating these costs. The provider may be required to obtain prior approval of the cost allocation plan from ODP.

Commonly accepted cost allocation bases are discussed in the instructions for Schedule A. If the provider is using other methods to allocate costs to all services and programs (i.e., the percentage of clients served within each program or service), you must be sure to specify the method and supply supporting justification.

Supporting schedules or working papers must be included to fully disclose how costs are being allocated between the different programs and services (i.e., time studies, square footage).

The provider must also specify the methodology being used to determine the amount of indirect costs attributes to each program or service. Merely responding to the questions on this schedule with a “yes” or “no” answer is not sufficient. Failure to fully disclose cost apportionment methods may serve to delay implementation of a new rate and result in the rejection of your cost report.