

## **Frequently Asked Questions Related to Year 4 Cost Report and Audit Requirements**

As a result of the provider Year 4 cost report training sessions held on September 7, 19 and 20 and October 4, ODP has received the following frequently asked questions (FAQs). ODP is providing written responses to these questions to clarify expectations for all providers who are completing a cost report.

***FAQ #1: How do we report expenses associated with food and entertainment provided to staff at work functions or holiday parties? How do we report expenses for staff meals when dining out with the consumer, even when the food is for staff who are working with an individual toward an ISP-identified outcome? How do we report expenses for participant and staff recreation expenses (e.g., cost of admission to movie or sporting event), even if these activities are working with an individual toward an ISP-identified outcome?***

**Response:** For purposes of the cost report, all of these types of expenses are considered non-allowable and need to be reported on Schedule A, Column E. Refer to page 45 of the cost report instructions (CRI) for additional information.

***FAQ #2: How do I report expenses for assets that were donated or purchased with grant funds?***

**Response:** Please reference Section 12 of the Cost Report Instructions (CRI) for information regarding the reporting of expenses related to donated assets. The key guidance is included below in the four paragraphs pasted below. Providers should include an explanation on the Comments Page to describe any of these types of situations.

Note that assets purchased with grant funds should be reported similarly to those that are donated (as described below). However, if government grants are used to fund the purchase, the related government grant revenue should be reported on Lines 11a through 11c on Schedule B. These policies apply to assets that are partially funded through grants, as well as assets that are fully funded through grants. See page 67 of the CRI for detail regarding the reporting of contribution and grant revenue on Schedule B.

### **Non-Residential Buildings (pg 80 of CRI)**

If a Waiver-related building is donated, rather than capitalizing and depreciating the asset, the value of the asset should be expensed as an other program expense (Schedule F, Line 14), and contribution revenue of the same amount recorded on Schedule B, Column C, Lines 10 a through 10c. This will result in no impact on net expenses (i.e., expenses less contribution/revenue offsets). This will also likely be a reconciling item between the Cost Report and a provider's AFS.

### **Non-Residential Fixed Assets (pg 81 of CRI)**

If a fixed asset is donated, instead of capitalizing and depreciating the asset, the value of the asset should be expensed as an other program expense (Schedule F, Line 14), and

contribution revenue of the same amount recorded on Schedule B, Column C, Lines 10 a through 10c. This will result in no impact on net expenses (i.e., expenses less contribution/revenue offsets). This will also likely be a reconciling item between the Cost Report and a provider's AFS.

**Residential Buildings (pg 84 of CRI)**

If a residential building is donated, rather than capitalizing and depreciating the asset, the value of the asset should be expensed as an other operating expense (Schedule J, Line 29), and contribution revenue of the same amount recorded on Schedule B, Column C, Lines 10 a through 10c. This will result in no impact on net expenses (i.e., expenses less contribution/revenue offsets). This will also likely be a reconciling item between the Cost Report and a provider's AFS.

**Residential Fixed Assets (pg 84 of CRI)**

If a fixed asset is donated, instead of capitalizing and depreciating the asset, the value of the asset should be expensed as an other program expense (Schedule J, Line 29), and contribution revenue of the same amount recorded on Schedule B, Column C, Lines 10 a through 10c. This will result in no impact on net expenses (i.e., expenses less contribution/revenue offsets). This will also likely be a reconciling item between the Cost Report and a provider's AFS.

***FAQ #3: What types of income taxes are non-allowable?***

**Response:** For purposes of the Year 4 cost report, any federal, state or local taxes being paid on corporate income are non-allowable. This is outlined on pages 45 of the CRI.

Note that a corporation tax, like a franchise tax imposed by the Commonwealth, is allowable and would be reported on Schedule F, Line 14. In addition, the employer portion of Social Security/Medicare taxes is allowable and would be reported in the ERE columns of Schedules D, D-1 or D-3, depending on the type of staff with which the taxes are associated.

***FAQ #4: My agency is on a calendar year reporting period with my CY 2010 independent audit due September 30th. The newly required Waiver-specific supplemental schedule in the audit needs to reconcile to the FY 2010/2011 Waiver expenses in the cost report. How can this supplemental schedule in the audit be completed by September 30th when the cost report is not due until November 3rd?***

**Response:** Providers in this situation will need their auditors to complete a supplement to their independent audit that covers the period January 1, 2011 through June 30, 2011. Then the Waiver-specific supplemental schedule in the audit must be prepared for the period 7/1/10 through 6/30/11. This schedule must then be reconciled with your cost report to achieve the audited waiver-specific supplemental schedule. Providers in this situation need to submit this supplement to their audit by March 31, 2012. Refer to page 8 of the CRI for additional information.