

September 20, 2011

**Commonwealth of Pennsylvania
Office of Developmental Programs
Year 4 Cost Report for the Consolidated
and P/FDS Waiver Programs**

Training Session on Select Complex Reporting Items



Agenda

- Reporting Cost Report Depreciation Expenses
 - Purpose and Description
 - Methods
 - Annual Rate or Loan Term
 - Examples
 - Dos and Don'ts
- Cost Report Expense Allocations
 - Purpose and Description
 - Examples
 - Dos and Don'ts
- Additional Cost Report Training Sessions
- Technical Assistance Resources and Next Steps
- Questions



**Reporting Cost Report
Depreciation Expenses**

Schedules E through E-2 – Provider Depreciation Expenses

Purpose and Description

- These schedules identify depreciation expenses for:
 - Buildings (Schedule E)
 - Motor vehicles (Schedule E-1)
 - Fixed assets/equipment (Schedule E-2)
- Costs are separated to distinguish assets associated with non-residential and residential services
- Assets with an expense of less than \$5,000 should be expensed in the year in which the asset was acquired, unless the provider began depreciating the asset prior to July 1, 2009
- Expenses associated with capital assets of \$5,000 or greater may be reported in one of three ways:
 - Principal and interest costs – buildings only grandfathered method (GF)
 - Depreciation straight-line method (SL)
 - Participation or use allowance (UA)
- Providers should also review Section 12 of the Cost Report Instructions (CRI) for detailed policy guidance

Reporting Cost Report Depreciation Expenses Depreciation/Allowance Methods

- Straight-line (SL) – In this method, the same amount is charged each month/year over the estimated useful life of the asset. Estimated useful life will vary depending upon the asset, and whether the asset was acquired as new or used.
- Grandfathered (GF) – This method applies to non-residential buildings purchased prior to July 1, 2009 and allows the provider to continue to claim the principal and interest over the life of the loan. This method is also used to indicate that a residential building's loan is being amortized over the life of the loan.
- Use allowance/participation allowance (UA) – The term “use” and “participation” are used interchangeably. The participation allowance permits an annual allowance of 2% of the original acquisition cost for fully depreciated buildings and 6 2/3% for fully depreciated fixed assets to be expensed in the Cost Report. Use allowances can only be taken for as long as the asset is in use.

Reporting Cost Report Depreciation Expenses

Administrative/Non-Residential Buildings

- Summary of Applicable Depreciation Policies (administrative/non-residential buildings)

GF	SL	UA
<ul style="list-style-type: none"> If building (and improvements) purchased prior to June 30, 2009 and a loan exists for the building, provider can continue to claim principal and interest payments for a loan with a term of 15 years or more Principal and interest payments would be recorded on Schedule E, and the provider would select "GF" as the depreciation method 	<ul style="list-style-type: none"> If building purchased after June 30, 2009, the straight-line method of depreciation must be used and applied over the estimated useful life of the building in accordance with GAAP Depreciation is recorded on Schedule E and the provider would select "SL" as the depreciation method 	<ul style="list-style-type: none"> After the loan is fully amortized, or the building fully depreciated, the provider may claim a participation allowance of 2% for the use of the building (for as long as the building is in use) Participation allowance is recorded on Schedule E and the provider would select "UA" as the depreciation method

Reporting Cost Report Depreciation Expenses Residential Buildings

- Summary of Applicable Depreciation Policies (residential buildings)

GF	SL	UA
<ul style="list-style-type: none"> Providers may continue to amortize residential buildings over the life of the loan Principal and interest payments would be recorded on Schedule E, and the provider would select "GF" as the depreciation method 	<ul style="list-style-type: none"> If the provider has elected to use the straight-line method of depreciation for residential buildings, the building must be depreciated over the estimated useful life of the building in accordance with GAAP Depreciation is recorded on Schedule E and the provider would select "SL" as the depreciation method; interest would be recorded on Schedule J, Line 29. 	<ul style="list-style-type: none"> After the building is debt-free, ODP will reimburse a continuing participation allowance For FY 2009/2010 and FY 2010/2011, the participation allowance may not exceed the allowance percentage that the provider claimed in FY 2007/2008 For buildings that become debt free between July 1, 2009 and June 30, 2011, a participation allowance of the lesser of 8% or the provider's expense of debt service on the real estate will be an allowable expense Participation allowance is recorded on Schedule E and the provider would select "UA" as the depreciation method

Reporting Cost Report Depreciation Expenses Motor Vehicles

- Summary of Applicable Depreciation Policies (fixed assets — motor vehicles, participant, non-residential and residential)

GF	SL	UA
<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> Fixed assets, \$5,000 and above, shall be depreciated using the straight-line method of depreciation over the estimated useful life of the fixed asset Depreciation is recorded on Schedule E-1, and the provider should select “SL” as the depreciation method 	<ul style="list-style-type: none"> Once a fixed asset is fully depreciated, a participation allowance of 6 2/3% of the original expense (for assets \$5,000 and above) is an allowable expense (for as long as the asset is still in use) The use allowance is recorded on Schedule E-1 and the provider would select “UA” as the depreciation method

Reporting Cost Report Depreciation Expenses

Fixed Assets

- Summary of Applicable Depreciation Policies (fixed assets — residential and non-residential)

GF	SL	UA
<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> Fixed assets, \$5,000 and above, shall be depreciated using the straight-line method of depreciation over the estimated useful life of the fixed asset Depreciation is recorded on Schedule E-2, and the provider would select “SL” as the depreciation method 	<ul style="list-style-type: none"> Once a fixed asset is fully depreciated, a participation allowance of 6 2/3% of the original expense (for assets \$5,000 and above) is an allowable expense (for as long as the asset is still in use) The use allowance is recorded on Schedule E-2, and the provider would select “UA” as the depreciation method

Reporting Cost Report Depreciation Expenses

Annual Percentage Calculations (Column E of Schedule Es)

- Enter the annual percentage rate used to calculate the depreciation
 - GF: If the property is grandfathered, convert the number of years that the loan is payable to a percentage
 - This is done by starting with 100% and dividing by the number of years in the loan term
 - For example, for a 15-year loan: $100\% / 15 \text{ years} = 6.67\%$
 - SL: If the straight-line method is used to depreciate the asset, convert the useful life of the asset to a percentage
 - This is done by starting with 100% and dividing by the number of years of the useful life
 - For example, for a 30-year useful life: $100\% / 30 \text{ years} = 3.33\%$
 - UA: If use/participation allowance is used, the rate should reflect the use/participation allowance percentage being taken for the asset
 - For example, if $6 \frac{2}{3}\%$ is the allowance used for the asset, the rate would be 6.67%

Reporting Cost Report Depreciation Expenses Annual Percentage Calculations (Column E of Schedule Es)

- Example rate calculations:
 - 100% / 5 yrs = 20.00%
 - 100% / 15 yrs = 6.67%
 - 100% / 30 yrs = 3.33%

- Rate conversion table for term years of 1 to 50:

<i>Term Years</i>	<i>Annual % Rate</i>
1	100.00%
2	50.00%
3	33.33%
4	25.00%
5	20.00%
6	16.67%
7	14.29%
8	12.50%
9	11.11%
10	10.00%

<i>Term Years</i>	<i>Annual % Rate</i>
11	9.09%
12	8.33%
13	7.69%
14	7.14%
15	6.67%
16	6.25%
17	5.88%
18	5.56%
19	5.26%
20	5.00%

<i>Term Years</i>	<i>Annual % Rate</i>
21	4.76%
22	4.55%
23	4.35%
24	4.17%
25	4.00%
26	3.85%
27	3.70%
28	3.57%
29	3.45%
30	3.33%

<i>Term Years</i>	<i>Annual % Rate</i>
31	3.23%
32	3.13%
33	3.03%
34	2.94%
35	2.86%
36	2.78%
37	2.70%
38	2.63%
39	2.56%
40	2.50%

<i>Term Years</i>	<i>Annual % Rate</i>
41	2.44%
42	2.38%
43	2.33%
44	2.27%
45	2.22%
46	2.17%
47	2.13%
48	2.08%
49	2.04%
50	2.00%

Reporting Cost Report Depreciation Expenses

Example 1

- Correct and incorrect reporting of the rate for a non-residential building using GF method with a 30 year loan

SCHEDULE E (PARTIAL) – PROVIDER DEPRECIATION AND AMORTIZATION EXPENSES
BUILDINGS

		A	B	C	D	E	F	G
BUILDINGS - NON-RESIDENTIAL		Month & Year Acquired (MM/YYYY)	Original Cost	Depreciation/Loan Payments Recorded Prior Years	Depreciation Method	Annual Rate or Loan Term	Total Provider Use Allowance, Depreciation Expense, and/or Loan Payment	Waiver* Use Allowance, Depreciation Expense, and/or Loan Payment
Non-Residential Buildings								
1a	123 Main Street (Correct Rate Reported)	10/2002	\$ 175,000	\$ 106,574	GF	3.33%	\$ 13,901	\$ 13,901
1b	123 Main Street (Incorrect Rate Reported)	10/2002	\$ 175,000	\$ 106,574	GF	7.94%	\$ 13,901	\$ 13,901

- Correct (Line 1a): 3.33% represents a 30 year loan, which is allowable
- Incorrect (Line 1b): 7.94% represents the \$13,901 loan payment total (Column F) as a percentage of the \$175,000 original cost (Column B)

Reporting Cost Report Depreciation Expenses Example 2

- Reporting of the full amount of annual principal and interest expenses (\$19,984) for a residential building with a loan term less than 15 years using GF method
 - Expensing the full amount of annual principal and interest expenses for a property with a loan term less than 15 years is unallowable

**SCHEDULE E (PARTIAL) – PROVIDER DEPRECIATION AND AMORTIZATION EXPENSES
BUILDINGS**

A	B	C	D	E	F	G
Month & Year Acquired (MM/YYYY)	Original Cost	Depreciation/Loan Payments Recorded Prior Years	Depreciation Method	Annual Rate or Loan Term	Total Provider Use Allowance, Depreciation Expense, and/or Loan Payment	Waiver* Use Allowance, Depreciation Expense, and/or Loan Payment

BUILDINGS - RESIDENTIAL

Residential Buildings						
17	111 First Street	09/2005	\$ 150,000	\$ 94,923	GF	10.00% \$ 19,984 \$ 19,984
18						
19						
20	SUBTOTAL		\$ 150,000	\$ 94,923		\$ 19,984 \$ 19,984

- A rate of 10.00% indicates a loan term of 10 years. GF can only be used for loan terms of 15 years or more
 - See page 82 in Section 12 of the CRI for details regarding the allowable portion of expenses for loans for residential properties with a term of less than 15 years
 - For properties where this situation exists, the provider should use the Comments page to detail the reported costs and confirm that reported costs are allowable per the CRI

Reporting Cost Report Depreciation Expenses Example 3

- Correct reporting of a Non-residential building using GF method with prorated UA after loan has been fully expensed

SCHEDULE E (PARTIAL) – PROVIDER DEPRECIATION AND AMORTIZATION EXPENSES
BUILDINGS

		A	B	C	D	E	F	G
BUILDINGS - NON-RESIDENTIAL		Month & Year Acquired (MM/YYYY)	Original Cost	Depreciation/Loan Payments Recorded Prior Years	Depreciation Method	Annual Rate or Loan Term	Total Provider Use Allowance, Depreciation Expense, and/or Loan Payment	Waiver* Use Allowance, Depreciation Expense, and/or Loan Payment
Non-Residential Buildings								
1	123 Main Street (GF Portion)	11/1995	\$ 175,000	\$ 288,266	GF	6.67%	\$ 8,226	\$ 8,226
2	123 Main Street (UA Prorated Portion)	11/1995			UA	2.00%	\$ 2,042	\$ 2,042
3								
4	SUBTOTAL		\$ 175,000	\$ 288,266			\$ 10,267	\$ 10,267

- In this scenario, the 15 year loan became fully expensed in November 2010. The UA portion was prorated over the remaining 7 months of the Cost Report historical expense data period and reported on a separate line
- Under this scenario, the asset should be listed twice based on the two different depreciation methods being used to ensure clarity of information provided

Reporting Cost Report Depreciation Expenses Example 3 (Continued)

- Principal and interest expenses of \$8,226 reflect the amount the provider paid from July 2010 through November 2010, at which time the loan became fully expensed
- The UA portion was prorated over the remaining 7 months of the Cost Report historical expense data period
 - $\$175\text{K} \times 2.00\% \text{ UA} \times 58.3\% (7/12 = 58.3\%) = \$2,042$
 - Another way to look at the prorated amount is to break down the annual UA amount into monthly amounts ($\$3,500 / 12 = \292)

Annual UA Amount (2% x \$175K)	\$	3,500	
Dec-10	\$	292	
Jan-11	\$	292	
Feb-11	\$	292	
Mar-11	\$	292	
Apr-11	\$	292	
May-11	\$	292	
Jun-11	\$	292	<u><u>\$ 2,042</u></u>

Reporting Cost Report Depreciation Expenses

Example 4

- Residential building where rather than using the GF method, the provider used the SL method and interest expense for the residential building loan
- The useful life of the building is 30 years (Rate: $100\% / 30 \text{ yrs} = 3.33\%$) with an annual depreciation expense of \$4,333 ($\$130\text{K} / 30 \text{ yrs} = \$4,333$)
- The annual interest expense for the 15 year loan on this building was \$4,885
 - This amount should be reported on Schedule J, Line 29 – Other
- Correct reporting of depreciation expenses:

**SCHEDULE E (PARTIAL) – PROVIDER DEPRECIATION AND AMORTIZATION EXPENSES
BUILDINGS**

A	B	C	D	E	F	G
Month & Year Acquired (MM/YYYY)	Original Cost	Depreciation/Loan Payments Recorded Prior Years	Depreciation Method	Annual Rate or Loan Term	Total Provider Use Allowance, Depreciation Expense, and/or Loan Payment	Waiver* Use Allowance, Depreciation Expense, and/or Loan Payment

BUILDINGS - RESIDENTIAL

Residential Buildings								
17	111 First Street	10/2002	\$ 130,000	\$ 33,222	SL	3.33%	\$ 4,333	\$ 4,333
18								
19								
20	SUBTOTAL		\$ 130,000	\$ 33,222			\$ 4,333	\$ 4,333

Reporting Cost Report Depreciation Expenses

Example 4 (Continued)

- Incorrect reporting of expenses:
 - Reporting the \$4,885 of interest expense with the \$4,333 depreciation expense (Line 17b below)
 - Reporting the interest expense with the depreciation expense and entering a rate that reflects the depreciation and interest expense as a percentage of the original cost ($\$9,219 / \$130K = 7.09\%$) (Line 17c below)

**SCHEDULE E (PARTIAL) – PROVIDER DEPRECIATION AND AMORTIZATION EXPENSES
BUILDINGS**

	A Month & Year Acquired (MM/YYYY)	B Original Cost	C Depreciation/Loan Payments Recorded Prior Years	D Depreciation Method	E Annual Rate or Loan Term	F Total Provider Use Allowance, Depreciation Expense, and/or Loan Payment	G Waiver* Use Allowance, Depreciation Expense, and/or Loan Payment
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BUILDINGS - RESIDENTIAL

Residential Buildings								
17a	111 First Street (Correct)	10/2002	\$ 130,000	\$ 33,222	SL	3.33%	\$ 4,333	\$ 4,333
17b	111 First Street (Incorrect)	10/2002	\$ 130,000	\$ 33,222	SL	3.33%	\$ 9,219	\$ 9,219
17c	111 First Street (Incorrect)	10/2002	\$ 130,000	\$ 33,222	SL	7.09%	\$ 9,219	\$ 9,219

Reporting Cost Report Depreciation Expenses

Example 5

- Motor vehicle – program related with an original cost of \$26,000 using SL method with prorated UA after loan has been fully expensed and reporting interest expense for the vehicle loan
- The provider reports useful life of 5 years (rate = 20.00%) with an annual depreciation expense of \$5,200 ($\$26K / 5 \text{ yrs} = \$5,200 \text{ per yr}$). However, the vehicle was fully depreciated in October 2010 resulting in a prorated depreciation expense of \$1,733
 - $\$5,200 \times 33.3\% (4/12 = 33.3\%) = \$1,733$
- The interest expense for the 5-year loan on this vehicle was \$36.41 for the last 4 months of the loan (July – October 2010)
 - This amount should be reported on Schedule F Line 6 - Interest — Short-term Borrowing
- Because the asset was fully depreciated within the historical expense data period, the UA portion should be prorated over the remaining 8 months of the Cost Report historical expense data period
 - $\$26K \times 6.67\% \text{ UA} \times 66.7\% (8/12 = 66.7\%) = \$1,156$

Reporting Cost Report Depreciation Expenses

Example 5 (Continued)

- Under this scenario, the asset should be listed twice to identify the two different depreciation methods being used
- Correct reporting of depreciation expenses:

SCHEDULE E-1 (PARTIAL) – PROVIDER DEPRECIATION EXPENSES
MOTOR VEHICLES

	A	B	C	D	E	F	G
MOTOR VEHICLES - PROGRAM-RELATED:	Month & Year Acquired (MM/YYYY)	Original Cost	Depreciation Recorded Prior Years	Depreciation Method	Annual Rate	Total Provider Use Allowance & Depreciation Expense	Waiver* Use Allowance & Depreciation Expense
Participant Expense:							
1 Passenger Van 1 (SL Portion)	11/2005	\$ 26,000	\$ 24,267	SL	20.00%	\$ 1,733	\$ 1,733
2 Passenger Van 1 (UA Prorated Portion)	11/2005			UA	6.67%	\$ 1,156	\$ 1,156
3							
4							
5 SUBTOTAL		\$ 26,000	\$ 24,267			\$ 2,889	\$ 2,889

Reporting Cost Report Depreciation Expenses Example 5 (Continued)

- Incorrect reporting of depreciation expenses:
 - Reporting a full year’s worth of UA expense (\$26K x 6.67% = \$1,733) when depreciation expenses (\$1,733) were reported for the same asset within the Cost Report historical expense data period resulting in an overstatement of Cost Report expenses

**SCHEDULE E-1 (PARTIAL) – PROVIDER DEPRECIATION EXPENSES
MOTOR VEHICLES**

		A	B	C	D	E	F	G
MOTOR VEHICLES - PROGRAM-RELATED:		Month & Year Acquired (MM/YYYY)	Original Cost	Depreciation Recorded Prior Years	Depreciation Method	Annual Rate	Total Provider Use Allowance & Depreciation Expense	Waiver* Use Allowance & Depreciation Expense
Participant Expense:								
1	Passenger Van 1 (SL Portion - Correct)	11/2005	\$ 26,000	\$ 24,267	SL	20.00%	\$ 1,733	\$ 1,733
2	Passenger Van 1 (UA Portion - Incorrect)	11/2005			UA	6.67%	\$ 1,733	\$ 1,733
3								
4								
5	SUBTOTAL		\$ 26,000	\$ 24,267			\$ 3,467	\$ 3,467

Reporting Cost Report Depreciation Expenses Example 5 (Continued)

- Incorrect reporting of depreciation expenses:
 - Reporting the prorated \$1,156 UA expense together with the \$1,733 depreciation expense (Line 1a below)
 - Reporting a year’s worth of depreciation expense (\$5,200) on an asset that fully depreciates within the Cost Report historical expense data period (Line 1b below)
 - This results in a Cost Report overstatement of \$3,467 (\$5,200 annual depreciation expense less the prorated expense of \$1,733)

**SCHEDULE E-1 (PARTIAL) – PROVIDER DEPRECIATION EXPENSES
MOTOR VEHICLES**

		A	B	C	D	E	F	G
		Month & Year Acquired (MM/YYYY)	Original Cost	Depreciation Recorded Prior Years	Depreciation Method	Annual Rate	Total Provider Use Allowance & Depreciation Expense	Waiver* Use Allowance & Depreciation Expense
MOTOR VEHICLES - PROGRAM-RELATED:								
Participant Expense:								
1a	Passenger Van 1 (Incorrect)	11/2005	\$ 26,000	\$ 24,267	SL	20.00%	\$ 2,889	\$ 2,889
1b	Passenger Van 1 (Incorrect)	11/2005	\$ 26,000	\$ 24,267	SL	20.00%	\$ 5,200	\$ 5,200

Reporting Cost Report Depreciation Expenses

Example 6

- Correct and incorrect reporting of expenses in Column C, Depreciation (and/or loan payments for Schedule E) recorded in prior years
 - Depreciation expenses recorded in prior years is not just the amount from the prior year, but are costs for all applicable prior years

SCHEDULE E-1 (PARTIAL) – PROVIDER DEPRECIATION EXPENSES
MOTOR VEHICLES

		A	B	C	D	E	F	G
		Month & Year Acquired (MM/YYYY)	Original Cost	Depreciation Recorded Prior Years	Depreciation Method	Annual Rate	Total Provider Use Allowance & Depreciation Expense	Waiver* Use Allowance & Depreciation Expense
MOTOR VEHICLES - PROGRAM-RELATED:								
Participant Expense:								
1	Passenger Van 1 (Correct)	11/2008	\$ 25,000	\$ 8,333	SL	20.00%	\$ 5,000	\$ 5,000
1	Passenger Van 1 (Incorrect)	11/2008	\$ 25,000	\$ 5,000	SL	20.00%	\$ 5,000	\$ 5,000

Depreciation Expenses

Nov 2008 - Jun 2009 (Prorated)	\$ 3,333	} — Both amounts should be included in Column C for Prior Years Expenses (\$3,333 + \$5,000 = \$8,333)
Jul 2009 - Jun 2010	\$ 5,000	
Jul 2010 - Jun 2011	\$ 5,000	Amount to be reported in Column F

Reporting Cost Report Depreciation Expenses Examples

- Using supplemental schedules to support depreciation expenses
 - Submit a supplemental schedule if you report all depreciation expenses on a single line
 - The supplemental schedule should include all information that would be reported in Columns A through G in Schedules E, E-1 and E-2 (See Example 7)
 - Supplemental schedules must clearly agree with the amount entered on each line of Schedules E, E-1 and E-2 (See Example 7)
 - If supplemental schedules are uploaded, providers should include a note on the Comments page to indicate “see supplemental schedule ## of ##” to facilitate review

Reporting Cost Report Depreciation Expenses Example 7

- Correct reporting
 - Sample supplemental schedule for Schedule E-2 Provider Depreciation Expenses Fixed Assets/Equipment (Slide 24)
 - Note correct format
 - Contains same level of detail as columns in Schedule E-2
 - Identifies total provider and Waiver amounts clearly
 - Sample Schedule E-2 Provider Depreciation Expenses Fixed Assets/Equipment (Slide 25)
 - Similar assets grouped together
 - Identification of attached supplemental schedule
 - Amounts clearly tie between the two schedules

Reporting Cost Report Depreciation Expenses

Example 7 (Continued)

Asset	Acquisition Date	Purchase Amount	Depreciation Prior Years	Method	Useful Life	Rate	Total	Waiver
Non Residential Building Equipment								
Security System	01/2009	\$ 10,000	\$ 3,000	SL	5	20.0%	\$ 2,000	\$ 1,700
Phone System	01/2005	\$ 13,050	\$ 13,050	UA		6.7%	\$ 870	\$ 740
Air Conditioner	06/2005	\$ 6,500	\$ 2,203	SL	15	6.7%	\$ 433	\$ 368
Air Conditioner	03/2004	\$ 6,250	\$ 2,639	SL	15	6.7%	\$ 417	\$ -
Sewer Pump	01/2009	\$ 5,500	\$ 825	SL	10	10.0%	\$ 550	\$ 468
Handicap Ramps	10/2007	\$ 9,500	\$ 1,742	SL	15	6.7%	\$ 633	\$ 538
		\$ 50,800	\$ 23,458				\$ 4,904	\$ 3,814
Non Residential Departmental Equipment								
Copier	03/2007	\$ 8,315	\$ 5,543	SL	5	20.0%	\$ 1,663	\$ 1,414
Color Printer	05/2007	\$ 4,965	\$ 3,145	SL	5	20.0%	\$ 993	\$ 844
Laptop Computers	06/2009	\$ 3,250	\$ 704	SL	5	20.0%	\$ 650	\$ 553
Desktop Computers	01/2010	\$ 6,000	\$ 600	SL	5	20.0%	\$ 1,200	\$ 1,020
Computer Server	07/2010	\$ 5,600	\$ -	SL	5	20.0%	\$ 1,120	\$ 952
Computer Server	03/2005	\$ 6,700	\$ 6,700	UA		6.7%	\$ 447	\$ 380
Carpet	01/2010	\$ 8,500	\$ 850	SL	5	20.0%	\$ 1,700	\$ 1,445
Router	02/2009	\$ 3,500	\$ 992	SL	5	20.0%	\$ 700	\$ 595
Cross cut shredder	09/2006	\$ 3,109	\$ 2,384	SL	5	20.0%	\$ 622	\$ 529
Trash Compactor	05/2009	\$ 3,000	\$ 700	SL	5	20.0%	\$ 600	\$ 510
		\$ 52,939	\$ 21,617				\$ 9,695	\$ 8,240
Non Residential Office Furniture								
Office Furnishings	03/2009	\$ 42,000	\$ 11,200	SL	5	20.0%	\$ 8,400	\$ 7,140
Office Furnishings	08/2009	\$ 9,026	\$ 1,655	SL	5	20.0%	\$ 1,805	\$ 1,534
Kitchen Cabinets	03/2008	\$ 12,000	\$ 1,867	SL	15	6.7%	\$ 800	\$ 680
Couch	02/2010	\$ 5,100	\$ 425	SL	5	20.0%	\$ 1,020	\$ 867
		\$ 68,126	\$ 15,146				\$ 12,025	\$ 10,221
Residential Fixed Assets/Equipment								
Washer/Dryer	03/2007	\$ 3,250	\$ 2,167	SL	5	20.0%	\$ 650	\$ 650
Furnace	02/2008	\$ 2,750	\$ 949	SL	7	14.3%	\$ 393	\$ 393
Carpet	10/2009	\$ 7,930	\$ 1,190	SL	5	20.0%	\$ 1,586	\$ 1,586
Ramp	09/2007	\$ 7,520	\$ 1,420	SL	15	6.7%	\$ 501	\$ 501
Garage doors opener/motor	01/2011	\$ 5,000	\$ -	SL	5	20.0%	\$ 500	\$ 500
Windows	06/2009	\$ 4,950	\$ 536	SL	10	10.0%	\$ 495	\$ 495
Roof	08/2005	\$ 32,100	\$ 10,522	SL	15	6.7%	\$ 2,140	\$ 2,140
Door/Door Frames Replace	05/2007	\$ 5,400	\$ 1,710	SL	10	10.0%	\$ 540	\$ 540
		\$ 68,900	\$ 18,494				\$ 6,805	\$ 6,805
Residential Other								
Furnishings	08/2009	\$ 13,045	\$ 2,392	SL	5	20.0%	\$ 2,609	\$ 2,609
		\$ 13,045	\$ 2,392				\$ 2,609	\$ 2,609
		\$ 253,810	\$ 81,108				\$ 36,038	\$ 31,690

Reporting Cost Report Depreciation Expenses

Example 7 (Continued)

SCHEDULE E-2 – PROVIDER DEPRECIATION EXPENSES
FIXED ASSETS/EQUIPMENT

	A	B	C	D	E	F	G
	Month & Year Acquired (MM/YYYY)	Original Cost	Depreciation Recorded Prior Years	Depreciation Method	Annual Rate	Total Provider Use Allowance & Depreciation Expense	Waiver* Use Allowance & Depreciation Expense
FIXED ASSETS/EQUIPMENT - NON-RESIDENTIAL:							
Non-Residential Building Equipment							
1	Various - See Attached Schedule					\$ 4,904	\$ 3,814
2							
3							
4							
5							
6	SUBTOTAL	\$ -	\$ -			\$ 4,904	\$ 3,814
Non-Residential Departmental Equipment							
7	Various - See Attached Schedule					\$ 9,695	\$ 8,240
8							
9							
10							
11							
12	SUBTOTAL	\$ -	\$ -			\$ 9,695	\$ 8,240
Non-Residential Office Furniture & Fixtures							
13	Various - See Attached Schedule					\$ 12,025	\$ 10,221
14							
15							
16							
17							
18	SUBTOTAL	\$ -	\$ -			\$ 12,025	\$ 10,221
Non-Residential Other							
19							
20							
21							
22							
23							
24	SUBTOTAL	\$ -	\$ -			\$ -	\$ -
25	TOTAL NON-RESIDENTIAL FIXED ASSETS/EQUIPMENT	\$ -	\$ -			\$ 26,624	\$ 22,276
FIXED ASSETS/EQUIPMENT - RESIDENTIAL:							
Residential Building Equipment							
26	Various - See Attached Schedule					\$ 6,805	\$ 6,805
27							
28							
29							
30							
31							
32							
33	SUBTOTAL	\$ -	\$ -			\$ 6,805	\$ 6,805
Residential Other							
34	Various - See Attached Schedule					\$ 2,609	\$ 2,609
35							
36							
37							
38							
39							
40	SUBTOTAL	\$ -	\$ -			\$ 2,609	\$ 2,609
41	TOTAL RESIDENTIAL FIXED ASSETS/EQUIPMENT	\$ -	\$ -			\$ 9,414	\$ 9,414
42	TOTAL DEPRECIATION - FIXED ASSETS/EQUIPMENT	\$ -	\$ -			\$ 36,038	\$ 31,690

Reporting Cost Report Depreciation Expenses

Example 8

- Incorrect Reporting
 - Sample Schedule E-2 Provider Depreciation Expenses Fixed Assets/Equipment
 - All assets incorrectly grouped together on one line when supplemental schedule (Example 7) contains several different asset groupings

**SCHEDULE E-2 (PARTIAL) – PROVIDER DEPRECIATION EXPENSES
FIXED ASSETS/EQUIPMENT**

		A	B	C	D	E	F	G
		Month & Year Acquired (MM/YYYY)	Original Cost	Depreciation Recorded Prior Years	Depreciation Method	Annual Rate	Total Provider Use Allowance & Depreciation Expense	Waiver* Use Allowance & Depreciation Expense
FIXED ASSETS/EQUIPMENT - NON-RESIDENTIAL:								
Non-Residential Building Equipment								
1	Various - See Attached Schedule						\$ 36,038	\$ 31,690
2								
3								
4								
5								
6	SUBTOTAL		\$ -	\$ -			\$ 36,038	\$ 31,690

Reporting Cost Report Depreciation Expenses Example 9

- Incorrect Reporting
 - Sample supplemental schedule for Schedule E-2 Provider Depreciation Expenses Fixed Assets/Equipment (Slide 28)
 - **Not** in correct format
 - **Does not** contain same level of detail as columns in Schedule E-2
 - Missing depreciation method
 - Missing Waiver portion of depreciation expenses
 - Waiver amounts **not** clearly identified
 - Amounts **do not** clearly tie between the supplemental schedule and Schedule E-2 (Example 7)
 - Subtotals and totals not identified

Reporting Cost Report Depreciation Expenses

Example 9 (Continued)

- Incorrect Reporting

Asset	Acquisition Date	Purchase Amount	Depreciation Prior Years	Useful Life	Rate	Total
Security System	01/2009	\$ 10,000	\$ 3,000	5	20.0%	\$ 2,000
Phone System	01/2005	\$ 13,050	\$ 13,050		6.7%	\$ 870
Air Conditioner	06/2005	\$ 6,500	\$ 2,203	15	6.7%	\$ 433
Air Conditioner	03/2004	\$ 6,250	\$ 2,639	15	6.7%	\$ 417
Sewer Pump	01/2009	\$ 5,500	\$ 825	10	10.0%	\$ 550
Handicap Ramps	10/2007	\$ 9,500	\$ 1,742	15	6.7%	\$ 633
Copier	03/2007	\$ 8,315	\$ 5,543	5	20.0%	\$ 1,663
Color Printer	05/2007	\$ 4,965	\$ 3,145	5	20.0%	\$ 993
Laptop Computers	06/2009	\$ 3,250	\$ 704	5	20.0%	\$ 650
Desktop Computers	01/2010	\$ 6,000	\$ 600	5	20.0%	\$ 1,200
Computer Server	07/2010	\$ 5,600	\$ -	5	20.0%	\$ 1,120
Computer Server	03/2005	\$ 6,700	\$ 6,700		6.7%	\$ 447
Carpet	01/2010	\$ 8,500	\$ 850	5	20.0%	\$ 1,700
Router	02/2009	\$ 3,500	\$ 992	5	20.0%	\$ 700
Cross cut shredder	09/2006	\$ 3,109	\$ 2,384	5	20.0%	\$ 622
Trash Compactor	05/2009	\$ 3,000	\$ 700	5	20.0%	\$ 600
Office Furnishings	03/2009	\$ 42,000	\$ 11,200	5	20.0%	\$ 8,400
Office Furnishings	08/2009	\$ 9,026	\$ 1,655	5	20.0%	\$ 1,805
Kitchen Cabinets	03/2008	\$ 12,000	\$ 1,867	15	6.7%	\$ 800
Couch	02/2010	\$ 5,100	\$ 425	5	20.0%	\$ 1,020
Washer/Dryer	03/2007	\$ 3,250	\$ 2,167	5	20.0%	\$ 650
Furnace	02/2008	\$ 2,750	\$ 949	7	14.3%	\$ 393
Carpet	10/2009	\$ 7,930	\$ 1,190	5	20.0%	\$ 1,586
Ramp	9/1/2007	\$ 7,520	\$ 1,420	15	6.7%	\$ 501
Garage doors opener/motor	01/2011	\$ 5,000	\$ -	5	20.0%	\$ 500
Windows	06/2009	\$ 4,950	\$ 536	10	10.0%	\$ 495
Roof	08/2005	\$ 32,100	\$ 10,522	15	6.7%	\$ 2,140
Door/Door Frames Replace	05/2007	\$ 5,400	\$ 1,710	10	10.0%	\$ 540
Furnishings	08/2009	\$ 13,045	\$ 2,392	5	20.0%	\$ 2,609

Reporting Cost Report Depreciation Expenses

Example 10

- Correct Reporting
 - Sample supplemental schedule for Schedule E-2 Provider Depreciation Expenses Fixed Assets/Equipment (Slide 30)
 - In correct format
 - Contains same level of detail as columns in Schedule E-2
 - Total provider and Waiver amounts clearly identified
 - Amounts clearly tie between the supplemental schedule and Schedule E-2 (Example 7)

Reporting Cost Report Depreciation Expenses

Example 10 (Continued)

- Correct Reporting

Asset	Acquisition Date	Purchase Amount	Depreciation Prior Years	Method	Useful Life	Rate	Total	Waiver	Line #
Air Conditioner	03/2004	\$ 6,250	\$ 2,639	SL	15	6.7%	\$ 417	\$ -	Line 1
Phone System	01/2005	\$ 13,050	\$ 13,050	UA		6.7%	\$ 870	\$ 740	Line 1
Computer Server	03/2005	\$ 6,700	\$ 6,700	UA		6.7%	\$ 447	\$ 380	Line 7
Air Conditioner	06/2005	\$ 6,500	\$ 2,203	SL	15	6.7%	\$ 433	\$ 368	Line 1
Roof	08/2005	\$ 32,100	\$ 10,522	SL	15	6.7%	\$ 2,140	\$ 2,140	Line 26
Cross cut shredder	09/2006	\$ 3,109	\$ 2,384	SL	5	20.0%	\$ 622	\$ 529	Line 7
Copier	03/2007	\$ 8,315	\$ 5,543	SL	5	20.0%	\$ 1,663	\$ 1,414	Line 7
Washer/Dryer	03/2007	\$ 3,250	\$ 2,167	SL	5	20.0%	\$ 650	\$ 650	Line 26
Color Printer	05/2007	\$ 4,965	\$ 3,145	SL	5	20.0%	\$ 993	\$ 844	Line 7
Door/Door Frames Replace	05/2007	\$ 5,400	\$ 1,710	SL	10	10.0%	\$ 540	\$ 540	Line 26
Ramp	09/2007	\$ 7,520	\$ 1,420	SL	15	6.7%	\$ 501	\$ 501	Line 26
Handicap Ramps	10/2007	\$ 9,500	\$ 1,742	SL	15	6.7%	\$ 633	\$ 538	Line 1
Furnace	02/2008	\$ 2,750	\$ 949	SL	7	14.3%	\$ 393	\$ 393	Line 26
Kitchen Cabinets	03/2008	\$ 12,000	\$ 1,867	SL	15	6.7%	\$ 800	\$ 680	Line 13
Security System	01/2009	\$ 10,000	\$ 3,000	SL	5	20.0%	\$ 2,000	\$ 1,700	Line 1
Sewer Pump	01/2009	\$ 5,500	\$ 825	SL	10	10.0%	\$ 550	\$ 468	Line 1
Router	02/2009	\$ 3,500	\$ 992	SL	5	20.0%	\$ 700	\$ 595	Line 7
Office Furnishings	03/2009	\$ 42,000	\$ 11,200	SL	5	20.0%	\$ 8,400	\$ 7,140	Line 13
Trash Compactor	05/2009	\$ 3,000	\$ 700	SL	5	20.0%	\$ 600	\$ 510	Line 7
Laptop Computers	06/2009	\$ 3,250	\$ 704	SL	5	20.0%	\$ 650	\$ 553	Line 7
Windows	06/2009	\$ 4,950	\$ 536	SL	10	10.0%	\$ 495	\$ 495	Line 26
Office Furnishings	08/2009	\$ 9,026	\$ 1,655	SL	5	20.0%	\$ 1,805	\$ 1,534	Line 13
Furnishings	08/2009	\$ 13,045	\$ 2,392	SL	5	20.0%	\$ 2,609	\$ 2,609	Line 34
Carpet	10/2009	\$ 7,930	\$ 1,190	SL	5	20.0%	\$ 1,586	\$ 1,586	Line 26
Desktop Computers	01/2010	\$ 6,000	\$ 600	SL	5	20.0%	\$ 1,200	\$ 1,020	Line 7
Carpet	01/2010	\$ 8,500	\$ 850	SL	5	20.0%	\$ 1,700	\$ 1,445	Line 7
Couch	02/2010	\$ 5,100	\$ 425	SL	5	20.0%	\$ 1,020	\$ 867	Line 13
Computer Server	07/2010	\$ 5,600	\$ -	SL	5	20.0%	\$ 1,120	\$ 952	Line 7
Garage doors opener/motor	01/2011	\$ 5,000	\$ -	SL	5	20.0%	\$ 500	\$ 500	Line 26
Line 1 Total: Non Residential Building Equipment							\$ 4,904	\$ 3,814	
Line 7 Total: Non Residential Departmental Equipment							\$ 9,695	\$ 8,240	
Line 13 Total: Non Residential Office Furniture							\$ 12,025	\$ 10,221	
Line 26 Total: Residential Fixed Assets/Equipment							\$ 6,805	\$ 6,805	
Line 34 Total: Residential Other							\$ 2,609	\$ 2,609	
Total							\$ 36,038	\$ 31,690	

Reporting Cost Report Depreciation Expenses

Example 11

- Various examples of **incorrect** reporting of depreciation using sample supplemental schedule (Slide 32)
 - Line 2: UA percentage of 8.0% is higher than allowed 6.67%
 - Line 8: Depreciating an asset with an acquisition cost less than \$5,000 that was purchased after July 1, 2009
 - Any non-residential fixed asset with a cost below \$5,000 and acquired after July 1, 2009, is to be expensed on Schedule F
 - Line 11: Reporting depreciation expense for an asset that has been fully depreciated
 - Line 22: Reporting depreciation expenses for an asset that was acquired after the Cost Report historical expense period

Reporting Cost Report Depreciation Expenses

Example 11 (Continued)

Line	Asset	Acquisition Date	Purchase Amount	Depreciation Prior Years	Method	Useful Life	Rate	Total	Waiver
Non Residential Building Equipment									
1	Security System	01/2009	\$ 10,000	\$ 3,000	SL	5	20.0%	\$ 2,000	\$ 1,700
2	Phone System	01/2005	\$ 13,050	\$ 13,050	UA		8.0%	\$ 1,044	\$ 887
3	Air Conditioner	03/2004	\$ 6,250	\$ 2,639	SL	15	6.7%	\$ 417	\$ -
4	Sewer Pump	01/2009	\$ 5,500	\$ 825	SL	10	10.0%	\$ 550	\$ 468
5	Handicap Ramps	10/2007	\$ 9,500	\$ 1,742	SL	15	6.7%	\$ 633	\$ 538
			\$ 44,300	\$ 21,256				\$ 4,644	\$ 3,593
Non Residential Departmental Equipment									
6	Copier	03/2007	\$ 8,315	\$ 5,543	SL	5	20.0%	\$ 1,663	\$ 1,414
7	Color Printer	05/2007	\$ 4,965	\$ 3,145	SL	5	20.0%	\$ 993	\$ 844
8	Laptop Computers	10/2009	\$ 3,250	\$ 488	SL	5	20.0%	\$ 650	\$ 553
9	Desktop Computers	01/2010	\$ 6,000	\$ 600	SL	5	20.0%	\$ 1,200	\$ 1,020
10	Computer Server	07/2010	\$ 5,600	\$ -	SL	5	20.0%	\$ 1,120	\$ 952
11	Carpet	03/2005	\$ 8,500	\$ 8,500	SL	5	20.0%	\$ 1,700	\$ 1,445
12	Router	02/2009	\$ 3,500	\$ 992	SL	5	20.0%	\$ 700	\$ 595
13	Cross cut shredder	09/2006	\$ 3,109	\$ 2,384	SL	5	20.0%	\$ 622	\$ 529
14	Trash Compactor	05/2009	\$ 3,000	\$ 700	SL	5	20.0%	\$ 600	\$ 510
			\$ 46,239	\$ 22,351				\$ 9,248	\$ 7,861
Non Residential Office Furniture									
15	Office Furnishings	03/2009	\$ 42,000	\$ 11,200	SL	5	20.0%	\$ 8,400	\$ 7,140
16	Kitchen Cabinets	03/2008	\$ 12,000	\$ 1,867	SL	15	6.7%	\$ 800	\$ 680
17	Couch	02/2010	\$ 5,100	\$ 425	SL	5	20.0%	\$ 1,020	\$ 867
			\$ 59,100	\$ 13,492				\$ 10,220	\$ 8,687
Residential Fixed Assets/Equipment									
18	Washer/Dryer	03/2007	\$ 3,250	\$ 2,167	SL	5	20.0%	\$ 650	\$ 650
19	Furnace	02/2008	\$ 2,750	\$ 949	SL	7	14.3%	\$ 393	\$ 393
20	Carpet	10/2009	\$ 7,930	\$ 1,190	SL	5	20.0%	\$ 1,586	\$ 1,586
21	Ramp	09/2007	\$ 7,520	\$ 1,420	SL	15	6.7%	\$ 501	\$ 501
22	Garage doors opener/motor	08/2011	\$ 5,000	\$ -	SL	5	20.0%	\$ 917	\$ 917
23	Windows	06/2009	\$ 4,950	\$ 536	SL	10	10.0%	\$ 495	\$ 495
24	Roof	08/2005	\$ 32,100	\$ 10,522	SL	15	6.7%	\$ 2,140	\$ 2,140
25	Door/Door Frames Replace	05/2007	\$ 5,400	\$ 1,710	SL	10	10.0%	\$ 540	\$ 540
			\$ 68,900	\$ 18,494				\$ 7,222	\$ 7,222
			\$ 218,539	\$ 75,592				\$ 31,334	\$ 27,363

Examples of Incorrect Reporting

Schedules E through E-2 – Provider Depreciation Expenses Dos and Don'ts

- Complete all columns within the schedules when reporting depreciation expenses
 - Exceptions apply when submitting a supplemental schedule that contains all required information
- Submit a supplemental schedule if you report all depreciation expenses on a single line; the supplemental schedule should include all information that would be reported in Columns A through G in Schedules E, E-1 and E-2
 - Clearly label supplemental depreciation schedules
 - Supplemental schedules must clearly agree with the amount entered on each line of Schedules E, E-1 and E-2
 - If supplemental schedules are uploaded, providers should include a note on the Comments page to indicate “see supplemental schedule ## of ###” to facilitate review

Schedules E through E-2 – Provider Depreciation Expenses

Dos and Don'ts (Continued)

- Do not claim depreciation and use allowance on the same item at the same time
 - UA expenses must be prorated if an asset fully depreciates within the historical expense data period
- Do not report depreciation expenses on fully depreciated assets
- Do not report Waiver expenses for provider service locations that are included in another CR
- Exclude land from the computation of depreciation and participation allowances (but not its improvements, such as paved driveways)
- Select the correct depreciation method (e.g., GF only applies to buildings, not other assets)
- Do not claim depreciation and/or use allowances on assets that are donated (See Section 12 of the CRI for more information regarding the correct reporting of donated assets)



Cost Report Expense Allocations

Cost Report Expense Allocations

Purpose and Description

- The purpose of Schedule H is to allow ODP to understand how a provider is allocating costs (sample on Slide 37)
- It describes how the provider has allocated program expenses in the Cost Report
 - If multiple Cost Reports are submitted, this information should be consistent across Cost Reports
- There are two areas of allocation for which the provider should provide an explanation:
 - The allocation methodology across **procedure codes** within the Waiver line of business (Question 1)
 - How are costs in Schedule A, Column F attributed to the individual procedure codes in Columns G+ when the provider provides more than one service?
 - The allocation methodology across **lines of business** (Question 3)
 - How are total provider costs in Schedule A, Column A attributed to the provider's lines of business reported in Columns B through F?

Cost Report Expense Allocations

Purpose and Description

SCHEDULE H (PARTIAL)– PROGRAM EXPENSE ALLOCATION PROCEDURES

Any expense allocable to a particular service may not be shifted to other services to overcome funding deficiencies or to avoid other restrictions imposed by law or terms of an award or program. Please use comments tab if additional space is needed.

1. Allocation Methodology Across Procedure Codes Within Waiver Line of Business:

Please use the drop-down boxes in Column B to indicate which expenses are actual and which are allocated. For those categories that are allocated, please use the drop-down boxes in Column C to indicate the basis for allocation.

	A	B	C
	Expense Category	Allocated or Actual	Basis for Allocation
1	Program Direct Care Staff Salary/Wages (Schedule D)	Actual	
2	Program Direct Care Staff ERE (Schedule D)	Actual	
3	Other Program Staff Salary/Wages (Schedule D-1)	Allocated	Actual time spent or billed
4	Other Program Staff ERE (Schedule D-1)	Allocated	Direct charge
5	Contracted Staff (Schedule D-2)	Actual	
6	Administrative Staff Salary/Wages (Schedule D-3)	Allocated	Other
7	Administrative Staff ERE (Schedule D-3)	Allocated	Other
8	Program Supplies (Schedule F)	Actual	
9	Other Vehicle Expense (Schedule E-1)	Allocated	Mileage log
10	Other Program Expense (Schedule F)	Allocated	Other
11	Transportation - Participant Motor Vehicle (Schedule E-1)	Allocated	Mileage log
12	Transportation - Participant (Schedule I)	Allocated	Mileage log
13	Other Occupancy Expense (Schedule F-1)	Allocated	Square footage
14	Depreciation - Buildings (Schedule E)	Allocated	Square footage
15	Depreciation - Fixed Assets/Equipment (Schedule E-2)	Allocated	Other
16	Residential Occupancy Expense (Schedule J)	Allocated	Other

2. Description of Allocation Methodology for "Other" Allocation Basis:

If your response to Question 1 indicates "Other" as the basis for allocation, please explain the method used and how such method results in a fair and equitable distribution of expenses.

For administrative staff, staff kept logs of how they spent their time for approximately an 8 week period during the first 1/2 of the year and an 8 week period during the second 1/2 of the year. The result of that time study was used to allocate administrative staff time. Administrative ERE was allocated in the same way. Fixed assets, if directly attributable to the Waiver program, were assigned to the Waiver based upon actual depreciation charges. If not directly attributable, but still used in some way for Waiver, depreciation was charged based upon the percentage of square footage used for Waiver participants versus other programs. See comments tab for further explanation.

3. Allocation Methodology Across Lines of Business:

Please explain the methodology used to allocate total provider expenses across categories (Other LOB, Base, Fee Schedule and Outcomes-Based, Excluded Non-Allowable Waiver and Waiver) on Schedule A (Columns B through F) and describe how the method results

For administrative staff, staff kept logs of how they spent their time for approximately an 8 week period during the first 1/2 of the year and an 8 week period during the second 1/2 of the year. The result of that time study was used to allocate administrative staff time. Administrative ERE was allocated in the same way. Fixed assets, if directly attributable to the Waiver program, were assigned to the Waiver based upon actual depreciation charges. If not directly attributable, but still used in some way for Waiver, depreciation was charged based upon the percentage of square footage used for Waiver participants versus other programs. See comments tab for further explanation.

Cost Report Expense Allocations

Purpose and Description (Continued)

- In general, Schedule H (along with other Cost Report schedules) are reviewed to ensure that costs allocated to the Waiver line of business are reasonable
 - Costs that do not benefit the Waiver program in any way, or are non-allowable, should not be allocated to the Waiver program
 - Examples: legal costs to start up a new line of business or program not related to ODP, unallowable entertainment costs, etc.
 - Costs that are allocated should represent costs that cannot be directly charged to a procedure code or the Waiver program, or is not practical to do so
 - Example: the CEO's time benefits all programs and procedures codes but it would not be practical to have the CEO code his/her time to each procedure code

Cost Report Expense Allocations

Purpose and Description (Continued)

- Examples of acceptable allocation bases are:
 - Salaries: time studies or actual time spent
 - ERE: salary and wage allocations
 - Program supplies: direct charges or usage (e.g., supply allocations may be made based on requisition from a central storeroom)
 - Transportation: mileage logs
 - Non-residential occupancy: square footage or allocation in proportion to direct care expenses for procedure codes for which expense applies
- OMB Circular A-122 provides additional guidance on appropriate allocation methodology

Cost Report Expense Allocations

Purpose and Description (Continued)

- Providers are not required to upload a copy of their cost allocation plan as a supplemental schedule. However, providers are required to describe their cost allocation methodology within Schedule H
 - For providers subject to audit, a separate audit opinion specific to the cost allocation plan is not required; disclosure of the cost allocation plan in the notes to the financial statements as part of the overall financial statement presentation is sufficient

Cost Report Expense Allocations

Purpose and Description (Continued)

- The comment boxes and/or Comments page must provide explanation if “other” is selected as the basis for allocation or if some allocation amounts require further explanation due to unusual circumstances or inconsistencies with the allocation methodology selections made on Schedule H.
 - Failure to fully disclose cost allocation methods may delay approval of or result in rejection of the Cost Report
 - Areas where explanations can be provided within Schedule H have been expanded for ease of use. Security settings have been modified to allow user to modify row and column width and height settings.
- Providers are encouraged to review Appendix F of the Cost Report Instructions as it contains examples of expense allocations for different types of transportation expenses in the Cost Report

Cost Report Expense Allocations

Example 1

- Program Direct Care – the provider indicates these are “allocated” and not “actual”
 - For direct care it is expected that providers are billing PROMISE, tracking that billed time and charging it to the appropriate procedure code, in which case the expected selection for Line 1 in Column B would be “actual”
 - The selection of “allocated” in this example doesn’t necessarily mean it’s wrong, but it would be flagged as unusual in the desk review
 - Adding a comment in Schedule H or on the Comments Page to explain the situation would reduce the chance of a rejected Cost Report

SCHEDULE H (PARTIAL) – PROGRAM EXPENSE ALLOCATION PROCEDURES

1. Allocation Methodology Across Procedure Codes Within Waiver Line of Business:

Please use the drop-down boxes in Column B to indicate which expenses are actual and which are allocated. For those categories that are allocated, please use the drop-down boxes in Column C to indicate the basis for allocation.

	A	B	C
	Expense Category	Allocated or Actual	Basis for Allocation
1	Program Direct Care Staff Salary/Wages (Schedule D)	Allocated	Actual time spent or billed
2	Program Direct Care Staff ERE (Schedule D)	Allocated	Proportional to direct care expenses
3	Other Program Staff Salary/Wages (Schedule D-1)	Allocated	Actual time spent or billed
4	Other Program Staff ERE (Schedule D-1)	Allocated	Direct charge
5	Contracted Staff (Schedule D-2)	Actual	
6	Administrative Staff Salary/Wages (Schedule D-3)	Allocated	Other
7	Administrative Staff ERE (Schedule D-3)	Allocated	Other

Cost Report Expense Allocations

Example 2

- Program Direct ERE – ERE is 40% of direct care for one procedure code and 10% of direct care for another procedure code, and the basis for allocation is identified as “Proportional to direct care expenses” within Schedule H

SCHEDULE A (PARTIAL) – EXPENSE REPORT

Column Reference: F G J K L M N O

EXPENSES BY CATEGORY		Eligible and Ineligible Expenses for Waiver Participants	Unlicensed Home and Community Habilitation W7060	Licensed Residential Habilitation Community Homes W6094	Licensed Residential Habilitation Community Homes W6095	Licensed Residential Habilitation Community Homes W6096	Licensed Residential Habilitation Community Homes W6097	Licensed Day Services - Adult Training Facilities W7072	Licensed Day Services - Adult Training Facilities W7074
			Level 3 15 minutes	Three-Individual Home, Eligible Day	Three-Individual Home, Ineligible Day	Four-Individual Home, Eligible Day	Four-Individual Home, Ineligible Day	Basic Staff Support 15 minutes	Staff Support Level 2 15 minutes
1	Program Direct Care Staff Salary/Wages (Schedule D)	\$ 756,068	\$ 12,645	\$ 324,569		\$ 362,842		\$ 32,012	\$ 24,000
2	Program Direct Care Staff ERE (Schedule D)	\$ 292,532	\$ 1,399	\$ 35,902		\$ 246,344		\$ 5,159	\$ 3,728
3	Other Program Staff Salary/Wages (Schedule D-1)	\$ 156,117	\$ 2,329	\$ 61,047		\$ 83,741		\$ 5,000	\$ 4,000
4	Other Program Staff ERE (Schedule D-1)	\$ 44,049	\$ 756	\$ 16,499		\$ 24,430		\$ 1,260	\$ 1,104
5	Contracted Staff (Schedule D-2)	\$ 189,794	\$ -	\$ 89,125		\$ 100,669		\$ -	\$ -
6	Administrative Staff Salary/Wages (Schedule D-3)	\$ 134,230	\$ 2,222	\$ 55,000		\$ 66,741		\$ 5,689	\$ 4,578
7	Administrative Staff ERE (Schedule D-3)	\$ 35,706	\$ 566	\$ 14,689		\$ 18,339		\$ 1,267	\$ 845

Total Program Direct Care Staff (Line 1 + Line 2)	\$ 1,048,600	\$ 14,044	\$ 360,471	\$ -	\$ 609,186	\$ -	\$ 37,171	\$ 27,728
Direct Care Staff ERE % (Line 2 / (Line 1 + Line 2))	28%	10%	10%		40%		14%	13%

Cost Report Expense Allocations

Example 2 (Continued)

- If the basis of allocation is proportional to direct care expenses, it would be expected that ERE would be allocated at a similar percentage across the different procedure code costs
 - The large variance in this example doesn't necessarily mean it's wrong, but it would be flagged as unusual in the desk review
 - Adding a comment in Schedule H or on the Comments Page such as “no ERE provided to a certain staff category” would explain the situation and reduce the chance of a rejected Cost Report

Cost Report Expense Allocations

Example 3

- Administrative staff salary/wages - a provider has 2 lines of business and reported revenue on Schedule B suggests that the Waiver represents about 20% of the provider's total revenue, but Schedule A Column A for administrative staff salary/wages shows over 60% of administrative salary/wages being allocated to the Waiver program

SCHEDULE A (PARTIAL) – EXPENSE REPORT

Column Reference: A B F

EXPENSES BY CATEGORY		Total Provider Expenses	Excluded Service Locations and Other LOB Expenses	Eligible and Ineligible Expenses for Waiver Participants
1	Program Direct Care Staff Salary/Wages (Schedule D)	\$ 1,143,084	\$ 880,175	\$ 262,909
2	Program Direct Care Staff ERE (Schedule D)	\$ 273,297	\$ 210,439	\$ 62,858
3	Other Program Staff Salary/Wages (Schedule D-1)	\$ 228,976	\$ 171,732	\$ 57,244
4	Other Program Staff ERE (Schedule D-1)	\$ 58,853	\$ 44,140	\$ 14,713
5	Contracted Staff (Schedule D-2)	\$ 286,220	\$ 243,287	\$ 42,933
6	Administrative Staff Salary/Wages (Schedule D-3)	\$ 213,376	\$ 78,949	\$ 134,427
7	Administrative Staff ERE (Schedule D-3)	\$ 54,358	\$ 20,113	\$ 34,246

6	Administrative Staff Salary/Wages (Schedule D-3)	\$ 213,376	\$ 78,949	\$ 134,427
LOB % of Total Provider Administrative Staff Salary/Wages			37%	63%

Cost Report Expense Allocations

Example 3 (Continued)

- It could be that a time study was done and the Waiver program consumes a greater degree of administrative staff time; however, without a comment to explain this, the variation would prompt a question during the desk review

SCHEDULE A (PARTIAL) – EXPENSE REPORT

Column Reference: A B F

EXPENSES BY CATEGORY		Total Provider Expenses	Excluded Service Locations and Other LOB Expenses	Eligible and Ineligible Expenses for Waiver Participants
1	Program Direct Care Staff Salary/Wages (Schedule D)	\$ 1,143,084	\$ 880,175	\$ 262,909
2	Program Direct Care Staff ERE (Schedule D)	\$ 273,297	\$ 210,439	\$ 62,858
3	Other Program Staff Salary/Wages (Schedule D-1)	\$ 228,976	\$ 171,732	\$ 57,244
4	Other Program Staff ERE (Schedule D-1)	\$ 58,853	\$ 44,140	\$ 14,713
5	Contracted Staff (Schedule D-2)	\$ 286,220	\$ 243,287	\$ 42,933
6	Administrative Staff Salary/Wages (Schedule D-3)	\$ 213,376	\$ 78,949	\$ 134,427
7	Administrative Staff ERE (Schedule D-3)	\$ 54,358	\$ 20,113	\$ 34,246

6	Administrative Staff Salary/Wages (Schedule D-3)	\$ 213,376	\$ 78,949	\$ 134,427
LOB % of Total Provider Administrative Staff Salary/Wages			37%	63%

Cost Report Expense Allocations

Example 4

- Administrative staff salary/wages – based on review of Schedule A, a provider with multiple lines of business has allocated over 80% of administrative salary/wages expenses to the Waiver while Waiver direct care salary/wages expenses are approximately 50% of the provider’s total direct care salary/wage expenses
 - Without a comment to explain, this variation would prompt a question during the desk review

SCHEDULE A (PARTIAL) – EXPENSE REPORT

Column Reference: A B F (Col B / Col A) (Col F / Col A)

EXPENSES BY CATEGORY		Total Provider Expenses	Excluded Service Locations and Other LOB Expenses	Eligible and Ineligible Expenses for Waiver Participants
1	Program Direct Care Staff Salary/Wages (Schedule D)	\$ 1,143,084	\$ 537,016	\$ 606,068
2	Program Direct Care Staff ERE (Schedule D)	\$ 273,297	\$ 130,784	\$ 142,513
3	Other Program Staff Salary/Wages (Schedule D-1)	\$ 228,976	\$ 97,859	\$ 131,117
4	Other Program Staff ERE (Schedule D-1)	\$ 58,853	\$ 24,804	\$ 34,049
5	Contracted Staff (Schedule D-2)	\$ 286,220	\$ 96,426	\$ 189,794
6	Administrative Staff Salary/Wages (Schedule D-3)	\$ 213,376	\$ 39,146	\$ 174,230
7	Administrative Staff ERE (Schedule D-3)	\$ 54,358	\$ 9,553	\$ 44,806

Excluded Service Locations and Other LOB Expenses	Eligible and Ineligible Expenses for Waiver Participants
47%	53%
48%	52%
43%	57%
42%	58%
34%	66%
18%	82%
18%	82%

Schedule H – Program Expense Allocation Procedures

Dos and Don'ts

- Identify your method for allocating expenses and fully disclose how costs are allocated among different programs and services
- Be consistent in your allocation process from year to year
- Upload any necessary supporting documentation using the file naming convention for supporting schedules
 - If supplemental schedules are uploaded, providers should include a note on the Comments page to indicate “see supplemental schedule ## of ##” to facilitate review



Additional Cost Report Trainings

Additional Cost Report Trainings

- ODP conducted an Introductory Cost Report web-based training session on September 7, 2011
 - Audio replay and materials are available on the ODP Consulting website under the provider information center (PIC)
- ODP also conducted a Year 4 CR Changes training session on September 19, 2011
 - Audio replay and materials will be made available on the ODP Consulting website under the provider information center (PIC)
- After today's session, ODP will be conducting an additional Cost Report training session that all providers are encouraged to attend
 - October 4, 2011: web-based session focusing on how to use the ODP Cost Report website to upload and submit completed Cost Reports and supplemental files (see Announcement #116-11 for registration information)



Technical Assistance Resources and Next Steps

Technical Assistance Resources and Next Steps

- Providers who have questions should contact their ODP Regional Fiscal Officer
 - Central Region RFO is Carol Harty at c-charty@pa.gov
 - Northeast Region RFO is Melanie Opalka at c-mopalka@pa.gov
 - Southeast Region RFO is Agnes Rudolf at c-arudolf@pa.gov
 - Western Region RFO is Reid Stewart at c-restewar@pa.gov
- Providers may also send a question to the ODP email help desk
 - Questions can be submitted in writing using the link on www.odpconsulting.net under the PIC and under the link titled “Click here to submit a Cost Report question”
 - Turnaround time for responses is generally 2 to 3 business days

Technical Assistance Resources and Next Steps

- Attend upcoming training session on October 4
- Request a user account if you did not have one last year (i.e., for the Year 3 process) or forgot your password from last year
 - Can be done by obtaining the user account request template that is posted on www.odpconsulting.net under the PIC
- Complete cost report and supplemental schedule reporting for your organization's historical experience during FY 2010/2011
- Begin uploading completed submissions when Cost Report website opens in early October
 - Cost Report upload attempt required for all providers by Thursday, October 27, 2011
 - All Cost Reports and supplemental schedules uploaded to ODP website by 11:59 PM on Thursday, November 3, 2011
 - Note that provider E-help desk closes at 5:00 PM on November 3, 2011

Questions?