Medicare
Provider Reimbursement Manual -
Part 2, Provider Cost Reporting Forms and Instructions, Chapter 39, Form CMS 287-05

Department of Health and Human Services (DHHS)
Centers for Medicare and Medicaid Services (CMS)

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NEW/REVISED MATERIAL--*EFFECTIVE DATE:* Cost Reporting periods ending on or after 09/30/2005.

This transmittal is a new Chapter 39, Home Office Cost Statement, Form CMS 287-05. The intent of this major revision is to update the forms and instructions, eliminate obsolete items and correct inconsistencies. The effective date for the instructional changes will be for cost reporting periods ending on or after September 30, 2005.

CHAPTER 39

HOME OFFICE COST STATEMENT
FORM CMS 287-05

3900. HOME OFFICE COSTS - CHAIN OPERATIONS

For Medicare and/or Medicaid purposes, a chain organization consists of a group of two or more health care facilities or at least one health care facility and any other business or entity owned, leased, or, through any other device, controlled by one organization. Chain organizations include, but are not limited to, chains operated by proprietary organizations and chains operated by various religious, charitable, and governmental organizations. A chain organization may also include business organizations engaged in other activities not directly related to health care. (See CMS Pub. 15-I, chapter 10 for definitions of common ownership and control.)

Home offices of chain organizations vary greatly in size, number of locations, staff, mode of operations, and services furnished to the facilities in the chain. The home office of a chain is not in itself certified by Medicare. Therefore, its costs may not be directly reimbursed by Medicare. The relationship of the home office to Medicare is that of a related organization to participating providers. Home offices usually furnish central management and administrative services, e.g., centralized accounting, purchasing, personnel services, management direction and control, and other services. To the extent that the home office furnishes services related to patient care to a provider, the reasonable costs of such services are included in the provider’s cost report and are reimbursable as part of the provider’s costs. If the home office of the chain provides no services related to patient care, neither the costs nor the equity capital of the home office may be recognized in determining the allowable costs of the providers in the chain.

Often the home office of a chain organization charges a management fee to the providers in the chain for the services the home office furnishes. Management fees charged between related organizations are not allowable costs except as provided in CMS Pub. 15-I, Chapter 10. Such fees must be deleted from the provider’s cost report. However, when management fees between related organizations are disallowed, the home office’s reasonable costs for providing the services related to patient care are included as allowable costs of the provider.

3901. DETERMINATION OF ALLOWABLE COSTS

A. General.--Home office costs directly related to those services performed for individual providers and which relate to patient care plus an appropriate share of indirect costs (e.g., overhead, rent for home office space, administrative salaries) are allowable to the extent they are reasonable. Home office costs that are not otherwise allowable costs when incurred directly by the provider are not allowable as home office costs to be allocated to providers. For example, certain advertising costs, some franchise taxes and other similar taxes, costs of non-competition agreements, certain life insurance premiums, certain membership costs, and those costs related to nonmedical enterprises are not considered allowable home office costs. (See CMS Pub. 15-I, chapter 21 for further discussion of these costs.)

In addition, when an owner (as defined in CMS Pub. 15-I, chapter 9) received compensation for services provided by the home office, the compensation is allowable only to the extent that it is related to patient care and to the extent that it is reasonable.

B. Organization, Startup, and Other Corporate Costs.--

1. Organization Costs.--The organization costs of a home office (except those referred to in paragraphs 2 and 3) are considered allowable costs and must be amortized in accordance with the provisions in CMS Pub. 15-I, §2134ff. Section 2134.1B describes costs which are not considered allowable organization costs. In addition, reorganization costs (see CMS Pub. 15-I, §2134.10) and stockholder servicing costs (see CMS Pub. 15-I, §2134.9) are not allowable organization costs. These unallowable organization costs are excluded from the computation of the home office equity capital.

2. Startup Costs.--Startup costs of a home office are considered allowable costs and must be amortized in accordance with the provisions of CMS Pub. 15-I, §2132ff.

3. Costs of Corporate Acquisitions.--Costs related to the acquisition of the capital stock of a provider (whether such facilities participate or subsequently will participate in the Medicare program) are not allowable. (See CMS Pub. 15-I, §2134.11.) Additionally, costs connected with the transfer of assets to a chain are not allowable as organization costs but instead must be capitalized as part of the cost of the asset. (See CMS Pub. 15-I, §2150.2B3.)

C. Interest on Loans Between Home Office and Components of Chain.--When the home office makes a loan to, or borrows money from, one of the components of the chain, the interest paid is generally not an allowable cost and the interest income earned from such a loan is not used to reduce allowable interest expense. (See CMS Pub. 15-I, §218 for the general rule and §§218.2 and 220 for exceptions to the general rule.) Treat interest income from other sources, as well as the interest income received by the home office if interest expense is allowed under the exceptions of CMS Pub. 15-I, §§218.2 and 220, according to the provisions of CMS Pub. 15-I, §§202.2 and 202.3.

D. Interest on Loans From Unrelated Sources.--Interest expense (see CMS Pub. 15-I, §§200 and 202.1) is allowable to the extent that the proceeds of the related loan, mortgage, bond issue, etc., are used either to acquire assets for use in patient care activities or to provide funds for operations related to patient care. When proceeds of a loan, mortgage, bond issue, etc., are used to acquire stock ownership (as opposed to assets and liabilities) of additional facilities, the interest expense is not allowable.

E. Home Office Planning Costs.--

1. Expanding, Rebuilding, or Relocating Existing Providers.--When a home office incurs planning costs as described in CMS Pub. 15-I, §§2154.1 and 2154.2 to purchase or construct a new facility in order to expand, rebuild, or relocate a provider which is a member of a chain organization, such costs are allowable if:

- They are reasonable and prudent as defined in CMS Pub. 15-I, §2103;
- They have been included in the historical cost of the completed facility; and
- The facility has been certified to participate in Medicare.

Any planning costs incurred to purchase land become part of the historical cost of the land and are not included in the historical cost of the depreciable assets of the completed facility. If a home office incurs planning costs for both land and a facility and such costs cannot be specifically identified with either the land or facility, the planning costs must be allocated between the land and facility based on the cost of each to the total cost.

Abandoned planning costs are treated according to the provisions of CMS Pub. 15-I, §2154.4. Any allowable abandonment costs must be directly allocated to the appropriate provider.

2. Expansion of the Chain Operation.--

a. Allowable.--If a home office incurs planning costs to construct a new facility or to purchase an existing facility (excluding land) to expand a chain organization and not to expand an existing provider, such costs are recognized when the requirements enumerated in subsection 1 are met.

b. Non-allowable.--If a home office abandons plans described in subsection a, the costs of the abandoned plans are considered an investment loss and are not allowable. Also, when plans involving the acquisition of land are abandoned, the costs of such plans are not allowable.

F. Malpractice and Comprehensive General Liability, Unemployment and Workers' Compensation Insurance Coupled with Second Injury Coverage.--Payments by a home office of a chain for its providers or payments made individually by members of a chain to an independent fiduciary for malpractice, comprehensive general liability insurance coverage, unemployment and workers' compensation coupled with second injury coverage are recognized if made to a fund established in accordance with the requirements in CMS Pub. 15-I, §2162ff.

3902. ALLOCATION OF HOME OFFICE COSTS TO COMPONENTS IN CHAIN

A. Procedure.--Starting with its total costs (including those costs paid on behalf of providers or other components in the chain), the home office must delete all costs which are not allowable in accordance with program instructions. The remaining costs (total allowable costs) must then be identified as capital-related costs (old and new) and non-capital-related costs and allocated as stated below to all of the components (both providers and non-providers) in the chain which received services from the home office. When the home office incurs costs for activities not related to patient care in the chain's participating providers, the allocation bases used must provide for the appropriate allocation of costs such as rent, administrative salaries, organization costs, and other general overhead costs which are attributable to non-patient care activities as well as to patient care activities. All activities and functions in the home office must bear their allocable share of home office overhead and general administrative costs.

B. Costs Directly Allocable to Components.--The initial step in the allocation of allowable home office costs to components in the chain is the direct allocation of certain costs. Directly allocate allowable costs incurred for the benefit of, or directly attributable to, a specific provider or non-provider activity to the chain entity for which they were incurred. For example, when such costs are paid by the home office, interest expense is allocated to the facility for which the loan was made. Salaries are allocated to the facility to whose employees they apply. Rent is allocated when the home office rents space for a specific provider, etc. Home offices may simplify the allocation of costs to the chain components in the cost finding process by transferring the costs, which are directly allocable to the components through the inter-company accounts. The transfers must be made at the time the costs are incurred.

C. Costs of Home Office Operations.--Allocate among the providers the allowable costs not directly allocable on a basis designed to equitably allocate the costs over the chain components or activities receiving the benefits of the costs and in a manner reasonably related to the services received by the entities in the chain. Chain home offices may provide certain centralized services, e.g., central payroll or central purchasing, to the chain components. Where practical and the amounts are material, allocate these costs on a functional basis. For example, costs of a central payroll operation could be allocated to the chain components based on the number of checks issued. The costs of a central purchasing function could be allocated based on purchases made or requisitions handled. Otherwise, these costs may be appropriately included in the pooled costs and allocated as described in subsection D. The functions or cost centers used to allocate home office costs and the unit bases used to allocate the costs (including those for the pooled costs described in subsection D) must be used consistently from one home office accounting period to another.

D. Pooled Costs in Home Office.--In each home office, there is a residual amount, or pool of costs incurred for general management or administrative services which cannot be allocated on a functional basis.

Pooled costs are allocated between chain components on a reasonable allocation basis. Pooled costs must be allocated first between health care and non-health care component groups based on costs. After this initial allocation, the pooled costs allocated to the health care facilities are based on inpatient days, or total costs in accordance with CMS Pub. 15-1, §2150.3.D.2. (See §3917.A.) Statistics must be gathered from each component for the period concurrent with that of the home office and must be separately identified. The statistics are based on unadjusted cost (including direct home office costs) and exclude previously allocated home office pooled and functional costs.

E. Allocation of Interest Expense and Investment Income of Chain Operations.--Interest expense incurred by the home office must be appropriately assigned and/or allocated in accordance with subsections §3904.A-D. As required in §3904.A, interest expense must be separately identified between capital-related and non-capital-related. Similarly, all home office investment income which is subject to offset against allowable interest expense must be appropriately assigned and/or allocated in accordance with the methodology of subsections 3904.A-D and separately identified between capital-related and non-capital-related. The net amount of capital-related interest expense and investment income (whether positive or negative), so determined at the home office level for each chain provider, must be appropriately included with that chain provider's costs as described in subsection F.

F. Inclusion in Provider Costs.--Include home office costs directly allocated to the providers in each appropriate account in the provider's trial balance. Then allocate the costs through the provider's cost finding process. Home office capital-related costs which are not directly allocated to the provider but are allocated on a functional or pooled basis must be included in the corresponding providers§ capital-related cost centers, i.e., old buildings and fixtures, new buildings and fixtures, old major movable equipment, new major movable equipment, or other capital (for insurance, taxes and other capital costs). Lease cost is included with depreciation and is not classified as other capital. Include home office non-capital-related costs, which are not directly allocated to the provider but are allocated on a functional or pooled basis in the provider's cost report as part of the provider's administrative and general cost. Enter the allocated costs as one amount; designated under an appropriately descriptive heading, e.g., "home office costs."

NOTE: Non-PPS chains and chain components report all capital costs as new. A home office must make the split between old and new capital when any component of the chain is subject to PPS capital.

Although the share of the home office costs allocated to each provider may become allowable costs under the program, the allowed costs of providers in a chain must not exceed the cost allowed for similar institutions not so affiliated. Thus, the costs of a chain provider (including any allowable home office costs) are not recognized or allowed to the extent they are found to be out of line with similar institutions in the same area. (See CMS Pub. 15-I, §2102ff.)

G. Interperiod Allocation of Home Office Costs.--When the home office accounting period differs from the cost reporting period of a chain provider, include the allowable home office costs of the provider for the period covered by the home office cost statement included in the provider's cost report as indicated above. Then allocate the costs through the cost finding process. Tentatively project an amount of allowable home office costs and equity capital for the provider for the portion of its reporting year not covered by the home office statement at a rate not in excess of the previous year's home office costs and equity capital as set forth in the applicable home office cost statement.

EXAMPLE: The home office has an accounting year ending August 31, 2006. For that year, home office costs of $120,000 are allocated to Provider A and $84,000 to Provider B. Provider A's reporting year ends on December 31. Provider B's reporting year ends on March 31.

Of the $120,000 costs allocated to Provider A, $40,000 applies to its reporting year ending December 31, 2005, covering the period from September 1, 2005, to December 31, 2005. Eighty thousand dollars applies to its reporting year ending December 31, 2006, covering the period from January 1, 2006, to August 31, 2006. Therefore, in its cost report for the year ending December 31, 2006, Provider A may include home office costs of $40,000 projected for the period September 1, 2006, to December 31, 2006, which is not covered by the home office cost statement ($10,000 per month x 4 months).

Of the $84,000 allocated to Provider B, $49,000 applies to its reporting year ending March 31, 1992, covering the period from September 1, 2005, to March 31, 2006. $35,000 applies to its reporting year ending March 31, 2007, covering the period from April 1, 2006, to August 31, 2006. Therefore, in its cost report for the year ending March 31, 2007, Provider B may include home office costs of $49,000 projected for the period September 1, 2006, to March 31, 2007, which is not covered by the home office cost statement ($7,000 per month x 7 months).

3903. HOME OFFICE COST STATEMENT

Form CMS 287-05 was developed for the use of home offices of chain organizations in reporting the information necessary for the determination of Medicare reimbursement to components of chain organizations. This form was developed to meet the specifications for reporting and allocating costs explained previously in this chapter. In order to provide sufficient flexibility to meet the needs of individual home offices, alternative reporting formats may be used, subject to approval, as long as they furnish at least the applicable information contained in Form CMS 287-05 and fulfill the cost and allocation objectives and specifications explained in this chapter. Any alternative to Form CMS 287-05 must be reviewed and approved by the home office fiscal intermediary and CMS prior to its use.

The instructions contained in this chapter are effective for the first cost statement period, which includes any part of a provider's cost reporting period, which is affected by PPS capital and for cost reporting periods ending on or after September 30, 2005.

If you wish to use an alternative to Form CMS 287-05, make a written request to your intermediary for approval and submit reasonable justification for such an alternative 90 days prior to the end of the home office-reporting period for which the approval applies. The effective date of the approval is the beginning of the cost reporting period for which the request is made. Approvals once granted are effective until Form CMS 287-05 is revised or the chain has a change in applicable circumstances.

If the home office fails to file a home office cost statement, it is not allowed to claim home office cost on their respective provider's cost reports.

When the home office operates distinct regional offices, the home office cost statement may be used to allocate home office costs to the chain components and regional offices. Home office costs allocated to the regional offices are subsequently allocated to the regional components on separate regional office home office cost statements. The regional office cost statement also allocates direct regional office costs. When separate cost statements for regional offices are prepared, a combined package including the home office and all regional office cost statements must be filed with the designated home office intermediary. CMS approval is required for separate regional office cost statements, as outlined above.

3904. DISCLOSURE OF HOME OFFICE COST STATEMENT

The home office cost statement is not an integral part of the provider's cost report. Therefore, it is not affected by 20 CFR 422.435(c), which requires disclosure of providers' cost reports. Any request received under the Freedom of Information Act (FOIA) regarding a home office cost statement is subject to a case-by-case determination of whether to withhold the information in whole or in part. In most cases, since the home office cost statements contain information the disclosure of which may result in a competitive disadvantage for many provider chains, the exemption from disclosure provided in 5 USC, §552(b)(4) applies.

3905. RECOMMENDED SEQUENCE FOR COMPLETING FORM CMS 287-05

Step No.	Worksheet	
1	Schedule A	Complete Part I - General Information.
2	Schedule B	Complete column 1.
3	Schedule B-2	Complete entire schedule.
4	Schedule B-1	Complete entire schedule.
5	Schedule B	Complete columns 2 and 3.
6	Schedule D	Complete entire schedule.
7	Schedule C	Complete entire schedule.
8	Schedule B	Complete columns 4 and 5.
9	Schedule E	Complete entire schedule.
10	Schedule E-1	Complete entire schedule.
11	Schedule B	Complete column 6.
12	Schedule F	Complete statistics on Part 2.
13	Schedule F-1	Complete statistics on Part 2.
14	Schedule F	Complete Part 1.
15	Schedule F-1	Complete Part 1.
16	Schedule B	Complete columns 7 and 8.
17	Schedule G	Complete entire schedule.
18	Schedule I	Complete entire schedule.
19	Schedule J	Complete columns 1.
20	Schedule A	Complete Part II - Certification.

3906. SCHEDULE A - GENERAL INFORMATION, CERTIFICATION AND LISTING OF CHAIN COMPONENTS

3906.1 Part I - General Information.--Part I of Schedule A provides necessary information about the chain home office and the cost statement being filed.

Line 1--Enter the home office name. If there was a change in name during the reporting period, indicate the former name in parentheses.

Line 2--Enter the chain code number either assigned by CMS or provided by the designated intermediary.

Line 3--Enter the present address of the home office.

Line 4--Enter the date the home office began operation.

Line 5--Enter the name, title, and telephone number of the person responsible for the preparation of the cost statement.

Line 6--Enter the period covered by the cost statement. This indicates whether a full year or lesser period cost statement is submitted.

Line 7--Check the appropriate box to indicate whether or not audited financial data was used on Schedule B.

Line 8--Check the appropriate item to indicate the type of chain organization.

All chain organizations must furnish information pertaining to home office costs, such as the information on Schedules B through J.

Line 9--Enter the names and titles of key officers of the home office. If more space is required, attach an additional listing immediately after this schedule.

3906.2 Part II - Certification by Officer of Home Office.--This certification statement must be completed on all home office cost statements submitted. An officer or director of the home office must read, sign, and date this statement. An original signed copy of the certification statement must be submitted.

3906.3 Part III - Listing of Chain Components.--Reference the Medicare providers by fiscal year end, Medicare provider number, and the local Medicare intermediary. Also indicate if the provider participates in the Medicaid program by placing a check mark (X) under the corresponding column.

Health Care Components - Lines 1 through 19

Column 1--Enter the name of each provider component that is part of the chain.

Column 2--Enter the Medicare provider number for each provider component that is certified for participation in title XVIII.

Column 3--Enter the beginning date of the provider's cost reporting period. When the fiscal year end of the provider differs from that of the home office, enter the beginning dates of the cost reporting periods covered by the cost statement.

Column 4--Enter the ending date of the provider's cost reporting period. When the fiscal year end of the provider differs from that of the home office, enter the ending dates of the cost reporting periods covered by the cost statement.

Column 5--Enter the date during the period covered by the home office cost statement on which the provider was acquired by the home office (if applicable).

Column 6--Enter the date during the period covered by the cost statement on which the provider was sold or closed (if applicable).

Columns 7--Indicate whether the provider participates in State Medicaid program(s).

Column 8—Indicate how the facility is reimbursed. Enter the following for each category: "N" for not reimbursed through the cost report (Hospice, End Renal Stage Dialysis etc.), "O" for other cost (Critical Access Hospitals), "T" for TEFRA, and "P" for PPS (General Acute Hospital, LTCH, Rehabilitation Hospitals, Skilled Nursing Facilities and Home Health Agencies).

Columns 9-10--Identify the servicing Medicare and Medicaid intermediaries for each provider. Where a change of intermediary has occurred during the cost statement reporting period, identify the incoming and outgoing intermediaries.

3906.4 Part IV - Listing of Other (Non Provider) Chain Components.--

Column 1--Enter the name of each other (non-provider) component which is part of the chain.

Column 2--Enter the beginning date of each other component's fiscal period covered by the cost statement.

Column 3--Enter the ending date of each other component's fiscal period covered by the cost statement.

Column 4--Enter the date each other component was acquired by the home office.

Column 5--Enter the date during the period covered by the cost statement on which each other component was sold or closed (if applicable).

3906.5 Part V - Listing of Regions or Divisions.--

Column 1--Enter the name of each region or division that is part of the chain.

Column 2--Enter the name of the city in which each region or division is located.

Column 3--Enter the name of the State in which each region or division is located.

Columns 4---Indicate whether region or division cost is included in the cost statement.

Columns 5-6--Indicate whether a separate cost statement is filed for each region or division.

Column 7--Identify the designated intermediary responsible for the audit and settlement of the separate cost statements filed by the regions or divisions.

3907. HOME OFFICE COSTS - SCHEDULES B THROUGH I

The section pertaining to home office costs consists of Schedules B through I and provides:

- o A detailed analysis of allocable home office costs beginning with the trial balance of expenses (Schedule B);
- o Medicare reclassifications to those costs (Schedule B-1);
- o Medicare adjustments to those costs (Schedule C);
- o A statement of costs from related organizations (Schedule D);
- o Allocation of the direct, functional, and pooled home office costs (Schedules E, E-1, F, G, ; and
- o A statement of revenue and expenses (Schedule I).

The determination of allowable costs of the home office:

- o Begins with the total costs of the home office, by cost centers, as shown by the home office general ledger trial balance;
- o Shows reclassifications of those costs between cost centers for proper reporting;
- o Shows the reductions for those costs which are not allowable; and
- o Then shows the adjusted trial balance of total allowable costs.

The reclassifications are identified and explained on Schedule B-1. The reductions for unallowable costs are identified and explained on Schedule C.

Schedules E through G provide for the allocation of the allowable costs to all of the entities serviced by the home office. All related entity costs in the chain and the home office costs allocated to each related entity are based on the procedures set forth in §3902. When services are provided by the home office to non-related entities, i.e., to hospitals serviced under management contracts, the allocations of costs for these entities may be consolidated on the cost statement. However, detailed working papers must be maintained by the home office to support the allocations of costs consolidated on the statement. The costs allocated to each provider are then included in the provider’s cost report for reimbursement by the Medicare program.

When the home office has departmentalized its home office costs by functions, e.g., accounting, personnel, purchasing, and allocates such costs on an appropriate unit basis, the home office cost statement must contain a full explanation of the unit basis used in each case.

3908. SCHEDULE B - STATEMENT OF ALLOWABLE COSTS

Schedule B consists of three pages, all of which must be completed. Enter the home office name and the period covered by the cost statement.

NOTE: If the home office operates distinct regional offices, the home office cost statement must be used to allocate home office costs to the chain components and regional offices. Home office costs are allocated to the regional components on separate regional office home office cost statements. When completing Schedule B for the home office, only direct home office costs must be reported in column 1. When completing Schedule B for the regional offices, only the direct regional office costs must be reported in column 1. Allocations from the home office must be reported on Schedule C and incorporated into the regional office costs in column 4. Prior CMS approval through your intermediary is required for the filing of separate cost statements for regional offices.

In addition to Schedule B, the financial statements and the working trial balance of the chain home office must be submitted with the report. A working trial balance is a listing of the balances of the accounts in the general ledger to which adjustments are appended in supplementary columns and is used as a basic summary for financial statements.

Column 1--Enter the home office expenses as shown in the home office general ledger year end account balances. Use audited data if available.

Lines 1-2--Enter the home office capital-related depreciation, amortization and lease expenses as shown on the home office records before Medicare adjustments or reclassification.

NOTE: Chains and chain components which are not subject to PPS capital, must report all capital-related costs as new capital. A home office must make the split between old and new capital when any component of the chain is subject to PPS.

Capital-related interest expense must initially be reported on line 30 and subsequently reclassified to the subscripts of the appropriate capital-related cost centers on line 1, 2, 4, or 5. Other capital-related costs must be initially reported on lines 7, 8 and 9 as applicable. The pooled and functional other capital-related costs are reclassified on Schedule B-1.

Old capital costs are defined as allowable capital-related costs for land and depreciable assets that were put into use for patient care on or before December 31, 1990, with additional recognition of costs for capital-related items and services that are legally obligated by an enforceable contract entered into on or before December 31, 1990, and put into patient use on or before October 1, 1994 (subject to exceptions as explained below). Old capital costs include the following:

1. Allowable depreciation on assets based on useful life guidelines to determine depreciation expense for chain home office old capital (these useful lines may not subsequently be changed).

2. Allowable capital-related interest expense. Except as provided below, the amount of allowable capital-related interest expense that is recognized, as old capital is limited to the amount the hospital was legally obligated to pay as of December 31, 1990. Any allowable interest expense in excess of this limitation is recognized as new capital.

a. An increase in interest expense is recognized if the increase is due to periodic fluctuations of rates in variable interest rate loans or at the time of conversion from a variable rate loan to a fixed rate loan when no other changes in the terms of the loan are made.

b. If the terms of a debt instrument are revised after December 31, 1990, the amount of interest recognized as old capital during the transition cannot exceed the amount that would have been recognized during the same period prior to the revision of the debt instrument.

c. If short term financing was used to acquire old capital assets and the debt is extended or rolled-over, a portion of the extended debt is recognized as old capital. The portion equals the ratio of the net book value as of the beginning of the applicable cost reporting period for depreciable assets that were in use in the base year to the net book value as of the beginning of the base year cost reporting period for those assets. Do not adjust the net book value for the base year to exclude assets that have been fully depreciated or removed from service since the base year. If the debt is related to specific assets, determine the ratio based on the values for those assets. The ratio excludes assets acquired with other identifiable debt instruments. For purposes of this paragraph, short term financing is a debt that becomes due in no later than the earlier of 5 years or half of the average useful life of the assets to which the debt is related.

d. If old capital debt is commingled with new capital debt, the allowable interest expense is apportioned to old capital costs, based on the ratio of the loan principal related to old capital indebtedness to the total loan principal.

e. Investment income, excluding income from funded depreciation accounts and other exclusions from investment income offset described in CMS Pub. 15-1, §202.2, is used to reduce old capital interest expense, based on the ratio of total old capital interest expense to total allowable interest expense in each cost reporting period.

3. Allowable capital-related lease and rental costs for land and depreciable assets that were obligated as of December 31, 1990.

a. The cost of lease renewals and the acquisition of assets continuously leased (e.g., capitalized leases) up to the annual lease payment level obligated as of December 31, 1990, are recognized provided the same asset remains in use, the asset has a useful life of at least 3 years, and the annual lease payment is $1000 or more for each item.

b. If an asset is sold or given to another party and that same asset is then leased back, the amount of allowable capital-related costs recognized as old capital costs is limited to the amount allowed for that asset in the last cost reporting period that it was owned.

4. The portion of allowable costs for other capital-related expenses which are allocated on a pooled or functional basis (including but not limited to taxes, insurance, license and royalty fees on depreciable assets) resulting from applying the ratio of the home office's gross old asset value to total asset value in each cost reporting period. (See instructions for lines 7 through 9.)

5. The appropriate portion of the capital-related costs of related organizations under the 42 CFR 413.17 that is recognized as old capital costs if these costs are incurred directly by the home office.

6. Obligated capital costs that are recognized as old capital costs in accordance with the provisions discussed in the following paragraph.

Capital-related costs attributable to assets that are put in use after December 31, 1990 may be recognized as old capital costs under the conditions described below. Any allowable capital-related costs for these assets that are not recognized as old capital costs are recognized as new capital costs. If the home office has a multiphase capital project, the provisions of this section apply independently to each phase of the project.

A. Fixed Asset.--The costs of capital-related items and services defined in 42 CFR 413, Subpart G for which there was a contractual obligation entered into by a home office or related party with an outside, unrelated party for the construction, reconstruction, lease, rental, or financing of a fixed asset may be recognized as old capital costs if all the following conditions are met:

o The obligation must arise from a binding written agreement that was executed on or before December 31, 1990 and that obligates the home office on or before December 31, 1990.

o The capital asset must be put in use for patient care before October 1, 1994. CMS may extend the deadline under which an asset must be put in use for patient care before October 1, 1994 to no later than September 30, 1996 for extraordinary circumstances beyond the home office's control. Extraordinary circumstances include, but are not limited to, a construction strike or atypically severe weather that significantly delays completion of a construction project. Normal construction delays do not constitute extraordinary circumstances.

o The capital asset must be put in use for patient care before October 1, 1994 except as provided below.

o The home office notifies the designated intermediary of the existence of obligated capital costs. (See 42 CFR 412.302(c).)

o The amount that is recognized as old capital cost is limited to the lesser of the actual allowable costs when the asset is put in use or the estimated costs of the capital expenditure at the time it was obligated.

B. Moveable Equipment.--Moveable equipment is recognized as old capital only if all of the following conditions are met:

o The obligation must arise from a binding written agreement that was executed on or before December 31, 1990 and that obligates the home office on or before December 31, 1990.

o The home office notifies the designated intermediary of the existence of obligated capital costs. (See 42 CFR 412.302(c).)

o The amount recognized as old capital cost is limited to the lesser of the actual allowable costs when the asset is put in use or the estimated costs of the capital expenditure at the time it was obligated.

In addition, one of the following conditions must be met:

o There was a binding contractual agreement for the lease or purchase of the item of equipment on or before December 31, 1990.

o There was a binding contractual agreement for financing the acquisition of the equipment prior to January 1, 1991, the item of equipment costs at least $100,000, and the item was specifically listed in an equipment purchase plan approved by the Board of Directors on or before December 31, 1990. The amount recognized as old capital costs cannot exceed the estimated cost identified in the equipment purchase plan approved by the home office's Board of Directors.

C. Lengthy Certificate of Need Process.--If a home office does not meet the criteria under the fixed asset or moveable equipment provisions above but meets all of the following criteria, the estimated cost for the project as of December 31, 1990 may be recognized as old capital costs:

o The home office is required under State law to obtain preapproval of the capital project or acquisition by a designated State or local planning authority in the State in which it is located;

o The home office filed an initial application for a certificate of need on or before December 31, 1989 that includes a detailed description of the project and its estimated cost and had not received approval or disapproval on or before September 30, 1990;

o The home office expended the lesser of $750,000 or 10 percent of the estimated cost of the project on or before December 31, 1990; and

o The home office put the asset into patient use on or before the earlier of September 30, 1996 or 4 years from the date the certificate of need was approved.

D. Construction in Process.--If a home office that initiates construction on a capital project does not meet the requirements under the fixed asset, moveable equipment, or lengthy certificate of need provisions above, the project costs may be recognized as old capital costs if all the following conditions are met:

o The home office received any required certificate of need approval on or before December 31, 1990;

o The home office's Board of Directors formally authorized the project with a detailed description of its scope and costs on or before December 31, 1990;

o The capitalized cost incurred for the project as of December 31, 1990, exceeded the lesser of $750,000 or 10 percent of the estimated project cost;

o The home office began actual construction or renovation (ground breaking) on or before March 31, 1991; and

o The project is completed before October 1, 1994.

E. Capital Expenditures Not Recognized.--Agreements for planning, design or feasibility that do not commit the home office to undertake a project are not recognized as obligating capital expenditures.

F. Cost Limitation - Leases, Rentals, or Purchases.--The amount of obligated capital costs recognized as old capital costs cannot exceed the amount specified in the lease, rental, or purchase agreement.

G. Cost Limitation - Construction Contracts.--The amount of obligated capital costs recognized as old capital costs cannot exceed the estimated construction costs for the project as of December 31, 1990. Additional costs are recognized as old capital costs only if the additional costs are directly attributable to changes in life-safety codes or other building requirements established by government ordinance that occurred after the project was obligated.

H. Cost Limitation - Financing Costs.--The amount of obligated interest expense recognized as old capital costs cannot exceed the amount for which the home office was legally obligated as of December 31, 1990 or, in the case of financing that is arranged after December 31, 1990, for a capital acquisition that was legally obligated as of December 31, 1990, the amount specified in a detailed financing plan approved by the home office's Board of Directors prior to January 1, 1991.

I. Allowable Asset Cost.--The actual amount recognized as old capital costs is based on the lesser of the allowable costs for the asset when it is placed in service or the amounts determined under the cost limitations above.

For cost reporting periods beginning on or after October 1, 1991, and before October 1, 2001, the home office must follow consistent cost finding methods for classifying and allocating capital-related costs.

Unless there is a change of ownership, the home office must continue its practices for the direct assignment of old capital-related costs in effect during the home office's first cost reporting period in which a hospital was subject to PPS capital.

Line 3--Adjust the amounts in column 1 by the amounts (increase or decrease) in column 2, and extend the net amount to column 3.

Lines 4-5--Enter the home office capital-related depreciation, amortization and lease expense as shown on the home office records before Medicare adjustments or reclassifications. New capital costs are defined as all allowable Medicare capital-related costs that do not meet the definition of old capital costs.

NOTE: Capital-related interest expense is initially reported on line 30 and subsequently reclassified to the subscripts of the appropriate cost centers. Other capital-related costs must be initially reported on lines 7, 8 and 9 as applicable. The pooled and functional other capital-related costs are reclassified on Schedule B-1.

Line 6--Enter the sum of the amounts on lines 4 and 5.

Lines 7-9--Enter on these lines other capital-related expenses (including but not limited to taxes, insurance, license and royalty fees on depreciable assets). The determination of the old/new portion of other capital-related expenses is made at the provider level.

Line 10--Enter the sum of the amounts on lines 7 through 9.

Lines 11-29 and 31-35--Enter the home office non-capital-related expenses as shown on the home office records before Medicare adjustments or reclassification.

Line 30--Enter all of the interest expense (capital-related expenses and working capital) of the home office. The capital-related expense must be reclassified to the subscripts for lines 1, 2, 4 and 5 as applicable. If investment income is to be offset against interest expense at the provider's level, then line 30 will be followed by the subscripts identifying the various investment incomes. If investment income is to be offset at the home office level, then the amounts of the offset against the appropriate capital-related interest accounts **must** be reclassified to the subscripts for lines 1, 2, 4, and 5.

Line 36--Enter the sum of the amounts on lines 11 through 35.

Column 2--Complete Schedule B-1. Enter the Medicare reclassification from Schedule B-1 as appropriate. When more than one reclassification pertains to the same expense, summarize and carry forward the adjustments to Schedule B. Line 100 must equal zero.

Column 3--Enter the sum of the amounts in column 1 and 2.

Column 4--Complete Schedule C. Enter the Medicare adjustment from Schedule C, column 1 as appropriate. When more than one adjustment pertains to the same expense, summarize and carry forward the adjustments to Schedule B. Line 100 must agree with Schedule C, column 1, line 28.

Column 5--Enter the adjusted balance by subtracting column 4 from column 3.

Column 6--Complete Schedules E and E-1.

Lines 1-2--Enter the direct allocations of home office old capital-related expenses to the chain components (from Schedule E, columns 1 and 2) as appropriate.

Line 3--Enter the sum of the amounts on lines 1 and 2.

Lines 4-5--Enter the direct allocations of home office new capital-related expenses to the chain components (from Schedule E, columns 5 through 7) as appropriate.

Line 6--Enter the sum of the amounts on lines 4 and 5.

Lines 7-9--Enter the direct allocations of home office other capital-related expenses to the chain components (from Schedule E, columns 5 through 7) as appropriate. **You may not reclassify these amounts to the subscripts for lines 1, 2, 4, or 5 for the interest expense.**

Line 10--Enter the sum of the amounts on lines 7 through 9.

Lines 11-35--Enter the direct allocations of home office non-capital-related expenses to the chain components and regional offices (from Schedule E-1, columns 1 through 9) as appropriate.

Line 36--Enter the sum of the amounts on lines 11 through 35.

Column 7--Complete Schedules F and F-1. Enter the functional allocations of expenses to the chain components and regional offices as appropriate.

Lines 1-2--Enter the functional allocations of home office old capital-related expenses to the chain components (from Schedule E, columns 1 and 2) as appropriate.

Line 3--Enter the sum of the amounts on lines 1 and 2.

Lines 4-5--Enter the functional allocations of home office new capital-related expenses to the chain components (from Schedule E, columns 5 through 7) as appropriate.

Line 6--Enter the sum of the amounts on lines 4 and 5.

Lines 7-9--Enter the functional allocations of home office other capital-related expenses to the chain components (from Schedule E, columns 5 through 7) as appropriate.

Line 10--Enter the sum of the amounts on lines 7 through 9.

Lines 11-31--Enter the functional allocations of home office non-capital-related expenses to the chain components and regional offices (from Schedule F, columns 1 through 9) as appropriate.

Line 36--Enter the sum of the amounts on lines 11 through 35.

Column 8--Enter the pooled allocable costs by subtracting the sum of the amounts in columns 6 and 7 from the amounts in column 5.

3909. SCHEDULE B-1 - RECLASSIFICATION OF HOME OFFICE EXPENSES

This schedule reclassifies home office expenses, both capital-related and non-capital-related, in order to properly reflect these expenses in the appropriate cost centers for allocation to the regions and chain components. This schedule may be expanded as necessary to accommodate additional reclassification. Enter the home office name and the period covered by the cost statement.

Column 1--Enter a letter (A, B, etc.) to identify each reclassification. If a reclassification is made to several different cost centers on Schedule B, use one letter to identify the reclassification as a single reclassification.

Column 2--Enter the name of the Schedule B cost center which is being increased by the reclassification.

Column 3--Enter the line number of the Schedule B cost center which is being increased by the reclassification.

Column 4--Enter the amount of the reclassification increase to the Schedule B cost center noted in column 2. Transfer these amounts to Schedule B, column 2 as appropriate. If more than one reclassification is made to a single Schedule B cost center, summarize the amounts reclassified and transfer that amount to the Schedule B, column 2 cost center.

Column 5--Enter the name of the Schedule B cost center which is being decreased by the reclassification.

Column 6--Enter the line number of the Schedule B cost center which is being decreased by the reclassification.

Column 7--Enter the amount of the reclassification decrease to the Schedule B cost center noted in column 5. Transfer these amounts to Schedule B, column 2 as appropriate. If more than one reclassification is made to a single Schedule B cost center, summarize the amounts reclassified and transfer that amount to the Schedule B, column 2 cost center.

The amount on line 100, column 4 must equal the amount on line 100, column 7.

3910. SCHEDULE B-2 - ANALYSIS OF CHANGES IN CAPITAL ASSET BALANCES

This worksheet consists of Part I - Analysis of Changes in Old Capital Asset Balances, Part II - Analysis of Changes in New Capital Asset Balances, and Part III - Computation of Old Capital for Insurance, Taxes, and Other Capital-Related Costs. See the instructions for Schedule A for a definition of old and new capital. A non-PPS provider does not have to complete Part I.

NOTE: Include assets which are directly allocated to the provider from the home office or related organization and the related other capital costs in Parts I, II, and III of this worksheet.

A. Part I - Analysis of Changes in Old Capital Asset Balances and Part II - Analysis of Changes in New Capital Asset Balances.--These parts enable the Medicare program to analyze the changes that occurred in your capital asset balances during the current reporting period. This worksheet is completed only once for the home office. However, only include in Part I and Part II assets that relate to home office and are not directly assigned.

Columns 1 and 6--Enter the balance recorded in your books of accounts at the beginning of your cost reporting period (column 1) and at the end of your cost reporting period (column 6). The sum of Parts I and II, column 6, line 9, must equal the sum of the total fixed assets on Schedule J and any directly allocated assets from the home office or related organization.

NOTE: The asset value of a lease which is a capital lease under generally accepted accounting principles (GAAP) or which is recognized by Medicare as a capital-related cost under 42 CFR 413.130, for which the provider also pays other capital-related costs such as insurance and taxes, is included in Parts I and II, lines 1 through 6, as appropriate.

Columns 2 through 4--Enter the cost of capital assets acquired by purchase in column 2 and the fair market value at date acquired of donated assets in column 3. Enter the sum of the amounts in columns 2 and 3 in column 4.

NOTE: The amounts in Part I, column 2 represent transfers from obligated capital and/or a transfer of assets on a change of ownership.

Column 5--Enter the cost or other approved basis of all capital assets sold, retired or disposed of in any other manner during the provider's cost reporting period.

The sum of the amounts in columns 1 and 4 minus the amount in column 5 equals the amount in column 6.

Column 7--Enter the gross book value of fully depreciated assets still in use at the end of the cost reporting period.

Line Descriptions

Line 8--If you have capitalized a lease in accordance with GAAP and included it in the assets reported on Schedule G, you must exclude those amounts from the values reported on lines 1 through 7 and include them on line 8. Similarly, the excess of amounts paid for the acquisition of assets over their fair market values or the amount recognized under §2314 of DEFRA for transactions after July 18, 1984, must also be recorded on line 8 rather than on lines 1 through 7. Assets, which are directly allocated to components and construction in progress at the end of the cost report period, are reported on line 8.

NOTE: If you pay other capital-related costs, such as insurance and taxes, on capitalized leases in accordance with GAAP, do not enter the asset value of these leases on this line.

Line 9--Enter line 7 less line 8.

B. Part III - Reconciliation of Capital Cost Centers.--Use this part to allocate insurance, taxes, and other capital expenditures (not including depreciation, lease, and interest expense) to the capital-related cost centers. This Part also summarizes the amounts in the capital-related cost centers on Schedule B, lines 1, 2, 4, and 5, sum of columns 7 and 8.

Lines 1-4--In accordance with 42 CFR 412.302(b)(5), allowable costs for other capital-related expenses (including but not limited to, taxes, insurance, license and royalty fees on depreciable assets) are apportioned to old capital by applying the ratio of the chain home office gross old asset value to total asset value. These lines compute the appropriate gross asset ratios to be used in allocating other capital-related costs on columns 5 through 7.

Line 5--Enter the sum of the amounts on lines 1 through 4. Line 5 column 4 must equal 1.000000.

Columns 1-4, lines 1-4--Use these lines to compute ratios of new and old gross asset values to total gross asset values. Use these ratios on lines 1 through 4 column 4 to allocate other capital costs (insurance, taxes, and other) to the capital-related cost center lines (Schedule B, lines 1, 2, 4, and 5).

NOTE: Gross asset value is defined as the value of the asset before deducting accumulated depreciation.

Column 1--Enter on line 1 your gross asset value for old buildings and fixtures (assets for which depreciation was reported on Schedule B, line 1). Enter on line 2 your gross asset value for old movable equipment (assets for which depreciation was reported on Schedule B, line 2). Enter on line 3 your gross asset value for new buildings and fixtures (assets for which depreciation was reported on Schedule B, line 4). Enter on line 4 your gross asset value for new movable equipment (assets for which depreciation was reported on Schedule B, line 5).

Column 2--Enter any gross asset amounts reported in column 1 relating to capitalized leases and enter any directly allocated assets. The amount computed in column 2, lines as appropriate, must agree with the sum of Part I and II, column 1, line 8.

Column 3--Enter the amount in column 1 less the amount in column 2.

Column 4--Enter on lines 1 through 4 the amount in column 3, line 3, divided by the amount in column 3, line 5. Round the resulting ratio to six decimal places.

Columns 5-7--These columns, net of other capital-related costs directly allocated to components of the chain provide for the allocation of other capital-related costs (taxes, insurance, and other) from Schedule B, lines 7 through 9, column 1 to the capital-related cost center lines 1 through 4.

NOTE: Other capital-related costs directly allocated to components of the chain must be supported by the workpapers and subtracted from the amount on Schedule B, lines 7 through 9, column 1. The net amount is allocated in columns 5 through 7. The supporting work papers must be submitted to the fiscal intermediary along with the cost statement.

Line 5--Enter in column 5 capital expenditures relating to insurance. Enter in column 6 capital expenditures relating to taxes. In addition, enter in column 6 the assessments and other payments made in lieu of taxes on property and equipment. Enter in column 7 other capital expenditures (not including taxes, insurance, depreciation, lease, and interest expense). Enter in column 8 the sum of the amounts reported in columns 5 through 7. The amount in column 8 must equal the amount on Schedule B, column 1, line 10 net of the other capital-related costs directly allocated to components of the chain.

Lines 1-4--Apply the ratios developed on column 4, lines as applicable, to allocate the other capital costs reported in column 3.

Column 8--You must report an entry on Worksheet B-1 which reflects the reclassification of insurance, taxes, and other capital expenditures reported on Schedule B, line 10, column 2 (and reported on line 5, column 8 of this schedule) to the capital-related cost centers reported on Schedule B, lines 1, 2, 4, and 5 (amounts as determined on lines 1 through 4, column 8).

Columns 9-15--These columns summarize the amounts in the capital-related cost centers (Schedule B, lines 1, 2, 4, 5, 7, 8, and 9, sum of columns 7 and 8).

Column 9--Enter the portion of the amount on Schedule B, column 7 and 8, lines 1, 2, 4, and 5, relating to depreciation expense.

Column 10--Enter the portion of the amount on Schedule B, columns 7 and 8, lines 1, 2, 4, and 5, relating to capital-related lease expense in accordance with CMS Pub. 15-1, §2806.1. Report insurance, taxes, license and royalty fees associated with leased assets in columns 12, 13, and 14 of this schedule, respectively.

Column 11--Enter the portion of the amount on Schedule B, columns 7 and 8, lines 1, 2, 4, and 5, relating to capital-related interest expense. Total interest expense is reported on Schedule B, column 1, line 30. Capital-related interest expense is reclassified to the appropriate capital-related cost centers (Schedule B, lines 1, 2, 4, and 5). The non-capital-related interest is the sum of Schedule B columns 6, 7, and 8.

Column 12--Enter the portion of the amount on Schedule B, columns 7 and 8, lines 1, 2, 4, and 5, relating to capital-related insurance costs. Transfer this amount from column 5 of this schedule, lines 1 through 4, as applicable.

Column 13--Enter the portion of the amount on Schedule B, columns 7 and 8, lines 1, 2, 4, and 5, relating to capital-related tax costs. Transfer this amount from column 6 of this worksheet, lines 1 through 4, as applicable.

Column 14--Enter the portion of the amount on Schedule B, columns 7 and 8, lines 1, 2, 4, and 5, relating to other capital-related costs. Transfer this amount from column 7 of this schedule, lines 1 through 4, as applicable.

Column 15--Enter the sum of the amounts in columns 9 through 14. The amounts from column 15, lines 1 through 4 must equal the amounts on Schedule B, lines 1, 2, 4, and 5, sum of columns 7 and 8.

3911. SCHEDULE C - MEDICARE ADJUSTMENTS TO HOME OFFICE EXPENSES

The purpose of this schedule is to adjust home office expenses. Types of adjustments entered on this worksheet include (1) those needed to adjust expenses to reflect actual expenses incurred, (2) those items which constitute recovery of expenses through sales, charges, fees, etc., and (3) those items needed to adjust expenses in accordance with the Medicare principles of reimbursement. (See CMS Pub. 15-1). This schedule may be expanded as necessary to accommodate additional adjustments.

Enter the home office name and period covered by the cost statement.

Basis of Adjustment.--Enter in the column marked with an asterisk (*) the basis for each adjustment listed. Use a letter "A" if the basis is costs (non patient care related). Use a letter "B" if revenue received is used as a cost recovery of related expenses.

Make all adjustments on the basis of costs rather than revenue offset. If related costs are unknown or the amounts immaterial, use revenue offset.

Submit with the cost statement a copy of any working papers used to compute a cost adjustment.

Column 1--Enter the amount of each adjustment to be made to expenses reported on Schedule B, column 1. Complete Schedule D and enter adjustments pertaining to costs from related organizations.

When an adjustment affects two or more expense accounts, reconciliation must be attached showing the distribution of the adjustment to various cost centers. Alternatively, if the cost statement is prepared using a computer, place the Schedule C lines in subscripts, e.g., 13.01, 13.02, to allow the identification of all affected cost centers.

Line 28 must agree with Schedule B, column 4, line 100.

Column 2--Indicate the applicable line number of the expense account from Schedule B to which the adjustment amount is to be added or subtracted.

Column 3--Indicate the cost center from Schedule B to which the adjustment amount is to be added or subtracted.

NOTE: Where the home office operates distinct regional offices, use the home office cost statement to allocate home office costs to the chain components and regional offices. Home office costs allocated to the regional offices are subsequently allocated to the regional components on separate regional office home office cost statements. When completing Schedule B for the regional offices, report allocations from the home office on Schedule C and incorporate them into the regional office costs in column 4.

3912. SCHEDULE D - STATEMENT OF COSTS OF SERVICES FROM RELATED ORGANIZATIONS

Schedule D consists of two pages, both of which must be completed. Enter the home office name and period covered by the cost statement. Schedule D requires information regarding the existence of any home office costs that resulted from transactions with related organizations. (See 42 CFR 405.427.)

Part A--Check the applicable "yes" or "no" block to indicate whether transactions with related organizations resulted in home office costs to be allocated to the chain components.

If "no," do not complete Parts B and C. If "yes," complete Parts B and C.

Part B--This part identifies expenses resulting from a transaction with a related organization.

Column 1--Enter the applicable line number from Schedule B, column 1 for the expenses to be explained in this section.

Column 2--Enter the expense account description corresponding to the applicable line number.

Column 3--Enter the amount of expense resulting from transactions with related organizations.

Column 4--Enter the Medicare allowable portion of the listed expense.

Column 5--Enter the net adjustment amount representing the difference between the amounts in columns 3 and 4. The net adjustment amount for each type of expense must be transferred to Schedule C, column 1, lines as applicable.

Part C--This part identifies the relationship of the chain home office to the related organizations.

Column 1--Enter the name of the related organization.

Column 2--Describe the business activities of the related organization that are transacted with the home office or the chain components.

Column 3--Indicate whether the relationship between the chain and the related organization is through ownership or control.

Column 4--Explain in detail the relationship e.g., percentage of ownership, partnership arrangements, joint board of directors. Also note whether the exception to the related organization rule (see CMS Pub. 15-I, §1010) is applicable.

3913. SCHEDULE E - DIRECT ALLOCATION OF HOME OFFICE CAPITAL COSTS TO CHAIN COMPONENTS

Schedule E identifies home office capital-related costs that are directly allowable to specific chain components and/or regional offices. Direct allocations to the chain components, when transferred to the provider cost report, are included in the provider's trial balance.

NOTE: When the home office operates distinct regional offices, use this schedule to directly allocate home office costs to the chain components and regional offices. Home office costs directly allocated to the regional offices are subsequently allocated to the regional components on a separate regional office home office cost statement.

Enter the home office name and the period covered by the cost statement.

Enter the name and Medicare provider number of each chain provider on lines 1 through 16, the name of each other component on lines 18 through 26, and the name of each regional office on lines 28 through 31.

NOTE: On Schedules E, E-1, F, and G, use subscripts for lines as necessary to accommodate additional chain components where space is inadequate. Carry forward to the subsequent schedules the sequence of subscripts and order of chain components selected on Schedule E. Subscript lines are numbered, e.g., 1.01, 1.02.

Column headings on Schedule E correspond to the lines on Schedule B. Use subscripts for columns on this schedule, as appropriate, to correspond with Schedule B line numbers for the column numbers. The column numbers would then be 1, 2, 3, 4, 5, 6, 7, 8, and 9.

Show the distribution of the amount of direct cost to each chain component and/or regional office. When the accounting period of the home office is not concurrent with the accounting period of the component to which costs are directly allocated, each expense allocated to such a component must be separated and identified as to the accounting period of the component to which the expense is allocated.

<u>Column 1</u>--Enter the allocation of direct old capital costs for building and fixtures to the chain components and regional offices. Any old capital costs directly allocated to regional offices must be allocated to chain components on a subsequent regional office cost statement. Line 33 must agree with Schedule B, line 1, column 6.

<u>Column 2</u>--Enter the allocation of direct old capital costs for movable equipment to the chain components and regional offices. Any old capital costs directly allocated to regional offices must be allocated to chain components on a subsequent regional office cost statement. Line 33 must agree with Schedule B, line 2, column 6.

<u>Column 3</u>--Enter the allocation of direct new capital costs for building and fixtures to the chain components and regional offices. Any new capital costs directly allocated to regional offices must be allocated to chain components on a subsequent regional office cost statement. Line 33 must agree with Schedule B, line 4, column 6.

<u>Column 4</u>--Enter the allocation of direct new capital costs for movable equipment to the chain components and regional offices. Any new capital costs directly allocated to regional offices must be allocated to chain components on a subsequent regional office cost statement. Line 33 must agree with Schedule B, line 5, column 6.

Columns 5-7--Enter the allocation of direct other capital costs to the chain components and regional offices. Any other capital costs directly allocated to regional offices must be subsequently allocated to chain components on a subsequent regional office cost statement. Line 33 must agree with Schedule B, column 6, lines 7 through 9 as appropriate.

Column 8 --Enter the total of columns 1 through 7.

Ensure that, in cases of nonconcurring year-ends, the direct allocations are identified in the proper reporting period.

3914. SCHEDULE E-1 - DIRECT ALLOCATION OF HOME OFFICE NON CAPITAL-RELATED EXPENSES TO CHAIN COMPONENTS

This schedule identifies home office costs (other than capital-related costs) directly assignable to specific chain components and/or regional offices. Direct allocations to the chain components, when transferred to the provider cost report, are included in the provider's trial balance.

NOTE: If the home office operates distinct regional offices, use this schedule to directly allocate home office costs to the chain components and regional offices. Home office costs directly allocated to the regional offices are subsequently allocated to the regional components on a separate regional office home office cost statement.

Enter the home office name and period covered by the cost statement.

Enter the name and Medicare provider number of each chain provider on lines 1 through 4, the name of each other component on lines 6 through 9, and the name of each regional office on lines 12 through 15. Use subscripts as necessary for these lines to accommodate additional chain components if space is inadequate.

Columns 1-9--Column headings on Schedule E-1 have not been predetermined. Enter the expense account title for each group of costs to be directly allocated above each column. Additional columns may be added as necessary.

Show the distribution of the amount of direct cost to each chain component and/or regional office. When the accounting period of the home office is not concurrent with the accounting period of the component to which costs are directly allocated, each expense allocated to such a component must be separated and identified as to the accounting period of the component to which the expense is allocated. Any costs directly allocated to regional offices must be allocated to chain components on a subsequent regional office cost statement. Line 17 must agree with Schedule B, column 6, line 36.

Column 10--Enter the total of columns 1 through 9.

Ensure that, in cases of nonconcurring year ends, the direct allocations are identified in the proper reporting period.

3915. SCHEDULE F - PARTS I AND II - FUNCTIONAL ALLOCATION OF HOME OFFICE CAPITAL-RELATED EXPENSES TO CHAIN COMPONENTS

Schedule F consists of two parts, both of which must be completed when costs are allocated on a functional basis. Enter the home office name and period covered by the cost statement. This schedule identifies home office non-capital-related costs which may be allocated to the chain components and/or regional offices by function. Statistics are accumulated on Part II and the allocation of cost is made on Part I.

NOTE: If the home office operates distinct regional offices, use this schedule to functionally allocate home office costs to the chain components and regional offices. Home office costs allocated to the regional offices are subsequently allocated to the regional components on a separate regional office home office cost statement.

Enter the name and Medicare provider number of each chain provider on lines 1 through 16, the name of each other component on lines 18 through 26, and the name of each regional office on lines 29 through 32. Use subscripts for lines as necessary to accommodate additional chain components if space is inadequate.

Column headings on Schedule F correspond to the lines on Schedule B. Use subscripts for columns on this schedule, as appropriate, to correspond with Schedule B, lines 1 through 10.

Columns 1-5--Enter the statistics for the allocation of the costs for each expense account on lines 1 through 33, computing subtotals where indicated. When the accounting period of the home office is not concurrent with the accounting period of the component, the statistics must be identified and grouped according to the reporting period of the component to which the expense applies.

Enter the total of statistics on line 34. On line 35, enter the total functional expense to be allocated. Line 35 must agree with Schedule B, column 7, as appropriate, and must be carried forward to Schedule F, Part I, line 34.

On line 35, compute the unit cost multiplier by dividing the cost to be allocated (line 34) by the total statistics (line 33).

3916. SCHEDULE F-1 - PARTS I AND II - FUNCTIONAL ALLOCATION OF HOME OFFICE NON-CAPITAL-RELATED EXPENSES TO CHAIN COMPONENTS

Schedule F-1 consists of two parts, both of which must be completed when costs are allocated on a functional basis. Enter the home office name and period covered by the cost statement. This schedule identifies home office non-capital-related costs which may be allocated to the chain components and/or regional offices by function. Statistics are accumulated on Part II and the allocation of cost is made on Part I.

NOTE: If the home office operates distinct regional offices, use this schedule to functionally allocate home office costs to the chain components and regional offices. Home office costs allocated to the regional offices are subsequently allocated to the regional components on a separate regional office home office cost statement.

Functional allocations to the chain components, when transferred to the provider cost report, are included in the administrative and general cost center or in a cost center appropriate to the function, e.g., data processing, when this is a separate cost center and is appropriate to the function.

NOTE: The amount of interest expense and investment income included in the amount of pooled allocation must be separately identified in order to comply with the PRM-I, §202.1 relating to interest. Section 202.1 states that in order for interest to be allowable it must be necessary and proper for the operation, maintenance, or acquisition of the provider's facilities. The interest expense must be segregated between old and new capital and non-capital expense.

Where the provider is a hold harmless provider for PPS capital, the treatment in the provider's cost report of functional allocation of costs (including investment income and interest expense) must be consistent with that used in the last cost reporting period ending on or before October 1, 1991.

In any case, the capital-related component of the functionally allocated costs must be included on Worksheet B, Parts II or III, column zero, as appropriate, for old and new capital respectively.

Enter the name and Medicare provider number of each chain provider on lines 1 through 16, the name of each other component on lines 18 through 26, and the name of each regional office on lines 28 through 31. Use subscripts for lines as necessary to accommodate additional chain components if space is inadequate.

Column headings on Schedule F-1 have not been predetermined. Enter the expense account title for each group of costs to be functionally allocated above each column. Additional columns may be added as necessary. Also indicate the allocation base to be used to compile statistics from the chain components and/or regional office for each expense account.

Columns 1-9--Enter the statistics for the allocation of the costs for each expense account on lines 1 through 32, computing subtotals where indicated. When the accounting period of the home office is not concurrent with the accounting period of the component, the statistics must be identified and grouped according to the reporting period of the component to which the expense applies.

Enter the total of statistics on line 33. On line 34, enter the total functional expense to be allocated. Line 34 must agree with Schedule B, column 8, as appropriate and must be carried forward to Schedule F, Part I, line 34.

On line 36, compute the unit cost multiplier by dividing the cost to be allocated (line 35) by the total statistics (line 34).

Column 10--Enter the total of columns 1 through 9.

Ensure that, in cases of nonconcurring year-ends, the direct allocations are identified in the proper reporting period.

3917. SCHEDULE G - ALLOCATION OF POOLED COSTS TO CHAIN COMPONENTS

This schedule provides for the identification and allocation of home office pooled expenses (capital-related buildings and fixtures, moveable equipment, other capital and non capital-related expenses) to the various types of health care facilities and the other chain components.

Pooled costs represent expenses that cannot be directly or functionally allocated to the chain components. Schedules E, E-1 and F must be completed, when appropriate, prior to completion of Schedule G.

Pooled costs are allocated to the chain components as follows.

A. Where Chain Consists Solely of Health Care Facilities.--The pooled costs allocated to the health care facilities as a group are allocated to the individual components on the basis of inpatient days, or total costs. The statistics must be gathered from each component for the period concurrent with that of the home office and separately identified throughout Schedule G.

NOTE: Inpatient days may only be used when all of the components of the chain are the same type, e.g., short term acute hospitals.

B. Where Chain Consists of Both Health Care Facilities and Other Business Organizations.--The pooled costs must be first allocated among these two groups on an appropriate basis, depending on the organization of the chain. After this initial allocation, the pooled costs allocated to the health care facilities as a group are again allocated to the individual components as set forth in subsection A.

Chains may also file a step-down method of allocation by which home office costs are distributed to regional offices and by which regional office costs are distributed to the corresponding providers.

If the double allocation method must be used, both Parts I and II of Schedule G must be completed. For the single allocation method, only Part II of Schedule G must be completed.

Enter the home office name and period covered by the cost statement.

Part I - The Double Allocation Method

Column 1--Enter the allocation base (costs) and the allocation statistics used to allocate total pooled expenses. The allocation-based cost is allocated into three categories: health care facilities, other components, and certain home office or regional costs requiring home office region overhead allocation.

Column 1A--Enter the computed ratios of allocation. The allocation is computed as the ratio of health care facilities and other component to the total pooled costs.

Column 2--Enter the pooled expenses to be allocated on line 4. This figure must agree with Schedule B, column 8, line 1.

Column 3--Enter the pooled expenses to be allocated on line 4. This figure must agree with Schedule B, column 8, line 2.

Column 4--Enter the pooled expenses to be allocated on line 4. This figure must agree with Schedule B, column 8, line 4.

Column 5--Enter the pooled expenses to be allocated on line 4. This figure must agree with Schedule B, column 8, line 5.

Column 6--Enter the pooled expenses to be allocated on line 4. This figure must agree with Schedule B, column 8, line 36.

In order to tie in column 6 to Schedule B column 8 memo columns should be added to Schedule G in order to tie to lines 30 and 30.01. This would be accomplished through an added schedule off of the cost report in order to tie to those lines.

Columns 2-6--Multiply the total pooled costs (line 4, columns 2 through 6) by the ratios computed in column 1A. Enter the respective totals in lines 1, 2 and 3 of columns 2 through 6. Transfer these amounts to Schedule G, Part II, columns 2 through 6, lines 18, 28, and 33, as applicable.

Column 7—Column 7, line 4 must agree with Schedule B, column8, line 30 plus any subscripts of line 30.

Part II - Allocation to Individual Chain Components

Enter the names of all chain components on the appropriate lines. Note the allocation bases used.

Column 1--Enter the allocation base and the statistics used to allocate the home office pooled expenses to the individual health care facilities, other components and regional offices.

Column 1A--Enter the ratio of lines 1 through 17 to line 18 as computed using the statistics in column 1 if the double apportionment method is used. Enter the ratio of lines 1 through 32 to line 34 as computed using the statistics in column 1 if the single apportionment method is used.

Columns 2-6--Enter the pooled expenses to be allocated on lines 18, 28, and 33. Enter the pooled home office old and new capital-related buildings and fixtures, movable equipment, other capital and non-capital-related expense allocated from Schedule G, Part I, columns 2 through 6 (as applicable).

NOTE: The amount of interest expense and investment income included in the amount of pooled allocation must be separately identified in order to comply with the PRM-I, §202.1 relating to interest. Section 202.1 states that in order for interest to be allowable it must be necessary and proper for the operation, maintenance, or acquisition of the provider's facilities. The interest expense must be segregated between old and new capital and non-capital expense.

Where the provider is a hold harmless hospital for PPS capital, the treatment in the provider's cost report of pooled costs including interest expense and investment income must be consistent with that used in the last cost reporting period ending on or before October 1, 1991.

The capital-related component of the pooled costs must be included on Worksheet B, Parts II or III, column zero, as appropriate for old and new capital respectively.

The pooled allocations to the chain providers, when transferred to the providers cost report, are included in the administrative and general cost center.

3118. SCHEDULE I - STATEMENT OF REVENUE AND EXPENSES

Schedule I consists of one page.

Enter the home office name and period covered by the cost statement. Schedule I must be completed in its entirety and must agree with the home office working trial balance.

3919. SCHEDULE J - BALANCE SHEET FOR HOME OFFICE

Schedule J consists of six pages, all of which must be completed. Enter the home office name and period covered by the cost statement.

NOTE: For cost reporting periods beginning or after October 1, 1993, equity capital is no longer allowable for all participating Medicare providers. (See §13503 (c) of OBRA 1993.)

Columns 1

Lines 1 through 63--Enter the year end balance for assets, liabilities, and capital of the chain home office. If the account descriptions do not conform to the accounts used by the home office, the titles must be modified.

The amount on line 39 must agree with the amount on line 63.

Line 64--Enter the equity in assets leased from related organizations. This amount represents the related organization's assets and liabilities related to the assets leased by the chain home office. A supporting schedule must be attached.

Line 65--Enter the home office's proportionate share of allowable equity capital in related organizations. This amount represents the related organization's assets and liabilities which are used in the provision of patient care. A supporting schedule must be attached to Schedule J.

Line 66--Enter the sum of the amounts on lines 63, 64 and 65. This amount represents the total equity capital of the home office.

EXHIBIT 1 - Form CMS-287-05 Worksheets

The following is a listing of the Form CMS-287-05 worksheets and the page number location. Changes to worksheets are indicated by redline on this and the subsequent page for this transmittal. Where only the page number changes, no redlining is indicated.