

CHIA HCF-3 RH INSTRUCTIONS

MANAGEMENT and/or CENTRAL OFFICE REPORT – HCF-3

A management fee is the cost related to a second party overseeing the ongoing operation of all or part of the facility. Whenever management fees are incurred, they should be reported in account 4160.3. Whether or not the expense is claimed for reimbursement, a Management and/or Central Office Report, Form HCF-3, must be filed. Management fees will be disallowed but the allowable costs of the management company/central office as allocated over the managed entities will be added to the reimbursement rate. If more than one management company or central office provides services to the facility, additional HCF-3's must be filed, e.g., HCF-3A, B, etc. Special allocations to certain facilities can be accommodated by combining direct and shared expenses on Schedule 10 of the HCF-3 and putting a footnote on the appropriate HCF-4. All such special allocations must be supported by detailed and well-documented evidence. **HCF-3 cost report includes the balance sheet, profit and loss statement, and allocation of allowable management company expenses. The values reported in the HCF-3 represent the true financial condition of the management company entity and therefore should reflect all the costs of the management company, not net costs after adjustments.** If expenses of the management company/central office have been reported directly on the HCF-4, this should be disclosed in the Footnotes and Explanations section on both the HCF-4 and the HCF-3. The cost report related question on the HCF-3, pg. 6, and in the HCF-4 should be answered affirmatively.

Management Consulting (4160.6) is the cost of a specific identifiable project or task done by an outside vendor. An HCF-3 is not needed if **only** management consulting services are provided.

Certification by Owner, Partner, or Officer

This schedule contains two sections which must be completed and signed off with original signatures by the appropriate people. The first section is to be completed and signed off by the Owner, Partner or Officer and must be the authorized legal signatory for the entity.

Name of Preparer other than Owner, Partner, or Officer

The second section must be completed and signed off by the cost report preparer, someone other than the Owner, Partner, or Officer. If this section does not apply to the entity, please write "N/A" on the designated line for the preparer's name.

Schedule A: Disclosure Information

This schedule is like the Disclosure Information for the HCF-4, except that it is information furnished for the HCF-3 (Management Company or Central Office). If the facility is owned by a corporation or chain, list the name of the corporation under "Last Name". Facilities or related entities that are in a trust must list the beneficial owner under "Last name".

Once the Disclosure Section is complete, please review it for accuracy and have the authorized signatory sign off with original signature at the bottom of page 3.

Proprietorship, Partnership and Corporate Information

This page is used to report the names of the legal owners of the business and to disclose the salary and other compensation paid to owners as well as what accounts were charged. A complete accounting of all disbursements to the Owners, Partners and Officers should be reported here as presented in the examples below. Sole proprietors should report the same amount as reported in the draw account and under no circumstances should any amount be claimed for personal services in an account other than draw.

Sole Proprietorship:

Last Name
 Jones

 First Name
 Fred

 Title
 Circle one:
Owner / Officer / Partner

Account	#2530.0 ¹	# XXX	# XXX	# XXX	# XXX
% Time Devoted	75%	XXX %	XXX %	XXX %	XXX %
Salary	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Employee Benefits	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Payroll Taxes	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Workers' Comp.	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Draw	\$26,000	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Other:	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Other:	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Total	\$26,000	\$ XXX	\$ XXX	\$ XXX	\$ XXX

Partnership:

Last Name
 Smith

 First Name
 Judith

 Title
 Circle one:
 Owner / Officer / **Partner**

Account	#2540.0 ¹	#4110.1	#5115.5	#	#
% Time Devoted	0%	100 %	0%	%	%
Salary	\$ XXX	\$30,000	\$	\$	\$
Employee Benefits	\$ XXX	\$ 3,555	\$	\$	\$
Payroll Taxes	\$ XXX	\$ 2,455	\$	\$	\$
Workers' Comp.	\$ XXX	\$ 575	\$	\$	\$
Draw	\$16,000	\$	\$	\$	\$
Other: <u>Plant Sup</u>	\$ XXX	\$	\$1,500	\$	\$
Other:	\$ XXX	\$	\$	\$	\$
Total	\$16,000	\$36,585	\$1,500	\$	\$

Schedule of Highest Paid Salaries

The names, salaries, and benefits of the three employees who have the highest compensation being claimed on this report must be disclosed in this schedule. This information must be submitted at the time of the cost report filing.

Footnotes and Explanations

This page is used to provide detail to any of the information provided on the HCF-3 report that needs elaboration, explanation, or clarification. Examples of accounts which may need further explanation include but are not limited to: Pension Expense (type of plan, method of funding and vesting criteria); Other Assets (1980.0); Cost Splitting among different accounts; and Rent Expense, except for real property.

SCHEDULES

1: Balance Sheet: The balance sheet accounts in the HCF-3 are like those in the HCF-4. Please refer to the definitions in the HCF-4 instructions.

2: Statement of Profit and Loss:

The HCF-3 has been formatted based on the SNF-CR, Nursing Facility Cost Report, but should still be used if allocating costs to an HCF-4.

Cost category designations are identified beside each cost report account number to help identify the correct cost category of each expense. Please refer to the grid on the next page for cost category classifications. Great care should be taken when reporting the subtotals by cost category classifications.

Expense Classification Code	Expense Description	Subtotal Accounts (Page 14)	Accounts
A & G	Administrative and General	9300.5 9301.5 9302.5	Administration Salaries (9312.1), Administrator-in- Training (9313.1), Administrator (9314.1), Clerical Services (9321.1), Payroll Services/EDP (9322.3), Other Administrative Costs (9323.7), Office Supplies (9325.0), Phones (9331.5), Conventions & Meetings (9338.6), Other Travel (9339.6), Advertising-Help Wanted (9341.5), License and Dues (9345.0), Group Life/Health Ins & Pensions- Admin (9351.6), Group Life/Health Ins & Pension – Other A&G Employees (9351.4), Other Accounting Services (9362.7), Payroll Taxes – Admin (9371.2), Payroll Taxes- Other A&G Employees (9371.4), General Insurance (9377.3), Worker’s Compensation-Admin (9376.2), Worker’s Compensation – Other A&G Employees (9373.4), Miscellaneous Expense (9379.0), Maintenance (9390.0), and Other Property Costs (9391.0)
V	Variable	9300.6 9301.6 9302.6	Q/A Professional (9323.1), Indirect Restorative Therapy (9323.5), Dietician (9323.4), Group Life/Health Ins & Pension – Variable Employees (9351.5), Payroll Taxes- Variable Employees (9371.5), Worker’s Compensation – Variable Employees (9373.5)
F	Fixed	9300.1 9301.1 9302.1 9302.9	Real Estate Taxes (9380.0), Personal Property Taxes (9380.1), Insurance-Building, Improvements, Equipment (9380.5), Long Term Interest (9381.0), Other Fixed (9382.0), Depreciation- Building (9386.8), Depreciation- Improvements (9387.8), Depreciation-HCF Capitalization Improvements (9387.9), Depreciation-Equipment (9388.8), Depreciation-HCF Capitalized Equipment (9388.9), Depreciation-Software/Ltd. Life Assets (9390.8), and Depreciation-HCF Capitalization Software/Ltd. Life Assets (9390.9)
			This space is intentionally left blank.
N	Non-Allowable	9300.4 9301.4 9302.4	Officer/Owner Compensation (9316.1), Director’s Fees (9317.3), Other Management Fees (9321.0), Direct Restorative Therapy (9323.6), Telephone Directory Advertising (9332.6), Motor Vehicle Expense (9336.5), Other Advertising (9342.6), Group Life/ Health, & Life Ins. & Pension-Officers/Owner/Dir. (9351.7), Accounting Appeal Services (9361.3), Legal Services (9366.3), Other Legal (9367.7), Payroll Taxes-Officer/Owner/Director (9371.3), Workers’ Comp.- Officer/Owner/Director (9373.1), Interest on Late Payments, Penalties (9381.5), Interest on Working Capital (9381.7)

There have been many delays in balancing the HCF-3 Report due to mathematical and rounding errors in the submitted reports. The sum of the reported values in the detail accounts often don’t reconcile to subtotal accounts and/or the control accounts by total and cost category and in many cases don’t reconcile to the totals reported on related schedules.

Income

3630.0 Nursing Facilities:

Any non-recoverable income generated from nursing facilities.

3650.0 Other Income:

Any other non-recoverable income.

3650.2- 3650.5 Accounts for Variable (3650.5) and A & G (3650.4) recoverable income have been added. Director of Nurses (account 3650.2), and Fixed Cost Recoverable Income (3650.3) have not changed. These accounts are reported as self-disallowances on Schedule 14.

3600.0 Total Income:

All gross income for the reporting period, which must equal the sum of accounts 3630.0, 3650.0, 3650.4, 3650.5, 3650.2 and 3650.3.

Expenses

9313.1 Administrator-in-Training

This account should be used to report the salaries of Administrators-in-Training who are employed at the management company/central office but work at the facility. The salaries of these employees should be allocated using Schedule 10, Part 4(a).

9314.1 Administrator

This account should be used to report the salaries of Administrators who are employed at the management company/central office but work at the facility. The salaries of these employees should be allocated using Schedule 10, Part 4(b).

9323.5 Indirect Restorative Therapy

This account should be used to report the salaries of Physical, Occupational and Speech Therapists who perform indirect services, as defined by regulations 101 CMR 204.00, directly at the facility. This account should not contain expenses of a manager or a person to whom the therapists report. (Those salaries should be reported as Other Administrative.) This account should not include the costs of any direct services.

9323.6 Direct Restorative Therapy Salaries

This account should be used to report the salaries of Physical, Occupational and Speech Therapists who perform direct services, as defined by regulation 101 CMR 204.00, directly at the facility. The benefits including payroll taxes, group insurance, workers compensation, pension and other for these employees must be self-disallowed.

9382.0 Other

This account must be itemized at the top of page 13. If Real Property Rental is included, a copy of the lease must be on file with the Center. If rent is claimed, an HCF-2-RH must be filed.

9391.0 Other Property Costs

Provide details of this account on Schedule 22. This account should not include rent.

Reported Expenses by Type

9300.1 Total Reported Fixed Costs:

The sum of all fixed ("F") accounts in the Profit and Loss Statement should be reported in this account. Please refer to the expense classification grid for a listing of all the subsidiary accounts related to this control account.

9300.5 Total Reported A & G Expenses:

The sum of all administrative and general ("A & G") accounts in the Profit and Loss Statement should be reported in this account. Please refer to the expense classification grid for a listing of all the subsidiary accounts related to this control account.

9300.6 Total Reported Variable Expenses:

The sum of all variable ("V") accounts in the Profit and Loss Statement should be reported in this account. Please refer to the expense classification grid for a listing of all the subsidiary accounts related to this control account.

9300.4 Total Reported Automatically Disallowed Expenses:

Automatically Disallowed Expenses are expenses that are considered non-allowable for reimbursement purposes. The sum of all the automatically disallowed ("N") accounts in the Profit and Loss Statement should be reported in this account. Please refer to the expense classification grid for a listing of all the subsidiary accounts related to this control account. The individual "N"

account values must also be reported in their entirety in Schedule 13, Detail of Automatically Disallowed Expenses.

9300.0 Total Reported Management Company Expenses:

The sum of the expenses reported in accounts 9300.1, 9300.5, 9300.6, 9300.8 and 9300.4 should be reported in this account.

Non-Allowable Expenses by Type

9301.1 Total Self-Disallowed Fixed Costs:

The total self-disallowed amount in this account is carried forward from Schedule 14, account 9301.1. Refer to the Schedule 14 instructions for the details on how this number is calculated for fixed costs.

9301.5 Total Self-Disallowed A & G Expenses:

The total self-disallowed amount in this account is carried forward from Schedule 14, account 9301.5.

9301.6 Total Self-Disallowed Variable Expenses:

The total self-disallowed amount in this account is carried forward from Schedule 14, account 9301.6.

9301.8 Total Self-Disallowed Director of Nursing Expenses:

The total self-disallowed amount in this account is carried forward from Schedule 14, account 9301.8.

9301.4 Total Automatically Disallowed Expenses:

The total Automatically Disallowed Expenses in this account is carried forward from Schedule 13, account 9301.4. This account must equal account 9300.4.

9301.0 Total Non-Allowable Management Company Expenses:

The sum of the expenses reported in accounts 9301.1, 9301.5, 9301.6, 9301.8 and 9301.4

Adjusted Expenses by Type

9302.1 Total Adjusted Fixed Costs (from Schedule 15):

9302.9 The difference between the total reported fixed costs, account 9300.1, and the total non-allowable fixed costs, account 9301.1 should be reported in this account. The account total must also reconcile with the claimed fixed cost amount in Schedule 15, Detail of Claimed Fixed Costs, account 9302.1 net of any recoverable income and Schedule 10, column H.

9302.5 Total Adjusted A & G Expenses:

The difference between the total reported variable expenses, account 9300.5, and the total non-allowable A & G expenses, account 9301.5 should be reported in this account. The account total must also reconcile with the claimed allocated A & G expenses amount in Schedule 10, columns C & D.

9302.6 Total Adjusted Variable Expenses:

The difference between the total reported variable expenses, account 9300.6, and the total non-allowable variable expenses, account 9301.6 should be reported in this account. The account total must also reconcile with the claimed allocated variable expenses amount in Schedule 10, column F.

9302.4 Total Automatically Disallowed Expenses:

The difference between the total reported automatically disallowed account 9300.4, and the total automatically disallowed expenses, account 9301.4, should be reported in this account. This account must equal zero.

9502.2 HCF-2-RH Operating Expense Add-back (HCF-2-RH Schedule 4)

This amount should be carried forward from the HCF-2-RH, Schedule 4. The account total must also reconcile with the claimed HCF-2 Operating Add-back allocated amount in Schedule 10, column "E".

9302.0 Total Adjusted Management Company Expenses:

Sum of the expenses reported in accounts 9302.1, 9302.5, 9302.6, 9302.8, 9302.4 and 9502.2. This account must also equal account 9300.0 less 9301.0 plus 9502.2.

5: Analysis of Mortgages and Notes Payable

See HCF-4 Instructions. This schedule is like the HCF-4 schedule except that it is information furnished for the HCF-3.

7: Reconciliation of Income per Report with Income per Books

See HCF-4 Instructions. This schedule is like the HCF-4 schedule except that it is information furnished for the HCF-3.

8: Reconciliation of Net Worth

See HCF-4 Instructions. This schedule is like the HCF-4 schedule except that it is information furnished for the HCF-3.

10: Management Company/Central Office Expense Allocation:

The Center recognizes that some companies directly employ or contract the following positions: Director of Nurses, Dietitian, Indirect Restorative Therapist, Quality Assurance Professional, Administrator and Administrator-in-Training. Schedule 10, Parts 2, 3 and 4 allows for add-backs to correspond with existing cost centers.

Schedule 10 must list all the Massachusetts nursing and resident care facilities (also known as "rest homes") managed by this entity. The allocation of costs must be over the management company or central office's businesses. This includes MA and Non-MA facilities (even those facilities which do not claim expenses on their SNF-CR or HCF-4), and all other businesses (MA and Non-MA). Schedule 10 has been carefully designed to accommodate direct expense charges or credits to specific nursing facility or other entity activities. Whenever such direct assignments are necessary, a complete explanation and comprehensive documentation justifying the specific assignment of costs is necessary.

Part 1:

This part represents all the allowable expenses claimed.

Part 1a – This section must list all the Massachusetts nursing and rest homes managed by this entity and the allocation of expenses whether claimed on the nursing or rest homes' respective SNF-CR or HCF-4's.

Part 1b – This section must include the allocation of claimed expenses to non-MA facilities managed by this entity reported in total. A listing of the non-MA facilities and the allocated costs must be attached to the HCF-3.

Part 1c – This section must include the allocation of claimed expenses to the other businesses managed by this entity reported in total. A listing of the other businesses and the allocated costs must be attached. The method used to allocate these expenses must be explained.

Column A – This column is used to allocate the shared variable expenses to all nursing homes, rest homes and other businesses.

Column B – This column is used if this entity allocated certain A & G expenses directly to specific facilities. An explanation must be provided.

Column C – This is the sum of columns A + B. The sum of columns C + E must equal the HCF-3 A & G Allocated Add-back (9960.3) on the HCF-4.

Column D – Administrator /Admin-in-Training Allocation - This column is carried forward from Part 4 of Schedule 10. This column must equal the sum of Part 4, a and b. The sum of Part 1, columns C + D must equal account 9302.5 on Schedule 2.

Column E – The allocated HCF-2 Variable Cost Add-back is reported in this column. This column must agree to account 9502.2 on Schedule 2.

Column F – Variable Expense Allocations - This column is carried forward from Part 3 of Schedule 10. This column must equal the sum of Part 3, a, b, and c. This column must agree to Account 9302.6 on Schedule 2.

Column G – Director of Nurses Allocation - This column is carried forward from Part 2 of Schedule 10. This column must agree to Account 9302.8 on Schedule 2.

Column H – This column is used to allocate the Fixed Expenses from Schedule 15. This column must agree to account 9302.1 on Schedule 2.

Column I – Total Claimed Expenses - This is the sum of columns C + D + E + F + G + H. This column must agree to account 9302.0 on Schedule 2.

Part 2, Director of Nurses:

This part should be completed if the management company/central office employs the Director of Nursing, who works directly on-site at the nursing home it manages. Do not include the manager of the Director of Nursing or the person to whom the Director of Nursing reports. The amount reflected in the total column must also be reported in Schedule 10, Part 1, Column G.

Part 3 (a) Dietitian and (b) Indirect Restorative Therapy (c) Quality Assurance Professional: These parts should be completed if the management company/central office employs or contracts with a Dietitian, Restorative Therapist who performs **indirect** services or Quality Assurance Professional who work on-site at the nursing or rest home. Do not include the expense of the person who manages the Dietitian, Restorative Therapist, or Quality Assurance Professional or the person to whom they report. **Do not** include the cost of any Restorative Therapist that performs **direct** services. The sum of the total columns in Part 3, a, b, and c must also be reported in Schedule 10, Part 1, column F.

Part 4, (a) Administrator-in-Training and (b) Administrator:

This part should be completed if the management company/central office employs the Administrator-in-Training or Administrator, who works directly on-site at the nursing home it manages. Do not include the manager of these positions or the person to whom they report. The sum of the total columns in Part 4, a and b must also be reported in Schedule 10, Part 1, Column D.

13: Detail of Automatically Disallowed Expenses

Automatically Disallowed Expenses are expenses that are considered non-allowable for reimbursement purposes. This schedule begins the process of converting the report to a claim for reimbursement.

Providers must enter all reported values from each automatically disallowed (“N”) account in Schedule 2: The Profit and Loss Statement on the designated lines in Schedule 13. If the provider has nothing to report, then "not applicable: N/A" should be written and the total account 9301.4 set equal to zero. Once completed, the Total Automatic Disallowed Expenses, in Schedule 13 account 9301.4 must also be reported in the same account in Schedule 2: The Statement of Profit and Loss under the “Non-Allowable Expenses by Type” section of the Summary of Expenses.

14: Detail of Self Disallowed Expenses:

This schedule segregates the A & G and Variable Expenses. The Total A & G (9301.5), Total Variable (9301.6), Total Director of Nurses (9301.8) and Total Fixed Expenses (9301.1) must be carried forward to Schedule 2.

This schedule requires the provider to adjust all expenses not automatically disallowed that are not reimbursable under 101 CMR 204.00 or 101 CMR 206.00 including any recoverable income that needs to be offset against claimed expenses. **Negative amounts should only be reported to disallow expense accounts with a negative value or to claim additional Fixed Costs. Do not use this schedule to add-back expenses from regional offices or additional management companies.**

9301.1 For each expense account, the self-disallowed amount is the difference between the gross reported expense in the Schedule 2, Statement of Profit and Loss, and the claimed amount in Schedule 15, Detail of Claimed Fixed Costs. For example, if the amount reported in account 9386.8, building depreciation is \$10,000 and the claimed amount of building depreciation on Schedule 15 is \$5,200, the amount reported in Schedule 14 for account 9386.8 should be \$4,800. If the amount reported in account 9387.8 is \$0 in Schedule 2, and the amount reported on Schedule 15 is \$1,200, the amount reported on Schedule 14 for account 9387.8 should be (\$1,200).

14a: Narrative for Detail of Self Disallowed Expenses

A narrative describing and explaining the method or basis used to determine the self-disallowed amounts reported in Scheduled 14: Detail of Self-Disallowed Expenses must be provided on this page.

15: Detail of Claimed Fixed Costs

Since reported fixed costs are automatically disallowed, this schedule requires the provider to restore **only the allowable fixed costs** to the claim. Great care should be taken with this schedule since this is the basis of your fixed cost reimbursement. Errors and omissions on this schedule cause serious delays in computing rates. The allowable basis is seldom the same as actual cost; carefully review the provisions of 101 CMR 204.00. The starting point of this schedule should be your ending allowable basis from the previous year. Be sure to reflect the additions and deletions previously reported. Your claim for long-term interest including related period expense such as service fees, mortgage insurance, etc. as well as any new allowable Long-Term Debt should reflect all permanent factors calculated on your existing debt as well as any new Long-Term Debt. Make complete disclosure of your allocation methodology to arrive at the amounts attributable to the Massachusetts' Nursing Facilities and Rest Homes and calculations supporting the permanent factor(s) of your new debt in the Footnotes and Explanations section. The claimed fixed costs in Schedule 15 must reconcile with total claimed fixed costs in Schedule 10, Part H.

16: Detail of Clerical Expenses

The total expenses for clerical services must be detailed on this schedule. If the detail provided here does not equal account 9321.1, the report will be returned to the provider. The total amount in this detail must reconcile with the same account in Schedule 2: Statement of Profit and Loss. This information must be submitted at the time of the cost report filing.

17: Detail of Administration Salaries Expense

The total expenses for administration salaries must be detailed on this schedule. If the detail provided here does not equal account 9312.1, the report will be returned to the provider. The total amount in this detail must reconcile with the same account in Schedule 2: Statement of Profit and Loss. This information must be submitted at the time of the cost report filing.

19: Detail of Other Administrative Cost

The total expense for Other Administrative Costs must be detailed on this schedule. The total amount in this detail must reconcile with the same account in Schedule 2: Statement of Profit and Loss.

20: Detail of General Insurance

The total expense for General Insurance must be detailed on this schedule. The total amount in this detail must reconcile with the same account in Schedule 2: Statement of Profit and Loss.

21: Detail of Miscellaneous Expense

The total expense for Miscellaneous must be detailed on this schedule. The total amount in this detail must reconcile with the same account in Schedule 2: Statement of Profit and Loss.

22: Detail of Other Property Costs

The total expense for Other Property Cost must be detailed on this schedule. The total amount in this detail must reconcile with the same account in Schedule 2: Statement of Profit and Loss.

23: Organizational Structure

All management companies must complete this schedule. All documentation supporting the response must be available upon request by the Center.

Please read the EXAMPLE response below before preparing your answer.

24: Additional Information

A brief historical time-line narrative including background, company inception and other notable structural change dates must be provided on this schedule. This schedule is required of all management companies.

EXAMPLE RESPONSE TO SCHEDULE 23

Response to Part 1 & 2:

The provider should attach a copy of the Organization Chart.

Response to Part 3.

- A. No costs are allocated down to ABC Company from the Parent/Owner Corporation.

- B. ABC Company consists of three departments: Accounting, Marketing and Administration. The total combined direct operating costs of the three departments equal \$100,000. Management has determined that only the Accounting Department Expenditures relate to the Health Care Division. Three components exist within the accounting department; Health Care, (which has direct costs of \$10,000) Pooled, (which has direct costs of \$20,000) and Non-- Health Care, (which has direct costs of \$10,000) After thorough analysis, Management has decided that only \$15,000 (\$5,000 of Health Care and \$10,000 of Pooled) in accounting expenditures is allowable for health care reimbursement per regulation 101 CMR 204.00 or 101 CMR 206.00. The \$15,000 of allowable accounting costs will be subject to some reasonable method of allocation in a later step. (See Exhibit 2 for a more detailed explanation of the Accounting Department Allowable Expenditures and Allocation Method.)

- C. Health Care Division: Total direct operating costs consist of \$80,000. Management has concluded (after analysis) that only \$40,000 of the direct healthcare costs is allowable. This expenditure is allocated to our regional offices based on the percentage of total licensed beds in each region. The total licensed beds operated and/or managed equal 12,500. The East Regional Office oversees 5,000 of these beds. Therefore, forty percent (40%) of the Health Care Division's total allowable

cost or \$16,000 has been allocated to the East Regional Office. Based upon some reasonable method of allocation, a portion of the \$16,000 of allowable costs allocated to the East Regional Office will be allocated to the Mass. Nursing Facilities at a later step.

- D. East Regional Office: Total direct operating costs consist of \$50,000. Management has concluded (after analysis) that only \$40,000 of the East Regional total direct operating costs is allowable. This expenditure is allocated based on licensed beds covered by this office. Total licensed beds in the east region are 5,000 with Massachusetts beds accounting for 1,000 of these beds. Therefore, twenty percent (20%) of the East Regional Office's allowable expenditures or \$8,000 has been allocated to Massachusetts facilities.

Massachusetts Regulation Analysis:

A. Parent: None claimed.

B. ABC Company:

1. Accounting Department:

\$15,000 Allowable ABC Management Company Expenses
 $\$15,000 * 50\% = \$7,500$ Allocated to the Health Care Division
 $\$ 7,500 * 40\% = \$3,000$ Allocated to East Regional Office
 $\$ 3,000 * 20\% = \$ 600$ Allocated to Mass. Facilities

2. Health Care Division:

$\$80,000 * 50\% = \$40,000$ Allowable of Health Care Division
 $\$40,000 * 40\% = \$16,000$ Allocated to Regional East
 $\$16,000 * 20\% = \$3,200$ Allocated to Mass. Facilities

3. East Regional Office:

$\$50,000 * 80\% = \$40,000$ Allowable of Regional East
 $\$40,000 * 20\% = \$8,000$ Allocated to Mass. Facilities

Total Allowable Massachusetts Expenditures:

From ABC Mgmt Co./Acctg. Dept.:	\$ 600
From Health Care Division:	\$3,200
From East Regional Office:	<u>\$8,000</u>
Total	\$11,800

This total expenditure which is allowable under Massachusetts regulations is \$11,800. This cost will be allocated to individual facilities such that each licensed bed receives \$11.80 per year since there are 1000 licensed beds in Massachusetts.

Key of Allocation:

1. Allocation percentage of ABC's allowable direct Accounting\Health Care costs to the Division.
2. Allocation percentage of ABC's allowable Accounting\Pooled costs to the Health Care Division.
3. Allocation percentage of ABC's allowable Accounting\Non-Health Care costs to the Division.
4. Allocation percentage of the allowable costs to Regional East.
5. Allocation percentage of the allowable costs to Massachusetts facilities.