

Reminder: The hard copy report along with all supporting documentation and the electronic copy report are due to David Meadows no later than Tuesday, March 1, 2016 by 6:00 p.m. Reports received after this date will not be considered in the following fiscal year's FRV calculation. This includes reports received after the deadline even though they may have been postmarked by the deadline.

Policy Clarifications and Instructions for the Fair Rental Value Report

The following policy clarifications apply to the Fair Rental Value and Pass-Through Data Report (FRV), hereafter referred to as the "report." These policy clarifications are prepared under the Utah Medicaid State Plan, especially Attachment 4.19-D. State Administrative Rule R414-1-5 incorporates the Utah Medicaid State Plan under Title XIX by reference. CMS Pub. 15-1 also provides guidance and support for the report. While these Policy Clarifications and Instructions for the Fair Rental Value Report provide valuable information for completing the report, the Utah Medicaid State Plan and administrative rules will ultimately dictate the preparation of the report.

The report consists of separate FRV and Pass-Through Data components. The FRV component further consists of three types of projects - bed additions, bed replacements and major renovations.

The report is optional. Each nursing home assumes the responsibility to make sure its report, if submitted, is **received** by the Division of Medicaid and Health Financing (DMHF) (aka Division of Health Care Financing), Bureau of Financial Services (BFS) of the Utah Department of Health on or before the first business day of March in the year the report is due.

If no report is received by the BFS or if the report is received late, the nursing home may not be eligible for an FRV rate adjustment for the next fiscal year beginning July 1. A report that is incomplete and/or improperly organized will not satisfy the reporting requirements. Important – if you have questions during the preparation of the report please contact David Meadows at dmeadows@utah.gov or (801) 538-6790.

Policy clarifications for each component and project type follow:

Fair Rental Value Component

General Policy Clarifications for all FRV Project Types

1. There are three separate project types. They are bed additions, bed replacements, and major renovations.

2. The definitions of bed additions, bed replacements and major renovations are mutually exclusive. There is only one correct classification for each project.
3. Bed and/or cost information for any project can only be reported once, in one reporting category and in one FRV reporting period.
4. Only capitalized projects are to be included in the report. All projects with a historical cost of \$5,000 or more and an asset life of two years or more must be capitalized on the nursing facility's general ledger. However, each nursing home may choose to use a lower dollar threshold for capitalization, but the asset must have a useful life of more than one year and must be capitalized on the nursing facility's general ledger. Regardless if a project is paid in full or financed, if the project meets the criteria for a capital asset and is recorded on the nursing home's capital asset schedule, the project can be submitted on the FRV report. **Please note the capitalization criteria must be consistent for FRV and Facility Cost Profile (FCP) reporting.**
5. The capitalization criteria must be used consistently from period to period and can only be changed with proper notice and approval. The grouping of expenses in the fixed asset schedule for capitalization purposes is based on generally accepted accounting principles and CMS Pub. 15-1. The nursing home may use different capitalization policies for financial and/or tax reporting.
However, if separate capitalization policies are used, the nursing home knowingly assumes the additional record keeping responsibilities.
6. For facilities that rent or lease their buildings, an FRV adjustment based on capital expenditures may still be available providing the landlord is willing to supply supporting documentation showing the work satisfies the requirements.
7. All projects must be fully completed, put into operation and subject to depreciation (capitalized) on the nursing home's general ledger/financial statements before being included on the report. There is no interim reporting for FRV purposes as a project is in process.
8. CMS Pub 15-1 Section 104.1, et. seq., identifies and defines the types of assets that are subject to depreciation and are therefore included in the FRV concept, which is a substitute for depreciation. The types of assets are buildings, building equipment, major movable equipment, minor equipment, land improvements and leasehold improvements.

For convenient reference by FRV preparers, Pub. 15-1 Section 104.1 and a few sections that follow are reproduced here in these instructions for the FRV report due March 1, 2016:

“104.1 Depreciable Assets.--Assets that a provider has an economic interest in through ownership (regardless of the manner in which they were acquired) are subject to depreciation. Generally, depreciation is allowable on the assets described below when required in the regular course of providing patient care. Assets which a provider is using under a regular lease arrangement would not be subject to depreciation by the provider. (See §110 on lease-purchase and sale-lease-back agreements.)

“In general, assets subject to depreciation are described in the AHA Chart of Accounts for Hospitals, M-58, 15M-8/66-183305, and for the most part are also subject to depreciation for Medicare purposes. However, see the treatment of minor equipment as described below.

“104.2 Buildings.--Building includes, in a restrictive sense, the basic structure or shell and additions thereto. The remainder is identified as building equipment.

“104.3 Building Equipment.--Building equipment includes attachments to buildings, such as wiring, electrical fixtures, plumbing, elevators, heating system, air conditioning system, etc. The general characteristics of this equipment are: (a) affixed to the building, and not subject to transfer; and (b) a fairly long life, but shorter than the life of the building to which affixed. Since the useful lives of such equipment are shorter than those of the buildings, the equipment may be separated from building cost and depreciated over this shorter useful life.

“104.4 Major Moveable Equipment.--The general characteristics of this equipment are: (a) a relatively fixed location in the building; (b) capable of being moved as distinguished from building equipment; (c) a unit cost sufficient to justify ledger control; (d) sufficient size and identity to make control feasible by means of identification tags; and (e) a minimum life of approximately three years. Major moveable equipment includes such items as accounting machines, beds, wheelchairs, desks, vehicles, x-ray machines, etc.

“104.5 Minor Equipment.--The general characteristics of this equipment are: (a) in general, no fixed location and subject to use by various departments of the provider's facility; (b) comparatively small in size and unit cost; (c) subject to inventory control; (d) fairly large quantity in use; and, (e) generally, a useful life of approximately 3 years or less. Minor equipment includes such items as waste baskets, bed pans, syringes, catheters, silverware, mops, buckets, etc.

“104.6 Land (Non-Depreciable).--Land (non-depreciable) includes the land owned and used in provider operations. Included in the cost of land are the costs of such items as off-site sewer and water lines, public utility charges necessary to service the land, governmental assessments for street paving and sewers, the cost of permanent roadways and grading of a non-depreciable nature, the cost of curbs and sidewalks whose replacement is not the responsibility of the provider, and other land expenditures of a non-depreciable nature. Although land used in the provision of patient care activities is a capital asset, the cost of which is neither depreciable nor amortizable under any circumstances, the historical cost limitations described in §104.10 apply to the valuation of land for purposes of determining allowable interest expense under §§202.1 and 203.

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“104.7 Land Improvements (Depreciable).--Depreciable land improvements include paving, tunnels, underpasses, on-site sewer and water lines, parking lots, shrubbery, fences, walls, etc. (if replacement is the responsibility of the provider).

“104.8 Leasehold Improvements.--Leasehold improvements include betterments and additions made by the lessee to the leased property. Such improvements become the property of the lessor after the expiration of the lease.”

9. All projects must be fully completed within 24 months. For this reason it is necessary to report the start and completion date for each project. Each start and completion date must include the

day, month and year. Supporting documentation must be provided to support the start and completion dates. Supporting documentation may include building permit applications and final building inspection reports.

Specific Policy Clarifications for Bed Addition Projects

The definition of “Bed Addition” is as follows:

“As used in the fair rental value calculation, a capitalized project which adds additional beds to the facility. This is to be new and complete construction. An increase in total licensed beds and new construction costs will support claims of additional beds.” (Section 200, Attachment 4.19-D, Utah Medicaid State Plan)

The following policy clarifications apply to bed addition projects:

1. Cost information must be reported for all bed addition projects. However, the cost only will be used to verify that each project meets the nursing home’s capitalization requirements. For this reason the nursing home will not be required to provide supporting documentation for the reported costs. However, such documentation must be maintained and available for inspection for a period of four years.
2. Report the number of beds added for each bed addition project. A copy of the nursing home license before and after the bed addition should be submitted to support the number of beds added for each project.
3. Provide a brief description of each bed addition project.

Specific Policy Clarifications for Bed Replacement Projects

The definition of “Bed Replacement” is as follows:

“As used in the fair rental value calculation, a capitalized project that furnishes a bed in the place of another, previously existing, bed. Room remodeling is not considered a replacement of beds, rather it is to be new and complete construction. Beds that had been previously banked and have since come back online (i.e. unbanked) are not considered replacement beds.” (Section 200, Attachment 4.19-D, Utah Medicaid State Plan)

The following specific policy clarifications apply to bed replacement projects:

1. Cost information must be reported for all bed replacement projects. However, the cost will be used only to verify that each project meets the nursing home’s capitalization requirements. For this reason the nursing home will not be required to provide supporting documentation for reported costs. However, such documentation must be maintained and available for inspection.
2. Report the number of beds replaced for each project along with the start and completion dates.

3. Provide a brief description of each bed addition project.

Specific Policy Clarifications for Major Renovation Projects

The definition of “Major Renovation” is as follows:

“As used in the fair rental value calculation, a capitalized project with a cost equal to or greater than \$500 per licensed bed...Renovations extend the life, increase the productivity, or significantly improve the safety (e.g., asbestos removal) of a facility as opposed to repairs and maintenance which either restore the facility to, or maintain it at, its normal or expected service life. Vehicle costs are not considered as major renovation capital expenditure items.” (Section 200, Attachment 4.19-D, Utah Medicaid State Plan)

The following specific policy clarifications apply to major renovation projects:

1. The term “Major Renovation Project” can apply to a defined renovation project with a start date and completion date. And, the term can refer to a grouping of capital assets that, when recorded on the FRV forms, meets the 24-month and \$500 per licensed bed tests.
2. Cost information must be submitted for all major renovation projects. The submitted costs will be used to verify that each project meets the nursing home’s capitalization requirements. In addition, the costs will be used to determine the equivalent number of beds used in the FRV rate adjustment. Actual licensed beds are not applicable to major renovation projects, except for use in determining the \$500 per bed threshold.
3. Each nursing home must submit copies of supporting documentation for all the reported costs. It is essential that the supporting documentation be properly itemized, summarized and organized. The supporting documentation must be cross-referenced to the report. Supporting documentation must include an invoice issued by the vendor. The invoice must include a description of the service performed or equipment purchased and the date of service/purchase. Proof of payment must be provided, i.e., a general ledger system generated copy of the check along with a bank statement showing it was paid, an e-mail from the vendor stating the invoice was paid and showing the amount and check number along with a copy of the related bank statement, an electronic copy of the check with indication of payment to the vendor thereon, as well as canceled check or copy of the same, credit card receipt, etc. If more detail is needed to show the work performed, the nursing home may submit items such as a contractor’s work order.
4. In addition to the capitalization requirement there is an additional test for major renovation projects. That is, the cost per licensed bed must be \$500 or more.
5. As the state plan does not provide specific criteria on how to distinguish one capitalized project from another, the nursing home has the flexibility to report capitalized projects separately or to combine capitalized projects together into one or more groupings for FRV reporting

purposes. The choice of how to group projects for FRV reporting is up to the nursing home. However, a capitalized project as per the nursing facility's fixed asset schedule cannot be divided between two FRV projects or project types.

6. The \$500 per licensed bed test and the 24-month test will be applied based on the same grouping scheme. For instance, grouping projects may help in satisfying the \$500 per licensed bed test but may extend the completion time past 24 months, thereby disqualifying the project for FRV rate consideration. It is the responsibility of the nursing home to establish the optimal grouping.

7. Not all costs are eligible to be included in the report and considered in the FRV rate adjustment.

Repair and maintenance costs must not be included on the report because they are not capital costs. Repair and maintenance costs restore the asset to or maintain it at its normal or expected service life. Betterments and improvements extend the life of the asset, increase the productivity, or significantly improve the safety of the asset. Betterments and improvements can be capitalized subject to the rules for capitalization.

Land costs, although usually capitalized, are not to be submitted on the report. The FRV rate adjustment is based on the concept that capital projects result in actual beds or equivalent beds that are used to adjust the age of the facility which in turn affects accumulated depreciation which in turn affects the property rate. Because land has no accumulated depreciation it is not a factor in the FRV rate adjustment. FRV recognizes land, but as a percentage of the building and fixtures value.

Transportation equipment (vehicle) costs are not included in the FRV concept and must not be included in the report.

Cost not related to patient care must not be included in the report.

8. There is also some flexibility as to when to report a project. As previously noted, no project can be reported until it is fully completed. Also, no project can be reported in more than one project type within a given year or in more than one reporting period. However, if a project is complete, and not previously reported, the reporting of the project can be delayed from one FRV reporting period to another in order to accumulate enough dollars to satisfy the \$500 per licensed bed test. That said, the project grouping is still subject to the 24-month test.

Pass-Through Components

Specific Policy Clarifications for Property Taxes and Property Insurance

1. Pass through property tax and property insurance costs are to be reported for the period January 1, 2015 through December 31, 2015. Pass through costs will be taken from the FY2015 FCP for those nursing homes that do not submit the optional report.

2. Only property taxes and insurance costs for **real estate** are to be included in the pass-through component of the report. Property taxes and insurance for transportation equipment are not to be reported.

Instructions for Completing the Report

The report is made up of six schedules:

Schedule 1: Facility Information

Schedule 2: Bed Additions and Replacements

Schedule 3: Major Renovation Details: (MR1, MR2, and MR3)

Schedule 4: Summary of Supporting Documentation and Reconciliation to Schedule 3

Schedule 5: Supporting Documentation Batch Cover Page

Schedule 6: FRV and Pass-Through Summary

The following instructions will assist you in filling out the report. These instructions are based upon the Utah Medicaid State Plan, which State Administrative Rule R414-1-5 incorporates by reference. While these instructions provide valuable information for completing the report, the Utah Medicaid State Plan and administrative rule will ultimately dictate the preparation of the report and the use of the information contained therein.

Schedule 1: Facility Information and Accuracy Certification

On this schedule the owner/officer and preparer certify the reported information is true and accurate with his/her signatures. Complete the contact information for the owner/officer and the preparer at the bottom of the schedule.

Schedule 2: Bed Additions and Bed Replacements

At the top of the form, record the **facility's capitalization dollar threshold** and **licensed beds** as of February 29, 2016. **Whether the facility is reporting a bed addition, bed replacement, major renovation, or just pass through information, those two items must be recorded.** Changes in licensed beds during the reporting period will not be considered.

From the facility's fixed asset schedule, identify all capitalized projects completed during the FRV reporting period March 1, 2015 through February 29, 2016. Determine which of these projects should be reported in the current FRV reporting period and how they should be classified by project type (i.e. bed addition, bed replacement, or major renovation). Bed additions and bed replacements are to be reported on Schedule 2 and major renovations are to be reported on Schedule 3.

Bed Additions and Bed Replacements: Column A contains project numbers used to identify projects throughout the rest of the FRV forms ("BA" stands for Bed Addition, "BR" stands for Bed Replacement). The nursing home should cross-reference their fixed asset schedule with the project numbers from Schedule 2 to aid in auditing. However, a one-to-one relationship won't always exist between a facility's fixed asset schedule and Schedule 2. For example, a facility might have multiple line items on their fixed asset schedule that refer to only one bed addition or bed replacement on Schedule 2.

In Column B write a brief description for each capitalized project. In Column C report the project start date. In Column D report the project completion date. In Column E list the dollar amount capitalized for each project. In Column F record the number of beds added or replaced. Column G is self-calculating.

Schedule 3: Major Renovation Details: (MR1, MR2, & MR3)

There are three major renovation sheet tabs: Major Renovation 1, Major Renovation 2, and Major Renovation 3. You can list all the individual expense items that make up a “project” on one sheet tab. Or you can choose to group additional expense items as a “project” on the next Major Renovation sheet tab. If you need to add an additional Major Renovation sheet tab, you can do so by copying and pasting a blank form onto a new sheet tab. Be sure to number any additional Schedule 3 forms in consecutive order. For example, the first added schedule would be “Major Renovation 4.” Remember, each sheet tab represents a grouping for applying the 24-month and \$500-per-licensed-bed tests.

Column A has line item numbers from 1 to 70 (contact David Meadows to add more rows if necessary). In Column B write a brief description of the capitalized cost. In Column C record the start of the cost. In Column D record the completion date of the cost. In Column E record the amount. Columns F-I are for use by the Division of Medicaid and Health Financing auditors.

Schedule 4: Summary of Supporting Documentation and Reconciliation to Schedule 3

The purpose of this form is to provide a consistent and organized link between Schedule 3 line items and the related supporting documentation.

In Column A list the major renovation number from Schedule 3. In Column B list the line item number from Schedule 3.

In Column C enter the vendor’s name. In Column D check if the vendor is a related company. In Column E enter the total dollar amount on the supporting document. In Column F enter the dollar amount (if any) that is not applicable to the line item on Schedule 3. Column G is self-calculating. In Column H write the applicable Batch Cover Page Number to be transferred to Schedule 5. The major renovation number from Column A and the line item number from Column B will also be transferred to Schedule 5.

The total of all line items from all the Schedule 3’s must agree to the total amount reported in Column G. If the variance is greater or less than zero, there is a problem. Do not submit this form until the variance is zero.

Schedule 5: Supporting Documentation Batch Cover Page

The Batch Cover Page provides a reference between the Supporting Documentation and Schedules 3 and 4. At least one of these sheets must be completed for each line item on Schedule 3. The supporting documentation must be submitted in **chronological order** for each major renovation.

The format and the instructions for Schedule 5 have changed. The numbering must now include: a) the major renovation # from Schedule 3, also found in Column A on Schedule 4; b) the line item number from Schedule 3, also found in Column B on Schedule 4; and, c) the batch number from Column H on Schedule 4. Write these numbers on the batch cover page. Write the line item number on all the supporting documents for that particular line item. Staple the Batch Cover Page on top of each batch of supporting documents.

Supporting documentation must include an invoice issued by the vendor. The invoice must include a description of the service performed or equipment purchased and the date of service/purchase. Proof of payment (i.e. canceled check, credit card receipt, summary of electronic draws from a bank, an e-mail *from the vendor* stating the invoice was paid in full along with the amount and number of the check, together with the related bank statement, etc.) must be provided.

Schedule 6: FRV and Pass-Through Summary

The top two-thirds of Schedule 6 summarizes bed additions, bed replacements, major renovations, and licensed beds from preceding schedules.

On the middle right, record your facility's square footage applicable to nursing facility services and any square footage applicable to non-nursing facility services such as assisted living, residential care, and apartments. Also, record the accrued expense for real estate property taxes and real estate property insurance from January 1, 2015 to December 31, 2015. Even if you rent your facility, you can report the property tax and insurance paid by your landlord (providing he/she is willing to disclose that information).

At the bottom of the schedule in Column C, record the patient days by source of payment (i.e. Medicaid, Private, etc.) for the period January 1, 2015 to December 31, 2015. The patient days by source of payment should closely match the days you reported on the Patient Day Assessment monthly reports (Jan.-Dec. 2015).

Submitting the Report:

After completing the forms, save the file and submit an electronic copy to dmeadows@utah.gov and mail one hard copy including all of the supporting documentation to:

(Via U.S. Mail)

Attn: David Meadows
Utah Department of Health
Division of Medicaid and Health Financing
Bureau of Financial Services
P.O. Box 143104
SLC, UT 84114-3104

(Via UPS or FedEx)

Attn: David Meadows
Utah Department of Health
Division of Medicaid and Health Financing
Bureau of Financial Services
288 North 1460 West
SLC, UT 84116