

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

A. INTRODUCTION AND CONCEPTS

This chapter discusses the overall concepts, principles and other factors involved in the preparation and submission of financial and statistical information for the uniform financial reporting program for nursing homes in New York State. Uniform reporting is defined as the identification and reporting of all financial and related statistic data in a uniform manner consistent with the definitions set forth in the Manual.

All nursing homes in New York State will be required to adopt the policies, methodologies and practices presented in this manual in preparing and submitting their uniform reports to the State.

The revenue and expense portion of uniform reporting includes:

alignment and classification of revenue and expense on a functional (activity) basis, rather than organizational unit;

application of a uniform standard unit of measure to the functional reporting center for an expression of revenue or expense per unit of activity;

cost finding involving the systematic allocation of expenses on a statistical basis between centers which serve or are directly related to the activity performed in another center.

Specific instructions and reporting forms are presented in Chapter VII of this manual. This chapter presents overall policy guidelines, definitions

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

INTRODUCTION AND CONCEPTS (Cont'd)

of the functional revenue and expense reporting centers and standard units of measurement for the identified centers.

The cost finding methods including segregation of costs and statistical bases for allocation are discussed in the next chapter of this manual.

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

B. POLICY GUIDELINES FOR FUNCTIONAL REPORTING

OVERALL POLICY

In developing the uniform reporting system to be submitted to the New York State Department of Health, there were a number of policy decisions reflective of the reporting requirements.

First, nursing homes must follow the uniform accounting policies and practices as specified in the Accounting Principles, Concepts and Specialized Areas Chapter (Chapter 1) of this manual. Items such as methods of capitalization and depreciation of assets and direct charging of maintenance repairs, and payroll related benefits to using centers are examples of important policies which must be adhered to for the uniform financial report.

Secondly, the principles and concepts utilized in the preparation of the uniform financial report will be based upon a portrayal of the activities on a functional basis regardless of third-party reimbursement practices. The uniform financial report for the State Department of Health has not been designed for reimbursement purposes. Supplemental reimbursement reporting forms and instructions will be utilized for submission with individual cost reports to appropriate third-party reimbursement organizations.

The third key policy affecting the preparation of the uniform financial reporting is the requirement that costs will be measured at a level where uniformity can be obtained and a standard statistical measurement applied.

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

POLICY GUIDELINES FOR FUNCTIONAL REPORTING (cont'd)

For purposes of reporting, it was determined that standard units of measure would not be applied to certain nonrevenue or general support services; however, their total cost would be identifiable. The application of standard units of measure for some support services and ancillary revenue centers and all program centers would occur at the direct cost level. Standard units of measure may also be applied to support services, ancillary revenue, and program service centers after cost allocation.

Uniform financial reporting for revenue and expense categories are divided into three categories, as follows:

- nonrevenue support services centers - includes those cost centers which do not normally produce patient service revenue and which tend to support the activities and services provided by the patient care services or special education, research of auxiliary programs. Cost centers representing functions not necessarily associated with services would also be included in this category, such as insurance, etc.
- ancillary service centers - includes those cost centers which provide diagnostic and treatment services for inpatient and outpatient care.
- program and auxiliary service centers - includes those patient care, education, research and auxiliary programs for which the nursing home is ultimately organized to provide. All effort within the institution is ultimately related to these final program centers.

CONVERSION FROM RESPONSIBILITY TO FUNCTIONAL REPORTING

A fundamental aspect of the uniform financial reporting program is the portrayal of revenue and expenses on a functional basis rather than following the organizational pattern of the specific nursing home.

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

POLICY GUIDELINES FOR FUNCTIONAL REPORTING (Cont'd)

The need for uniform functional reporting practices occurs from the fact that homes will identify costs and revenue according to responsibility centers; that is, the reporting of costs according to the operating units such as departments. Because of the significant variation of the size and scope of nursing homes, there may be variation in the assignment of costs within each chart of accounts. Therefore, for uniform functional reporting of revenue and expenses there may be a need for reclassifications to convert costs from the responsible reporting format to a functional reporting format. Functional reporting may be defined as the reporting of costs according to the type of activities.

The design of the chart of accounts has been undertaken to define accounts and sub-classification elements that will allow minimum conversion from responsibility to functional reporting. However, it is recognized that certain homes will be required to reclassify certain revenue and expenses to meet the specifications for uniform reporting. Without this conversion from responsibility to functional reporting, nursing homes would not be reporting costs in a uniform manner, thus defeating the purposes of the uniform financial reporting requirements within the State.

To achieve uniform functional reporting, all homes will be required to reclassify revenue, expenses and statistics according to the definition of the functional centers discussed in the last section of this chapter.

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

POLICY GUIDELINES FOR FUNCTIONAL REPORTING (Cont'd)

Reclassifications, as discussed in this manual, are of two types:

1. To obtain the required level of reporting.
2. To correct accumulation of costs.

The first type of reclassification may be necessary to reach the required level of reporting because the home has combined several departments. For instance, smaller homes may be combining the costs of housekeeping and maintenance in one cost center. In such cases, it is necessary to reclassify the total direct costs into the cost centers relating to these two types of services.

The second type of reclassification, to correct the accumulation of costs, would be necessary when the expense associated with a particular function is recorded in a cost center different from the functional description specified in this manual. For instance, a reclassification would be required if the Dietary Department recorded the costs associated with hand-feeding of patients, because these costs should have been recorded in the nursing cost center relating to that patient program.

These reclassifications may be computed on any one of the following bases:

1. Analysis of direct expense including time and cost studies.
2. Ratio of total charges to charges of a specific cost center.
3. Ratio of total units of service to units of service reclassified in a specific cost center.

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

POLICY GUIDELINES FOR FUNCTIONAL REPORTING (cont'd)

It should be noted that reclassification must be made for significant amounts of misplaced costs. Significant is defined, for the purposes of this Manual, as an amount in excess of:

- one full time equivalent employee within the functional center transferred to or from for salary costs, or
- 10% of the direct costs or \$1,000, whichever is greater of the functional center transferred to or from for other than salary costs.

For the purposes of this Manual, an estimate can be utilized to determine the limitation for salary costs. This estimate should be based on an approximation of one employee's total paid working hours during the year, e.g., 2000 hours representing one full-time employee.

In accordance with the above significance criteria, the determination of the necessity for reclassification of salary costs may be made based on time studies. A time study must be made of employees who are performing activities related to more than one function. Time studies would be performed for such employees for a two-week period per quarter, for all four quarters in a year. The time study would result in a percentage of employees' hours worked, by function, to total hours worked. These percentages would, for each quarter, be applied to total hours paid for the same employees to arrive at hours paid by function. The results would be totaled for all four quarters and then compared to the estimate of one full time equivalent of 2000 hours to determine whether or not a reclassification is required.

It is important to note that the test of significance indicated above does not apply to the Interdepartmental Services described on pages 1300-1312.

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

POLICY GUIDELINES FOR FUNCTIONAL REPORTING (cont'd)

These allocations, including physician salaries and fees, must be properly classified as indicated. Also, in determining the segregation of costs between the Cafeteria and Patient Food Service Reporting Centers where joint kitchen facilities are used, the criteria described in those functional reporting centers (pages 2339-2340 and 4319-4322) are to be utilized.

NOTE: When reclassifying full-time equivalent employees between cost centers, non-work hours, i.e., vacation, sick pay, etc. will be reclassified.