



COMMUNITY BENEFIT REPORTING BY TAX-EXEMPT HOSPICES IN FINANCIAL STATEMENTS

Significant discussion is occurring throughout the healthcare industry and accounting firms serving healthcare providers regarding the practice of reporting charity care, and more extensively, reporting community benefits in the financial statements of these healthcare providers.

Key Issues Under Discussion:

- Appropriate identification of charity care versus contractual adjustments versus bad debts
- Reporting charity care in the disclosures to the financial statements at cost of charity care rather than at foregone charges
- Reporting Medicaid reimbursement shortfall compared to expenses incurred
- Determination of the costs of charity care

The appropriate reporting of charity care is important to presenting financial operations and community benefit to support mission, as well as tax-exempt status. We encourage your comments as healthcare providers regarding any thoughts relating to the charity care process, reporting and other issues deemed worthy of consideration. The Health Care Expert Panel of the American Institute of Certified Public Accountants has spent considerable effort regarding these issues. If you want to follow activities relating to these and other issues affecting healthcare providers, visit www.aicpa.org and go to Accounting Standards, Industry Panels, and Healthcare. Submit any comments regarding reporting community benefit reporting to:

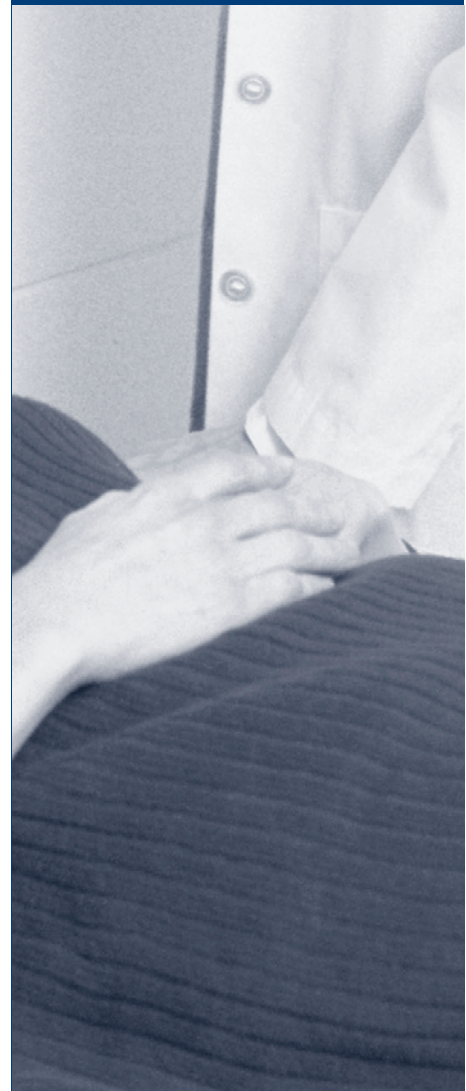
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UPCOMING NATIONAL HOSPICE EDUCATIONAL PROGRAMS

The following hospice education programs are scheduled over the next few months. We encourage all hospices to be informed and, accordingly, some of these programs may be appropriate for you.

NATIONAL HOSPICE AND PALLIATIVE CARE ORGANIZATION (NHPCO)

NHPCO's 1st National Conference on Access to Hospice and Palliative Care – Opening Doors, Building Bridges

August 1-3 — Hyatt Regency in St. Louis, MO

20th Management and Leadership Conference – Leading with Passion: Revolutionizing End-of-Life Care *

September 22-24 — Westin Diplomat Hotel, Hollywood, FL
Information: www.nhpc.org

NATIONAL ASSOCIATION FOR HOME CARE AND HOSPICE (NAHC)

2005 Financial Management Conference and HOMECARExpo*

July 20-22 — Sheraton San Diego Hotel and Marina, San Diego, CA

2005 Annual Meeting and HOMECARExpo*

October 22-26 — Washington State Convention & Trade Center, Seattle, WA
Information: www.nahc.org

** Dixon Hughes PLLC will be exhibiting at these programs. Please stop by our booth and visit.*

WATCHING THE SENATE FINANCE COMMITTEE: TAX-EXEMPT ENTITY ISSUES

The Senate Finance Committee is looking into tax-exempt entities and increased accountability by these entities. Issues under consideration include:

- Requiring audits for all tax-exempt entities with revenues in excess of a threshold amount (\$2,000,000 has been suggested),
- Requiring oversight of Executive Compensation,
- Requiring the establishment of Audit Committees,
- Re-evaluation of tax-exempt status every five (5) years,
- Increased penalties for late filing and inaccurate filing of Form 990, and
- Public disclosure of audited financial statements.

We will continue to update you on developments relating to these matters.

NETTING MEDICAID BILLINGS FOR ROOM AND BOARD AGAINST PAYMENTS TO NURSING HOMES

The income statements (for-profit entities) and statements of operations (tax-exempt entities) of many hospices reflect net expenses for room and board in reporting expenses. Unfortunately, this presentation is not supported by generally accepted accounting principles. It's also not supported by an understanding of the transactions conducted between hospices and the Medicaid program or the transactions between hospices and nursing homes.

The extent of Medicaid billing for nursing home room and board and of nursing home payments is significant to the appropriate reporting of these revenues and expenses by the hospice. In fact, hospices are reporting up to 50% of their entire patient population as residents in nursing facilities. The revenues and associated expenses relating to these transactions are extremely significant to the financial statement presentation of the hospice.

Many hospices consider the receipt of monies from the Medicaid program for room and board and the subsequent payment to nursing homes, based on existing contracts, to be a type of pass-through; however, this does not reflect the substance of these transactions.

Hospices clearly need to reassess reporting for Medicaid room and board billings and payments to nursing homes on a contract basis. Dixon Hughes PLLC has prepared a complimentary summary of reporting room and board revenues and associated expenses which is available upon request. To receive your complimentary copy, email mpringle@dixon-hughes.com and ask for the special report on reporting room and board billings and payments.

POVERTY GUIDELINES UPDATED BY DEPARTMENT OF HEALTH AND HUMAN SERVICES

Many hospices provide charity care determined using HHS Poverty Guidelines. On February 18, 2005, the Department of Health and Human Services updated these guidelines. The published guidelines are as follows for the continental United States:

Persons in family unit	Poverty guideline
1	\$ 9,570
2	\$12,830
3	\$16,090
4	\$19,350
5	\$22,610
6	\$25,870
7	\$29,130
8	\$32,390

Hospices may elect to consider these changes in their charity care policies.

OIG HOSPICE INVESTIGATIONS

Eli's Home Care Week recently reported that the Office of Inspector General of the U.S. Department of Health and Human Services (OIG) has subpoenaed hundreds of patient records from hospice chain VITAS Healthcare Corp. It is reported that the probe relates to alleged failure to appropriately bill Medicare and Medicaid for hospice services. This probe comes on the heels of the U.S. Department of Justice investigation of Odyssey HealthCare, Inc. Eli's Home Care Week warns hospices that the high-profile expansion of hospice services and profitability of these providers has caused fraud and abuse concerns that could impact smaller hospice providers in the future.

HOSPICE NEWS: IN CONTEXT

Hospice News: In Context is a quarterly publication intended for Administrators, CEOs, CFOs, accounting personnel, compliance officers and clinical management personnel at hospice providers. The publication is intended to:

- Highlight current developments relating to financial and compliance matters for hospice providers
- Address cost reporting issues for providers
- Notify providers of educational offerings for hospice personnel
- Provide informative, although limited, discussion of topics of interest in the management of hospice providers

The newsletter is intended to benefit all types of hospice providers, whether they be free-standing, hospital based, home health agency based, tax-exempt, proprietary, or governmental.

Other providers that deal continuously with hospice providers, such as nursing homes, home health agencies, physicians or hospitals may also find the newsletter of benefit to them. It may also be of benefit to Board members or others responsible for oversight of the activities of a hospice. If you desire others to receive a copy of this newsletter, do not hesitate to contact us.

Your comments regarding this newsletter, including ideas for future topics, are also appreciated.

LOCATIONS

Alabama

Birmingham 205.212.5300

Georgia

Atlanta 404.575.8900

North Carolina

Asheville 828.254.2254

Boone 828.262.0997

Burnsville 828.682.2876

Charlotte - Southpark 704.367.7020

Charlotte - Uptown 704.334.3600

Durham 919.484.0630

Greensboro 336.275.4578

Greenville 252.321.0505

Hendersonville 828.692.9176

High Point 336.889.5156

Raleigh 919.876.4546

Rockingham 910.895.4014

Salisbury 704.636.9090

Sanford 919.776.0555

Southern Pines 910.692.8555

Sylva 828.586.6200

Thomasville 336.889.5156

Winston-Salem 336.714.8100

South Carolina

Greenville 864.288.5544

Spartanburg 864.583.5800

Tennessee

Memphis 901.684.2277

Brentwood/Nashville 615.312.8272

Texas

Dallas/Fort Worth 817.276.4100

West Virginia

Clarksburg 304.622.0804



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IRS READY TO BEGIN INQUIRIES INTO TAX-EXEMPT EXECUTIVE COMPENSATION

The IRS announced in February that it expects to contact 1,784 tax-exempt organizations and make inquiries regarding the process by which compensation is established for highly compensated individuals. The letters to be sent by the IRS focus on compensation but also seek information regarding loans and excess benefit transactions.

This effort is a follow-up of the initiative announced in August 2004 as part of the Tax Exempt Compensation Enforcement Project. According to Mark W. Evans, IRS Commissioner, "We are concerned that some charities and public foundations are abusing their tax-exempt status by paying exorbitant compensation to their officers and others."

The project will focus not only on compensation, but also loans and other transactions between the tax-exempt entities and officers and other insiders.

DON'T FORGET: HOSPICE COST REPORTS TO BE SUBMITTED ELECTRONICALLY

For cost reporting periods ending on or after December 31, 2004, all hospices must submit cost reports currently required under the Medicare regulations in a standardized electronic format. During a two-year phase-in period that ends on May 31, 2007, a paper copy of the cost report must be submitted along with the electronic version. The paper copy of the cost report will be considered the official copy during the phase-in period. No electronic versions will be rejected during the phase-in period; however, providers will be notified of problems in the electronic submission.

Ted Cuppett will be a featured speaker at the upcoming HEALTHCARE INDUSTRY MERGERS & ACQUISITIONS INSTITUTE, to be held July 21 – 22 in the AICPA Boardroom in New York City. Register toll-free at 866.265.1975 or online at www.northstarconferences.com. Seating is limited, so register today.

Would You Like to Continue Receiving this Publication?

We hope this issue of *Hospice News: In Context* has been helpful to you. To help us keep our mailing list updated, please take a moment to confirm that you would like to continue receiving this publication. We would also welcome the opportunity to answer your questions and discuss your needs. Just fill in and fax this response form to **Margie Pringle** at **304.622.2215** or e-mail your contact information including your name, title and e-mail address to **mpringle@dixon-hughes.com**.

Express Response Form

Please keep my name on your mailing list: Yes No

Please call me at () _____ to arrange an appointment.

I would like more information about your services for hospice programs:

- | | | |
|--|--|---|
| <input type="checkbox"/> Cost Reporting | <input type="checkbox"/> Financial Feasibility Studies | <input type="checkbox"/> Mergers and Acquisitions |
| <input type="checkbox"/> HIPAA | <input type="checkbox"/> Billing Issues | <input type="checkbox"/> Board Issues |
| <input type="checkbox"/> Strategic Business Planning | <input type="checkbox"/> Corporate Compliance | <input type="checkbox"/> Educational Programs |

I would like more information about the other services you offer, especially those relating to:

- | | |
|--|---|
| <input type="checkbox"/> Audit Services | <input type="checkbox"/> Financial Planning |
| <input type="checkbox"/> Tax Services | <input type="checkbox"/> Retirement Plan Administration |
| <input type="checkbox"/> Management Consulting | <input type="checkbox"/> Technology Solutions |

Has this issue of our newsletter been helpful to you? We would love to have your input:

- I would rather receive *Hospice News: In Context* via e-mail [be sure to include your e-mail address below]
- I would like to receive a free e-mail subscription to your bi-weekly **OIG Update**. [be sure to include your e-mail address below]
- I would like you to add the following to your subscription list:

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