



RECOGNITION OF INVENTORIES OF THRIFT STORE OPERATIONS

Many hospices operate thrift stores to generate revenues (contributions) to support hospice activities. Generally, these thrift stores receive contributed merchandise, which is then sold to the general public at prices equal to or less than fair market value. The revenue (contribution) and expenses recognition is not always in compliance with generally accepted accounting principles. The following is provided to assist hospices in their accounting for thrift store activities.

Contributed Inventories

Donated inventory should be recorded as unrestricted contributions and as inventory in the period received at fair value. In those cases where the hospice receives inventory items of material value, such as furniture, the value of the contributed item is generally supported by documentation provided to the donor at the time of the contribution. This allows for periodic physical inventories to be taken supporting the amount carried as inventory.

Items donated that have no value should not be recognized. Such items would include donated clothing of little or no value—clothing that will either be discarded or sold at such a minimal amount as to not justify valuation.

Financial Reporting

Many hospices report contributions of merchandise as sales at the time that the sale actually occurs. In fact, the hospice should report contributions when the merchandise is received, recognizing the sale when such occurs, and also recognizing the cost of sales at the time of the sale. The result will generally be that the thrift store reports a break-even amount or a loss on sales if the fair market value originally recorded is not realized at the time of sale. Accordingly, the sale actually brings the contribution to reality (cash).

Internal Control Considerations

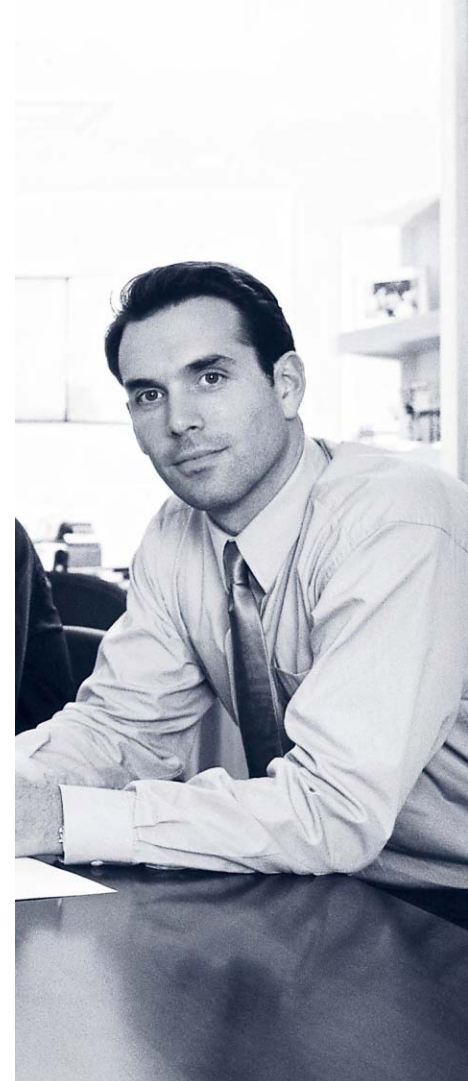
The extent of internal control efforts by the hospice will be largely dependent on the extent of the thrift store activities and the merchandise handled. If these activities are significant, hospices should carefully consider establishing internal controls to monitor receipt, recording and physical safeguarding of the inventory. Depending on the extent of thrift store activities, the following should be considered:

- 1) Pre-numbered receipts to track contributed items,
- 2) Tagging inventory items which are traceable to fair market values assigned, and
- 3) Periodic physical inventories to more accurately determine cost of sales and to better identify inventory losses from mishandling or other events.

In reality, thrift store activities are not dissimilar to other retail outlets and, if considered in the same manner, reporting and controlling such activities receive better focus.

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MAKE CERTAIN YOU ARE FAMILIAR WITH THESE CHANGES IMPLEMENTED BY CMS

Application of Wage Index – Effective October 1, 2005, the hospice wage index will use Core-Based Statistical Areas (CBSAs) instead of the Metropolitan Statistical Areas. However, the implementation will occur over a two-year period. Accordingly, the wage index for the period of October 1, 2005 through September 30, 2006 is a blended rate of 50 percent of the wage index under the previous MSA and 50 percent of the wage index from the CBSA. Hospices will experience the full impact of the conversion to CBSA beginning October 1, 2006.

Nurse Practitioners – Nurse practitioners are added to the definition of “attending physician” for purposes of certifying that a patient has a terminal illness.

Arrangements With Other Hospices – Circumstances in which a hospice program may enter into an arrangement with another hospice program include extraordinary, exigent or other non-routine circumstances such as unanticipated periods of high patient loads, staffing shortages or temporary travel of a patient outside a hospice program’s service area.

Other Changes – On November 22, 2005, CMS released the final rule regarding hospice care amendments. The rule is intended to expand hospice benefit periods, improve documentation requirements, provide guidance on admission and discharge procedures and update coverage and payment requirements.

OFFICE OF INSPECTOR GENERAL – 2006 WORK PLAN

The Office of Inspector General of the U.S. Department of Health & Human Services (OIG) has released its Fiscal Year 2006 Work Plan. The following are among the project areas that specifically identify hospice providers.

Oversight of Hospice Providers – The OIG will determine to what extent the U.S. Centers for Medicare and Medicaid Services (CMS) ensures that hospice providers meet Medicare quality of care standards. Medicare hospice expenditures increased from \$3.5 billion in 2001 to almost \$6 billion in 2003. The OIG will examine what hospice oversight activities are performed, what hospice performance information is maintained by CMS, and to what extent CMS utilizes information to track hospice performance, including quality of patient care.

Hospice Payments to Nursing Facilities – The OIG will determine the accuracy of hospice payments for services for dually eligible patients/residents residing in nursing facilities. OIG’s previous work in this area indicated that nursing home hospice patients received nearly 46 percent fewer nursing and aide services from hospice staff than did hospice patients living at home. The OIG also raised concerns about the appropriateness of the arrangements hospices have with nursing facilities to provide services. They plan to examine the services provided by hospices as well as by nursing homes to discover if there are any overlaps in these services, and if so, identify any duplication in reimbursement by Medicare hospice and Medicaid.

While not a new recommendation, hospices should make certain that nursing home contracts are reviewed by legal counsel and that any payments in excess of 100 percent of the routine room and board payment are adequately documented regarding the nature of the services provided by the nursing home entitling them to the extra reimbursement. Additionally, hospices should carefully monitor state regulations, policies, and procedures relating to billing and responsibility for patient resource collection.



IRS ISSUES DRAFT REVISED EXEMPT ORGANIZATION TAX FORMS

In its continuing effort to focus on tax-exempt entities, the IRS has related its first revisions to Form 990. Although the instructions to the draft forms have not been published, the IRS has issued draft revisions to certain exempt organization income and informational reporting forms for public comment.

Form 990 (Long form)

No draft revisions in place.

Form 990EZ (Short form for organizations with less than \$100,000 in gross receipts and less than \$250,000 in total assets)

Changes noted:

- 1) The form been expanded to 3 pages from 2.
- 2) The only additional information now requested relates to whether the organization maintains bank accounts in a foreign country and whether the organization has an office in a foreign country.

Schedule A

Changes noted:

- 1) Disclosure of highest-paid independent contractors making over \$50,000 has been expanded from disclosing the five highest paid to disclosing in two sections the five highest paid for professional services as well as the five highest paid for other nonprofessional services.
- 2) An additional question has been added regarding whether the organization has received any contributions of real property interests for conservation purposes.
- 3) If the exempt organization is organized as a supporting organization to other publicly supported exempt organizations under Section 509(a)(2), it must now disclose the type of primary relationship as one of the following:

Type 1 - the reporting organization is operated, supervised or controlled by the supported organization.

Type 2 - the reporting organization is supervised or controlled in connection with the supported organization.

Type 3 - the reporting organization is operated in connection with one or more publicly supported organizations.

Schedule B

No changes noted.

Form 990T

Formatting changes only.

HOSPICE CARE NEWS: IN CONTEXT

Hospice Care 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 336.383.5200

Greenville 252.321.0505

Hendersonville 828.692.9176

High Point 336.889.5156

Raleigh 919.876.4546

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

Texas

Dallas/Fort Worth 817.276.4100

West Virginia

Clarksburg 304.622.0804

To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code.



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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MEDICARE PROGRAM INTERMEDIARY COST REPORT SETTLEMENT PROCEDURES UPDATED

On November 16, 2005, the U.S. Centers for Medicare & Medicaid Services (CMS) issued Transmittal 84, which provides revised instructions on procedures for provider audits, among other things.

Specifically, the following instructions are provided:

"CMS expects that you settle, i.e., issue a Notice of Program Reimbursement (NPR), on all cost reports that are not scheduled for audit within 12 months of acceptance of a cost report, unless you have a documented reason why the cost report cannot be settled."

Of Specific Interest to Hospices

Many hospices have never received an NPR on a submitted cost report. Additionally, audits of hospice provider cost reports have been extremely few. However, the revised instructions do not appear to make any exception for the issuance of an NPR. Additionally, the Medicare program intermediary is required to submit an extract of Hospice Cost Reports, which pass all Level One electronic cost report edits. Hospices should make certain that cost reporting efforts meet their cost reporting obligations.

Cost Reporting Education

Health Services Publishing & Management, an activity of Dixon Hughes PLLC, is conducting its two-day program, Comprehensive Hospice Cost Reporting, on January 9 – 10, 2006 at the Sirata Beach Resort, St. Pete Beach, Florida. Additional information and registration can be made at www.healthspm.com or by contacting Mrs. Margaret Pringle at 800.543.9811.

NEWLY FORMED HHFMA

The National Association for Home Care and Hospice (NAHC) has created the Home Care & Hospice Financial Managers Association (HHFMA). For many years NAHC sponsored an informal Financial Managers Work Group, which brought together experts in the field of finance and management along with key executives in the home care and hospice industry. The creation of HHFMA shows a recognition of the importance of financial direction and input regarding industry issues.

We encourage you to look at the opportunities and benefits from initial Charter membership in this organization. For additional information contact Debi Blanken, Manager of NAHC Membership Services, at drm@nahc.org, or call her at 202.547.7424.