



Office of Statewide Health Planning and Development

**Healthcare Information Division**

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January 13, 2010

To: Primary Care Clinic OSHPD ALIRTS Account Administrator  
And Other Interested Parties

**Re: Primary Care Clinic Technical Bulletin No. 2009-1**

This technical bulletin was developed by the Office of Statewide Health Planning and Development (OSHPD) to clarify reporting requirements on the 2009 Annual Utilization Report of Primary Care Clinics. The following are answers to questions that arose during the year and should provide general guidance for completing the report.

**DEFINITIONS:**

Patient Encounter

**Question:**

**If a patient sees another health care provider such as a podiatrist or an optometrist that the doctor at the clinic referred the patient to, does that visit count as an encounter?**

**Answer:** A patient visit to an out-of-clinic health care provider can be recorded as an encounter if:

1) The patient visit meets the usual criteria for an encounter (i.e. face-to-face visit with a health care professional, the professional is licensed, the professional exhibits independent judgment and the encounter is recorded in a patient chart);

AND

2) The encounter meets one of the following criteria:

- a) The clinic assumes full risk under an HMO - the clinic must pay the full amount of the bill, OR
- b) In the case of dental services, the clinic is a new start-up that does not have a dental facility but is required to provide dental services as part of



their start-up requirements. In such cases the clinic must purchase dental services on the market to meet the start-up requirements.

**Question:**

**If a patient sees a specialist such as a radiologist, does that visit count as an encounter?**

Answer: A visit to receive specialty services (such as x-ray, MRI or laboratory) is not considered an encounter. However if the cost of the service is paid by the clinic, it should be recorded as an expense on Section 7, Line 34 – “Outside Patient Care Services”.

**Question:**

**The primary care providers such as counselors from a clinic make home visits to see patients. Should those home visits be included as an encounter?**

Answer: If the procedures delivered at the home visit are billed at the usual and customary charges, and meet the four criteria for an “encounter” cited above, then the visit should be recorded as an encounter.

**Question:**

**Are patient visits to the clinic’s on-site pharmacy considered to be encounters? Where should the encounters and gross revenue be reported?**

Answer: A patient visit to a clinic’s on-site pharmacy would not be considered an encounter. This service is “attendant to” a medical (or dental) encounter.

However, the gross revenue should be listed by the expected payment source that covers the purchase in Section 6. The costs associated with operating the pharmacy should be listed along with the clinic’s other operating costs in Section 7. The costs associated with the purchase of the pharmaceuticals should be listed in Section 7 under “Supplies – Medical and Dental.”

**Question:**

**How should the Federal Stimulus Grants – American Recovery and Reinvestment Act (ARRA) – be accounted for and reported?**

**ARRA GRANTS:**

**General-**

The Annual Utilization Report (AUR) contains only an Income Statement (Section 7), yet many of the accounting transactions associated with the ARRA grants involve Balance Sheet accounts that do not show up in any section of the AUR. Accordingly, only those transactions that involve Income Statement accounts are reported. There are two basic ARRA grant scenarios: 1) grants used to offset operating expenses, and 2) grants used to acquire capital assets and/or make capital improvements.

Grant funds that are used to cover direct expenses (such as salaries, supplies and non-capital goods) will have offsetting entries on the Income Statement. The amount of the

grant that is “drawn down” will be reported as “Other Operating Revenue” under the appropriate federal grant. The corresponding expenditure will be included in the appropriate “Operating Expenses” line. However, the grant expenses will not be separately identifiable (for example an Increased Demand for Services grant that was used to hire physicians: the amount “drawn down” for salary expenses during the year would be recorded as a revenue on Section 7, line 402, while the expense would be recorded as “Salaries, Wages & Employee Benefits” on Section 7, line 30; but the expense amount would be co-mingled with all other salary expenses). Thus both the revenue and expense amounts would be included in Section 7.

ARRA grants used for capital purchases are accounted and reported differently, because the ARRA grants are used to reimburse the facility after the cost of acquiring or improving capital assets has been incurred, and because the capital asset will have a useful life of several years. Reporting is similar to that of donated capital assets, where the Balance Sheet (capital asset and Fund Balance accounts) reflects acquisition of the new capital asset. In this case, the ARRA grant is not reported as Other Operating Revenue. Only the depreciation expense attributed to the report year will be reported on the Income Statement. The offsetting account, “Accumulated Depreciation” appears only on the Balance Sheet.

#### **New Access Point (NAP) and Increased Demand for Services (IDS)-**

The NAP and IDS grant funds that are drawn down (i.e. actually spent) on **non-capital goods** and services during the year will be reported as Other Operating Revenue (Section 7, lines 401 and 402, respectively) and corresponding expense amounts will be reported under Operating Expenses in Section 7. Report only the actual funds “spent” (i.e., matched with incurred expenses) during the current year.

**For example:** a clinic corporation received a \$250,000 IDS grant award in the summer and hired two new physicians at \$10,000 per month, both of whom worked at the same clinic. The doctors began work on November 1<sup>st</sup>. The entries on the Annual Utilization Report would be as follows:

##### Section 7, Line 402

Other Operating Revenue – Increase Demand for Services (IDS)

The \$40,000 of grant funds associated with current year expenses (2 physicians X \$10,000 per month X two months) would be recorded in line 402.

Note – even though the grant award was \$250,000 record only the funds that were *expended* during the last two months of the year.

##### Section 7, Line 30

Operating Expenses – Salaries, Wages, Employee Benefits

The \$40,000 of physician salary expenses (2 physicians X \$10,000 per month X two months) would be reported on line 30, along with all other salary expenses.

Note the grant-related expenses would be co-mingled with all other salary expenditures and would not be separately identifiable as a “grant expense item” on the Income Statement.

##### Section 2, Line 60, Column 1

An increase of .33 FTE physicians would be recorded [i.e. 2.00 FTE's / year X .166 years (2 / 12) = .33 FTE's]  
– As with expenses, the salaried FTE's would show an increase, but the grant supported positions would not be separately identifiable.

Section 2, Line 60, Column 5

The encounters for the two new physicians would be recorded here, along with the encounters for the non-grant supported physicians. As with the expenses, the grant supported encounters would be co-mingled with the non-grant encounters.

The same rules would apply if the clinic contracted for physician services from a local medical group or medical school. In this case the entries would be:

1. The entry for Other Operating Revenue would remain the same (i.e. \$40,000 on Section 7, Line 402;
2. The operating expense would be recorded as Contract Services Professional (Section 7, Line 31 instead of salaries on Line 30);
3. The increase of .33 FTE physicians would be recorded on Section 2, Line 60, Column 2 instead of Column 1; and
4. The associated physician encounters would still be reported on Section 2, Line 60, Column 5.

**Capital Improvement Projects (CIP), including Facility Improvement Projects (FIP)-**

CIP grants, including the FIP grants, are generally used to acquire Property, Plant and Equipment (PPE). Most of the accounts affected [as the grant monies move through the accounting system] are on the Balance Sheet. Basically, the PPE account and Fund Balance will be increased by the cost of the capital asset, after the cash transactions between the hospital, vendor, and federal government have been completed. Only the depreciation expense attributed to the report year will be recorded on the Income Statement. These grants are not to be reported as Other Operating Revenue. Therefore, no CIP or FIP grant amount would be listed in the "Other Operating Revenue" portion of Section 7. However, the yearly depreciation expenses associated with the capital items are to be recorded on the Income Statement as Depreciation Expense (Section 7, Line 35 – Rent / Depreciation / Mortgage Interest Expense).

**For example:** a clinic was awarded a \$300,000 CIP grant in June of 2009 to build three new exam rooms. The building project has begun and the work is scheduled to be completed in July 2010.

Nothing is to be reported on the 2009 Annual Utilization Report because the project is not completed. During this time, the Balance Sheet will reflect increases in Construction-in-Progress and the Fund Balance, as CIP grants monies are "spent" on construction-related costs.

Once the project is completed and the buildings are recorded as PPE on the Balance Sheet, then depreciation expense can be recorded. If we assume the project is completed on schedule and the auditors establish a 30-year useful life for the capital improvement, the depreciation expense for this project will be \$5,000 on the 2010 AUR.

(i.e \$300,000 project cost / 30 years = \$10,000 depreciation expense per year

\$10,000 depreciation expense per year X .5 years = \$5,000)

In this case the depreciation expense associated with the new exam rooms would be recorded on Section 7, line 35 "Rent/ Depreciation/ Mortgage Interest" but it would be co-mingled with all of the other depreciation expense for the clinic and would not be separately identifiable.

### **Allocating Capital Improvement Project grants**

If CIP grant funds are used to purchase a capital asset (plant, property or equipment) that is used by multiple clinics under common ownership or control, the depreciation expense must be allocated among those clinics. There are a number of acceptable ways to do this:

1. If the grantee's auditors have developed a reasonable method to allocate the expenses associated with a capital improvement between the corporation's clinics, the resulting expense amounts can be reported on each clinic's Annual Utilization Report.
2. If the grantee's auditors have not developed an allocation method and if the plant, property or equipment are used evenly by the grantee's clinics, then the depreciation expense can be allocated equally among them.
3. Finally, if the grantee's auditors have not developed an allocation method and if the plant, property or equipment's use can be tracked based on the delivery of patient services (such as an Electronic Medical Record), then allocate the expense based on percentage of encounters.

### **Estimated Useful Life of capital goods**

Use the depreciation period developed by the grantee's auditors.

If you have any questions please call Support Line at 916-326-3854.

Sincerely,



Michael B. Derrick, Manager  
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