UFR
AUDIT & PREPARATION MANUAL

UNDER 808 CMR 1.00
Commonwealth of Massachusetts
Executive Office for Administration & Finance
Operational Services Division
Fiscal Year 2013

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UFR AUDIT AND PREPARATION MANUAL
UNIFORM FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

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FAIR INFORMATION PRACTICES ACT (FIPA) PROHIBITIONS:

In accordance with the Fair Information Practices Act (FIPA) pursuant to M.G.L. Chapter 66A, the Operational Services Division (OSD) is providing notification to all Uniform Financial Statement and Independent Auditor's Report (UFR) preparers and Users of the Internet–based UFR ***eFiling*** System and database that certain provisions of FIPA prohibit the use of an individual's social security number as an identifying number on any of the statements, notes or schedules contained in a UFR filing or in a profile for access to the UFR eFiling System. Excluded from this prohibition are identifying numbers that are currently contained in a "public record" as defined M.G.L. Chapter 4 sec. 7.

For additional information on FIPA prohibition's possible effects on your organization's and your independent auditor's (CPA) UFR ***eFiling*** profiles, and UFR filings including the identification numbers utilized in completing the subcontractor detail sections on the UFR Supplemental B_PSI Schedules see OSD's notice of April 11, 2008 at: http://www.mass.gov/Eoaf/docs/osd/ufr/fipa.doc

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 ("ARRA" or STIMULUS funds) INFORMATION:

The Commonwealth of Massachusetts and its Departments are recipients of federal funds as a result of the American Recovery and Reinvestment Act (ARRA). Some of the ARRA funding the Commonwealth has received was utilized to support subrecipient awards, grants and contracts for the delivery of human and social services by contractors subject to the auditing and reporting requirements of 808 CMR 1.00: Compliance, Reporting and Auditing for Human and Social Services and Office of Management and Budget (OMB) Circular A-133 audit standards.

OMB has clearly indicated that the single audit conducted under OMB Circ.A-133 Audits of States, Local Governments, and Non-Profit Organizations) will be a key factor in achieving the accountability objectives of the Recovery Act and applicable to audits of fiscal years beginning after June 30, 2008.

Auditor's note: On June 30, 2009 The Office of Management and Budget (OMB) issued an OMB Circular A-133 Compliance Supplement Addendum #1 supplements the March 2009 OMB Circular A-133 Compliance Supplement (Supplement) to provide additional guidance for programs (including clusters of programs) with expenditures of American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5) (ARRA) awards that the auditor determines are major programs in audits performed under OMB Circular A-133. This addendum may be accessed through the following link: http:www.whitehouse.gov/omb/assets/a133_compliance/arra_addendum_1.pdf .

To address unprecedented levels of reporting and transparency requirements of the American Recovery and Reinvestment Act, the (Commonwealth's) Secretary for Administration and Finance and the State Purchasing Agent have establish stringent procurement, grant/contract awarding guidelines to Executive and Non-Executive (state) departments, municipalities, counties to ensure compliance with ARRA transparency and reporting requirements. The measures taken will ensure all subrecipients are fully aware of ARRA federal funding that has been passed-through Commonwealth purchasing departments as awards/grants or contracts.

As noted above, funding provided through the American Recovery and Reinvestment Act requires additional reporting and transparency provisions. Commonwealth departments did use ARRA funding to contract for some human and social services beginning July 2009. Therefore, organizations with fiscal years ending after 6/30/09 and fiscal years ending after 6/30/2013 should be aware of the impact of these additional reporting and transparency requirements.

The ARRA guidance provided to-date by OMB indicates that the effects of the ARRA funding on audits conducted under OMB Circular A-133 *"…will increase significantly during calendar year 2009 as awards and expenditures under ARRA programs increase…"*. As a recipient of ARRA funding the Commonwealth must require subrecipients (subject to OMB Circ. A-133 Audits) to separately report expenditures of ARRA funding on the organization's Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC).

In addition, Section 1512(f) of the Recovery Act requires (prime) recipient reporting to begin 180 days after enactment and for reports to be submitted by recipients 10 days after the end of each calendar quarter. This results in an initial statutory reporting deadline of October 10, 2009, with quarterly reports due 10 days after the end of each calendar quarter thereafter. OSD will be monitoring the Federal Reporting website for further guidance on Section 1512(f) reporting requirements to determine any reporting requirements on subrecipients applicable to this section.

OMB has issued a number of Memorandums relating to the Recovery Act both in FY09 and FY10. They may be accessed through the following link:
http://www.whitehouse.gov/omb/recovery_default/

The Operational Services Division strongly suggests that you and your independent auditor visit OMB's site(s) for additional guidance regarding your joint responsibilities as a recipient or subrecipient of American Recovery and Reinvestment Act (ARRA) funding.

CHAPTER 257 of the ACTS of 2008 INFORMATION:

Chapter 257 of the Acts of 2008 places authority for determination of reimbursement rates for human and social services with the Executive Office of Health and Human Services (EOHHS). The Executive Office works with the Center for Health Information and Analysis (CHIA) who analyzes financial data and assists in the development of the rates.

The UFR, while not the sole resource for information to be considered, plays a key role in the rate determination and rate review process. Particular emphasis is placed on the UFR Program Supplemental Information Schedule B, which represents costs directly associated with individual program operations. In general, each agency contract should be represented by a separate Schedule B but activity codes within those contracts that are rate regulated in FY2013 are required to have separate Schedule B submissions.

Following is a list of activity codes that were rate regulated in FY2013 per Chapter 257. Activity codes are noted on the POS Attachment 1. All UFR information associated with these codes must not be merged or co-mingled with any other activity codes unless noted in the table. Activity codes that require further breakdown of costs and revenue are outlined under the CHIA requirements for FY2013 Filing.

Service Class	Agency	Activity Code	Program Name
Adult Community Based Supports and Social Recreation	DDS	3163 & 3166 (Combined)	Community Based Day Supports: Codes can be combined in one Schedule B
Adult Intermediate-Term Transitional	DPH	3386	Residential Treatment
Adult Short-Term Intervention and Stabilization	DPH	4931	Clinically Managed Inpatient Detoxification
Adult Short-Term Intervention and Stabilization	DPH	3395	Inpatient Detoxification
Adult Short-Term Intervention and Stabilization	DPH	3401	Second Offender Residential
Adult Short-Term Intervention and Stabilization	DPH	3434	Transitional Support Services
Adult Short-Term Intervention and Stabilization	DPH	3455	Specialized Residential Services for Women
Adult Short-Term Intervention and Stabilization	DPH	4921	Statewide Treatment for Civilly-Committed Persons
ASAP Purchased Services	ELD	8006	Home Care/Respite Care: Prepare according to EOEA instructions
ASAP Purchased Services	ELD	8061	Enhanced Community Options Program: Prepare according to EOEA instructions
Case Management	ELD	8014	Home Care/Respite Care: Prepare according to EOEA instructions

Service Class	Agency	Activity Code	Program Name
Case Management	ELD	8015	Supportive Senior Housing: Prepare according to EOEA instructions
Case Management	ELD	8017	Congregate Housing Services Coordination: Prepare according to EOEA instructions
Case Management	ELD	8042	Protective Service Casework: Prepare according to EOEA instructions
Case Management	ELD	8060	Enhanced Community Options Program Case Management: Prepare according to EOEA instructions
Clinical and Medical Counseling, Therapy and Treatment	DPH	3317	Early Intervention
Clinical and Medical Counseling, Therapy and Treatment	DPH	3385	Ambulatory Services
Clinical and Medical Counseling, Therapy and Treatment	DPH	3397	Narcotic treatment
Clinical and Medical Counseling, Therapy, and Treatment	DMH	3050	Adult Outpatient Services
Clinical and Medical Counseling, Therapy, and Treatment	DPH	3457	TB Clinics
Clinical and Medical Counseling, Therapy, and Treatment	DPH	3482	Specialized Early Intervention
Clubhouse	DMH	3034	Clubhouse Services
Competitive Integrated Employment	MCB	2184	Competitive Integrated Employment
Competitive Integrated Employment	DTA	2886 & 2887 (Combined)	Model 3 and 4: Employment Supports: Codes can be combined in one Schedule B
Competitive Integrated Employment	DDS	3180	CIES Hourly: Comprehensive Integrated Employment Services
Competitive Integrated Employment	MRC	5100, 5200, 5300 (Combined)	CIES Components: Codes can be combined in one Schedule B
Direct Prevention, Outreach and Stabilization Services	DPH	3315	First offender driver
Family Stabilization	MCB	2124	Respite Care
Family Stabilization	MCB	2152	Cooperative Funding
Family Stabilization	MCB	2403	Flexible Family Support
Family Stabilization	DMH	3066	Individual and Family Flexible Supports
Family Stabilization	DDS	3700	Family Support Navigation
Family Stabilization	DDS	3701	Respite In Recipient's Home-Day
Family Stabilization	DDS	3702 & 3712 (Combined)	Respite: Codes can be combined in one Schedule B
Family Stabilization	DDS	3703	Individualized Home Supports
Family Stabilization	DDS	3707, 3731, 3735 (Combined)	Adult Companion: Codes can be combined in one Schedule B
Family Stabilization	DDS	3709	Community Family Training/Residential Family Training
Family Stabilization	DDS	3710	Behavioral Supports and Consultation Family Training
Family Stabilization	DDS	3716	Community Peer Support/Residential Peer Support
Family Stabilization	DDS	3725 & 3722 (Combined)	Chore/Homemaker: Codes can be combined in one Schedule B
Family Stabilization	DDS	3738	DDS/DESE Direct Support Services
Family Stabilization	DDS	3759 & 3775 (Combined)	Respite Care: Codes can be combined in one Schedule B
Family Stabilization	DDS	3760	Non-Waiver Services

Service Class	Agency	Activity Code	Program Name
Family Stabilization	DDS	3770, 3771, 3772 (Combined)	Family and Autism Support Centers: Codes can be combined in one Schedule B
Family Stabilization	DDS	3773	Intensive Flexible Family Support Services
Family Stabilization	DDS	3774	Medically Complex Programs
Family Stabilization	DDS	3776	Family Leadership Program
Family Stabilization	DDS	3780 & 3781 (Combined)	Financial Assistance: Codes can be combined in one Schedule B
Family Stabilization	DDS	6700	Family Support Navigation--AWC
Family Stabilization	DDS	6701	Respite/Recipient's Home--AWC
Family Stabilization	DDS	6703	Individualized Home Supports AWC
Family Stabilization	DDS	6704	Individualized Day Supports AWC
Family Stabilization	DDS	6707	Adult Companion—AWC
Family Stabilization	DDS	6753	Agency w/Choice Admin fee
Family Stabilization	DDS	6780	Financial Assistance AWC
Family Stabilization	DCF	FNSS	Fam Networks Supp & Stab
Placement Services and Supports	DCF	FNFO	Foster Care
Placement Services and Supports	DCF	FOS0	Enhanced Therapeutic Foster Care
Youth Intermediate-Term Stabilization	DYS	2500	SECURE TREATMENT
Youth Intermediate-Term Stabilization	DYS	2503	GROUP CARE
Youth Intermediate-Term Stabilization	DYS	2505	REVOCATION
Youth Intermediate-Term Stabilization	DYS	2512	LONG TERM GROUP CARE
Youth Intermediate-Term Stabilization	DYS	2516	TRANS. INDEP. LIVING PROGRAM
Youth Short-Term Stabilization, Emergency Placement	DYS	2501	SECURE DETENTION
Youth Short-Term Stabilization, Emergency Placement	DYS	2502	ASSESSMENT

UFR preparers and other interested parties may access information provided by EOHHS relative to Chapter 257 at www.mass.gov/hhs/chapter257

The CHIA requirements for the Fiscal Year 2013 filing include the following:

- **Children's Behavioral Health Services Providers**: must file the UFR. Regarding the completion of Schedule B's: Targeted Case Management (also known as Intensive Care Coordination) and Family Support and Training (also known as Family Partner) may be joined in a single Schedule B. Youth Mobile Crisis Intervention should be included within the Schedule B for the Emergency Services Program (ESP). Other Children's Behavioral Health Services (In-Home Therapy, Therapeutic Mentoring, and Behavior Management Therapy and Monitoring, which is also known as In-Home Behavioral Services) may be collapsed into a single Schedule B.

  Do **not** use any Children's Behavioral Health Services when populating CHIA's "MH" Supplemental Schedule for outpatient mental health clinics.

The CBHI services are distinct from those provided within outpatient mental health reporting.

- **Early Intervention Providers**: must file the UFR.
- **Day Habilitation Providers**: must file the UFR. For FY 2013, day habilitation providers may also be required to complete supplemental program questionnaires to be provided by and returned to CHIA. UFR preparers must not intermingle: 1) different program types and services that are distinct from day habilitation; and 2) different components of day habilitation--i.e., community or center-based services, mobile or in-facility services, and program supplements, including additional staffing to service clients with more intensive needs. Preparers also must follow these requirements:
  - Report only program costs that are specifically related to the provision of day habilitation services and not costs related to other programs (e.g., DDS purchased Community Based Day Support, educational, vocational; residential).
  - Report as separate programs (e.g., program 1 and program 2) on separate Schedule Bs day habilitation services provided in the community (i.e., "community day habilitation") and day habilitation services provided in a nursing facility (i.e., "in-facility day habilitation").
  - Separately report basic and supplemental program components (e.g., one to one or supplemental staffing) using the guidance found in the UFR instructions for Program Supplemental Information Schedule B (Programs with Multiple Cost Categories) by using two separate Schedule Bs and Cost Categories (e.g., program 1-1 and program 1-2, program 2-1 and program 2-2) to disclose program costs.
  - When reporting on particular programs, include all revenues, costs, and service statistics for all purchasers of those programs. For example, when reporting on basic community day habilitation services, include services funded by Medicaid or MassHealth and other purchasers, such as the Department of Developmental Services and private pay when used to fund participation in the day habilitation program. Do not include funding received for additional staffing and other program enhancements here. When reporting on program supplements, include services funded by all purchasers, such as MassHealth, the Department of Developmental Services, the Massachusetts Commission for the Blind, and others. Similarly, when reporting on in-facility day habilitation services, separate basic program costs from those for program supplements and include all purchasers.
  - When reporting on particular programs, include all revenues, costs, and service statistics for all purchasers of those programs. For example, when reporting on basic community day habilitation services, include services funded by Medicaid or MassHealth and other purchasers, such

as the Department of Developmental Services and private pay when used to fund participation in the day habilitation program. Do not include funding received for additional staffing and other program enhancements here. When reporting on program supplements, include services funded by all purchasers, such as MassHealth, the Department of Developmental Services, the Massachusetts Commission for the Blind, and others. Similarly, when reporting on in-facility day habilitation services, separate basic program costs from those for program supplements and include all purchasers.

- When completing the service statistics section, provide figures for the relevant program and include all purchasers.
- Report day habilitation program staff who are employees using the following functional titles in the UFR:

Day Hab Program Staff Title	UFR Schedule B Title
Administrator	Program Function Manager (Title 101)
Program Director	Program Director (Title 102)
Day Hab Service Manager	Case Worker/Manager (Title 132)
Health Care Supervisor	RN (Title 108)
Psychologist	Psychologist-Doctorate (Title 122) or Clinician (Title 123), as appropriate
Behavioral Specialist	Clinician (Title 123)
Therapists (OT, PT, ST)	OT, PT, ST/Aud. (Titles 111-113)
Therapy Assistants	Direct Care Program Staff III (Title 134)
Developmental Specialist	Counselor (Title 130)
Paraprofessional	Direct Care Program Staff II (Title 135)
Program Aide	Direct Care Program Staff I (Title 136)

- Report program expenses for therapists hired on a consultant basis under “18E Direct Care Consultant 201” if they provide guidance to agency staff about client care or program design. Report therapists under “21E Subcontracted Direct Care 206” if they provide direct care to clients. Therapists hired as consultants cannot be reported using staffing line items, which are reserved for actual employees.
- Report revenue sources on the UFR as follows:

Revenue Source	UFR Schedule B Revenue Account
Department of Developmental Services	9R Department of Developmental Services
University of Mass. Medical School	29R Other State Agency POS
MassHealth	34R Medicaid—Direct Payments
Client Self-Pay	41R Private Client Fees (excluding 3rd party)

- **Independent Living Providers**: must file the UFR.
- **Outpatient Mental Health Providers**: must file the UFR
- **Community Health Centers**: must file the UFR
- **Psychiatric Day Treatment Providers**: must file the UFR.
- **Substance Abuse Providers**: must file the UFR and Substance Abuse Schedule SA if the services furnished are related to narcotic treatment counseling MMARS code 3397 and outpatient counseling MMARS code 3385. Please provide information for the following types of services:
  Individual
  Family/Couple
  Group
  Case Consultation

In addition, Substance Abuse MMARS code 3397 "narcotic treatment" contains medical services visit ("dosing") and the "counseling" in the program, which are paid on different bases. CHIA requires that UFR preparers report this program using the guidance found in the UFR instruction for Program Supplemental Information Schedule B (Programs with Multiple Cost Categories) by using two separate Schedule Bs and Cost Categories (e.g., program 1-1 and 1-2) to disclose program costs. Also, Substance Abuse MMARS code 3385 “ambulatory services” includes such services as day treatment, outpatient counseling, driver alcohol education, and case consultation in the program. CHIA requires that UFR preparers report this program using the guidance found in the UFR instruction for Program Supplemental Information Schedule B (Programs with Multiple Cost Categories) by using separate Schedule Bs and Cost Categories (e.g., program 1-1, 1-2, etc.) to disclose program costs.

Transitional Living Providers: must file the UFR. If a transitional living provider operates more than one transitional living program, then each program/site must have its own Schedule B.

The Fiscal Year 2013 UFR Template contains the following CHIA-Supplemental Schedules which must be prepared for the following services:

Outpatient Mental Health Clinic Services	**Complete the "MH" Schedule**
Psychiatric Day Treatment	**Complete the "PDT" schedule**
Substance Abuse	**See Special Guidance Above**

Further information regarding the above noted schedules is provided at the end of this introduction.
Please note: it is the responsibility of each provider to know whether the nature of the services provided require the filing of these schedules. If you are unsure, please contact the CHIA Helpdesk at 800-609-7232 to determine whether the services your organization provides requires completion of any of these schedules.

Exemptions from Filing all of the UFR:
In general, follow the guidance set by the Operational Services Division for Exemptions/Exceptions. However, there are instances when CHIA requires UFR-filing when OSD does not.

One example occurs with outpatient mental health clinics that have POS contracts with a total dollar value under the OSD filing threshold, but serve MassHealth clients. CHIA requires the UFR filing in order to obtain industry costs and other data to inform the review of clinic payment rates.

Another example pertains to an agency that files a qualifying total agency cost report with CHIA, such as the Adult Day Health Cost Report. If that provider also operates a psychiatric day treatment program or an outpatient mental health clinic, it must also file the UFR including the relevant Supplemental Schedules.

Exemption from filing Specific CHIA Schedules:
If a contractor has started a program that is new for the reporting year (less than a full year of operation), that provider will not have to complete any of the CHIA special schedules for that program for that year.

Please contact CHIA directly if you think your organization is exempt from filing all of the UFR or from filing a specific CHIA Schedule. Please do not presume that your organization is exempt from filing only to learn at a later date that filing should have occurred. Non-filers are subject to penalties and sanctions.

For-profit status is not an acceptable reason for CHIA exemption from filing the UFR and any required supplemental schedule. An exemption may be possible, but not solely because the organization is for-profit. See the reporting requirements in the tables below.

Please call the CHIA HelpDesk at 800-609-7232 if there are questions.

Specific details about the CHIA schedules and service descriptions used to help determine the filing requirements (such as the MH Schedule), etc. are available in this document. The Table of Contents for this document specifies the location of the information in the "Supplemental Financial Schedules and CHIA Schedules" section of the instructions.

Extensions:
Follow the terms set by the Operational Services Division for extensions. Extensions for filing CHIA schedules (approximately 30 days) will be granted provided: A) there is credible cause (consistent with UFR guidance) for the request and, B) the request is received before the due date of the UFR. If you have questions specific to CHIA and its schedules, you may call the CHIA HelpDesk at 800-609-7232.

Further Information for Outpatient Mental Health and Psychiatric Day Providers:

Outpatient Mental Health Clinics - Reporting varies according to provider category as follows:

Category I	Do These Schedules:
Contractors furnishing non-Medicaid reimbursable social services to Commonwealth agencies, in a context such as a multi-purpose agency	·OSD-required schedules, and; ·the "MH" Schedule (accessible via the "MH" tab, found at the bottom of the Excel template).

Category II	Do These Schedules:
Contractors not furnishing any non-Medicaid reimbursable social services to Commonwealth agencies, (such as stand-alone clinics)	Organizational Supplemental Information Schedule A; ·program Supplemental Information Schedule B for each program; ·the "MH" (accessible via the "MH" tab, as above) ·for financial statements, a set of commercial statements prepared and audited in accordance with GAAP and GAAS; scan these into the UFR e-File system.
For-Profit Providers in either Category I or II	Consult the UFR Manual's guidance for for-profits.

Psychiatric Day Treatment providers - reporting varies according to provider category as follows:

Category I	Do These Schedules
Contractors providing psychiatric day treatment within an outpatient mental health clinic or multi-service agency must file a UFR because they furnish non-Medicaid reimbursable social services to Commonwealth agencies	·OSD-required UFR Schedules, and; ·the "PDT" Schedule (one for each program) (accessible via the "PDT" tab, bottom of the Excel template)

Category II	Do These Schedules
Providers who do not furnish any non-Medicaid reimbursable social services to purchasing agencies of the Commonwealth; for example, a stand-alone psychiatric day program.	Organizational Supplemental Information Schedule A ·Program Supplemental Information Schedule B for each program (psychiatric day or otherwise) ·The "PDT" (accessible via the "PDT" tab, at bottom of Template) ·For financial statements, a set of commercial statements prepared and audited in accordance with GAAP and GAAS; scan these into the UFR e-File system

Note on completing the PDT Supplemental Schedule (section 4, Visits). The PDT schedule captures current coding applicable to PDT billing, consistent with HIPAA requirements. Please note the cells that are flagged for "comments," and read those. Some providers may be billing certain commercial purchasers and these purchasers may have codes that differ from those most commonly used. Those presented in the Visits section represent those appearing in EOHHS's Psychiatric Day Treatment Regulation (http://www.mass.gov/eohhs/gov/laws-regs/hhs/regs.html) and are used in Massachusetts public purchasing of the service(s). Providers who may be using uncommon codes should incorporate the relevant service units into the coding category (i.e. behavioral health day treatment, 1 hour) on the schedule that is the apparent match. The reason for doing so is that the PDT schedule captures *whole program* information, regardless of purchaser; consequently, all units of service need to be reported. So providers should determine which of the service categories/codes presented on the schedule match up with any uncommonly used codes which they may be using and incorporate visits on the schedule accordingly.

Billing codes are available in the EOHHS regulation for Psychiatric Day: at the EOHHS website, http://www.mass.gov/eohhs/gov/laws-regs/hhs/regs.html.

Special Instructions for Fiscal Year 2013 filing from The Division of Health Care Finance and Policy ("DHCFP")

The following instructions pertain to health, social and human service providers of MassHealth-eligible services. Filers should be aware that other directions, pertaining to rates that will be developed by DHCFP under CH 257, appear elsewhere in the UFR Manual.

The DHCFP requirements for Fiscal Year 2013 filing include the following:

- **Children's Behavioral Health Services Providers**: must file the UFR. Regarding the completion of Schedule B's: Targeted Case Management (also known as Intensive Care Coordination) and Family Support and Training (also known as Family Partner) may be joined in a single Schedule B. Youth Mobile Crisis Intervention should be included within the Schedule B for the Emergency Services Program (ESP). Other Children's Behavioral Health Services (In-Home Therapy, Therapeutic Mentoring, and Behavior Management Therapy and Monitoring, which is also known as In-Home Behavioral Services) may be collapsed into a single Schedule B

  Do **not** use any Children's Behavioral Health Services when populating the Division's "MH" Supplemental Schedule for outpatient mental health clinics. The CBHI services are distinct from those provided within outpatient mental health reporting.
  - **Early Intervention Providers**: must file the UFR.
  - **Day Habilitation Providers**: must file the UFR. For FY 2013, day habilitation providers may also be required to complete supplemental program questionnaires to be provided by and returned to DHCFP. UFR preparers must not intermingle: 1) different program types and services that are distinct from day habilitation; and 2) different components of day habilitation--i.e., community or center-based services, mobile or in-facility services, and program supplements, including additional staffing to service clients with more intensive needs. Preparers also must follow these requirements:
  - Report only program costs that are specifically related to the provision of day habilitation services and not costs related to other programs (e.g., DDS purchased Community Based Day Support, educational, vocational; residential).
  - Report as separate programs (e.g., program 1 and program 2) on separate Schedule Bs day habilitation services provided in the community (i.e., "community day habilitation") and day habilitation services provided in a nursing facility (i.e., "in-facility day habilitation").
  - Separately report basic and supplemental program components (e.g.., one to one or supplemental staffing) using the guidance found in the UFR instructions for Program Supplemental Information Schedule B (Programs with Multiple Cost Categories) by using two separate Schedule Bs and Cost Categories (e.g., program 1-1 and program 1-2, program 2-1 and program 2-2) to disclose program costs.
  - When reporting on particular programs, include all revenues, costs, and service statistics for all purchasers of those programs. For example, when reporting on basic community day habilitation services, include services funded by Medicaid or MassHealth and other purchasers, such as the Department of Developmental Services and private pay when used to fund participation in the day habilitation program. Do not include funding received for additional staffing and other program enhancements here. When reporting on program supplements, include services funded by all purchasers, such as MassHealth, the Department of Developmental Services, the Massachusetts Commission for the Blind, and others. Similarly, when reporting on in-facility day habilitation services, separate basic program costs from those for program supplements and include all purchasers.

- When reporting on particular programs, include all revenues, costs, and service statistics for all purchasers of those programs. For example, when reporting on basic community day habilitation services, include services funded by Medicaid or MassHealth and other purchasers, such as the Department of Developmental Services and private pay when used to fund participation in the day habilitation program. Do not include funding received for additional staffing and other program enhancements here. When reporting on program supplements, include services funded by all purchasers, such as MassHealth, the Department of Developmental Services, the Massachusetts Commission for the Blind, and others. Similarly, when reporting on in-facility day habilitation services, separate basic program costs from those for program supplements and include all purchasers.
- When completing the service statistics section, provide figures for the relevant program and include all purchasers.
- Report day habilitation program staff who are employees using the following functional titles in the UFR:

Day Hab Program Staff Title	UFR Schedule B Title
Administrator	Program Function Manager (Title 101)
Program Director	Program Director (Title 102)
Day Hab Service Manager	Case Worker/Manager (Title 132)
Health Care Supervisor	RN (Title 108)
Behavioral Specialist	Clinician (Title 123)
Therapists (OT, PT, ST)	OT, PT, ST/Aud. (Titles 111-113)
Therapy Assistants	Direct Care Program Staff 3 (Title 134)
Developmental Specialist	Counselor (Title 130)
Paraprofessional	Direct Care Program Staff 2 (Title 135)
Program Aide	Direct Care Program Staff 1 (Title 136)

- Report program expenses for therapists hired on a consultant basis under "18E Direct Care Consultant 201" if they provide guidance to agency staff about client care or program design. Report therapists under "21E Subcontracted Direct Care 206" if they provide direct care to clients. Therapists hired as consultants cannot be reported using staffing line items, which are reserved for actual employees.
- Report revenue sources on the UFR as follows:

Revenue Source	UFR Schedule B Revenue Account
Department of Developmental Services	9R Department of Developmental Services
University of Mass. Medical School	29R Other State Agency POS
MassHealth	34R Medicaid—Direct Payments
Client Self-Pay	41R Private Client Fees (excluding 3rd party)

- **Independent Living Providers**: must file the UFR.
- **Outpatient Mental Health Providers**: must file the UFR
- **Community Health Centers**: must file the UFR
- **Psychiatric Day Treatment Providers**: must file the UFR.
- **Substance Abuse Providers**: must file the UFR and Substance Abuse Schedule SA if the services furnished are related to narcotic treatment counseling MMARS code 3397 and outpatient counseling MMARS code 3385. Please provide information for the following types of services:

Individual

Family/Couple
Group
Case Consultation

In addition, Substance Abuse MMARS code 3397 "narcotic treatment" contains medical services visit ("dosing") and the "counseling" in the program, which are paid on different bases. The Division is requesting that UFR preparers report this program using the guidance found in the UFR instruction for Program Supplemental Information Schedule B (Programs with Multiple Cost Categories) by using two separate Schedule Bs and Cost Categories (ex program 1-1 and 1-2) to disclose program costs. Also, Substance Abuse MMARS code 3385 "ambulatory services" includes such services as day treatment, outpatient counseling, driver alcohol education, and case consultation in the program. The Division is requesting that UFR preparers report this program using the guidance found in the UFR instruction for Program Supplemental Information Schedule B (Programs with Multiple Cost Categories) by using separate Schedule Bs and Cost Categories (e.g., program 1-1, 1-2, etc.) to disclose program costs.

- **Transitional Living Providers**: must file the UFR

The Fiscal Year 2013 UFR Template contains the following DHCFP-Supplemental Schedules which must be prepared for the following services:

Outpatient Mental Health Clinic Services	**Complete the "MH" Schedule**
Psychiatric Day Treatment	**Complete the "PDT" schedule**
Substance Abuse	**See Special Guidance Above**

Further information regarding the above noted schedules is provided at the end of this introduction. **Please note: it is the responsibility of each agency to know whether the nature of the services provided require the filing of the DHCFP schedules. If you are unsure, please contact the DHCFP Helpdesk at 800-609-7232 to determine whether the services your agency furnishes requires completion of any of the DHCFP schedules**.

Exemptions from Filing all of the UFR:
In general, follow the guidance set by the Operational Services Division for Exemptions/Exceptions. However, there are instances when DHCFP requires UFR-filing when OSD does not.

One example occurs with outpatient mental health clinics that have little or no POS contracts, but that serve MassHealth clients. DHCFP requires the UFR filing in order to obtain industry costs and other data to inform the review of clinic payment rates.

Another example pertains to an agency that files a qualifying total agency cost report with DHCFP, such as the Adult Day Health Cost Report. If that provider also operates a psychiatric day treatment program or an outpatient mental health clinic, they must also file the UFR including the relevant DHCFP Supplemental Schedules.

Exemption from filing Specific DHCFP Schedules:
If a contractor has started a program that is new for the reporting year (less than a full year of operation), that provider will not have to complete any of the DHCFP special schedules for that program for that year.

Please contact DHCFP directly if you think your organization is exempt from filing all of the UFR or from filing a specific DHCFP Schedule. Please do not presume that your organization is exempt from filing only to learn at a later date that filing should have occurred. Non-filers are subject to penalties and sanctions.

For-profit status is not an acceptable reason for DHCFP exemption from filing the UFR and any required supplemental schedule. An exemption may be possible, but not solely because the organization is for-profit. See the reporting requirements in the tables below.

Please call the DHCFP HelpDesk at either 617-988-3103, or 800-609-7232 if there are questions.

Specific details about the DHCFP schedules and service descriptions used to help determine the filing requirements (such as the MH Schedule), etc. are available in this document. The Table of Contents for this document specifies the location of the information in the "Supplemental Financial Schedules and DHCFP Schedules" section of the instructions.

Extensions:

Follow the terms set by the Operational Services Division for extensions. Extensions for filing DHCFP schedules (approximately 30 days) will be granted provided a) there is credible cause (consistent with UFR guidance) for the request and, b) the request is received before the due-date of the UFR.

If you have questions specific to the Division of Health Care Finance and Policy and its schedules, you may call the DHCFP HelpDesk at 617-988-3103 or 800-609-7232.

Further Information for Outpatient Mental Health and Psychiatric Day Providers:

Outpatient Mental Health Clinics - Reporting varies according to provider category as follows:

Category I	Do These Schedules:
Contractors furnishing non-Medicaid reimbursable social services to Commonwealth agencies, in a context such as a multi-purpose agency	·OSD-required schedules, and; ·the "MH" Schedule (accessible via the "MH" tab, found at the bottom of the Excel template).

Category II	Do These Schedules:
Contractors not furnishing any non-Medicaid reimbursable social services to Commonwealth agencies, (such as stand-alone clinics)	·Organizational Supplemental Information Schedule A; ·program Supplemental Information Schedule B for each program; ·the "MH" (accessible via the "MH" tab, as above) ·for financial statements, a set of commercial statements prepared and audited in accordance with GAAP and GAAS; scan these into the UFR e-File system.
For-Profit Providers in either Category I or II	Consult the UFR Manual's guidance for for-profits.

Psychiatric Day Treatment providers - reporting varies according to provider category as follows:

Category I	Do These Schedules
Contractors providing psychiatric day treatment within an outpatient mental health clinic or multi-service agency must file a UFR because they furnish non-Medicaid reimbursable social services to Commonwealth agencies	·OSD-required UFR Schedules, and; ·the "PDT" Schedule (one for each program) (accessible via the "PDT" tab, bottom of the Excel template)

Category II	Do These Schedules
Providers who do <u>not</u> furnish any non-Medicaid reimbursable social services to purchasing agencies of the Commonwealth; for	Organizational Supplemental Information Schedule A ·Program Supplemental Information

example, a stand-alone psychiatric day program.	Schedule B for each program (psychiatric day or otherwise) ·The "PDT" (accessible via the "PDT" tab, at bottom of Template) ·For financial statements, a set of commercial statements prepared and audited in accordance with GAAP and GAAS; scan these into the UFR e-File system

Note on completing the PDT Supplemental Schedule (section 4, Visits):

The PDT schedule captures current coding applicable to PDT billing, consistent with HIPAA requirements. Please note the cells which are flagged for "comments", and read those. Some providers may be billing certain commercial purchasers and these purchasers may have codes that differ from those most commonly used. Those presented in the Visits section represent those appearing in DHCFP's Psychiatric Day Treatment Regulation (www.mass.gov/dhcfp) and generally used in Massachusetts public purchasing of the service(s). Providers who may be using more uncommon codes should incorporate the relevant service units into the coding category (i.e. behavioral health day treatment, 1 hour) on the schedule that is the apparent match. The reason for doing so is that the PDT schedule captures *whole program* information, regardless of purchaser; consequently, all units of service need to be reported. So providers should determine which of the service categories/codes presented on the schedule match up with any uncommonly used codes which they may be using and incorporate visits on the schedule accordingly.

Billing codes are available in the DHCFP regulation for Psychiatric Day: at the DHCFP website, www.mass.gov/dhcfp, find the "Regulations" link under the upper-left section titled "What We Do" and continue through the regulations section until you find "Psychiatric Day Treatment Services" among the alphabetical list of regulations presented. Pull up the citation for the PDT regulation there: 114.3 CMR 7.00

Special Instructions for Fiscal Year 2013 filing from The Department of Early Education and Care (EE&C)

Please Note: These special instructions pertain specifically to FY '13 UFR filings for Providers/Systems that contract with the Department of Early Education and Care and Provider/Family Child Care Systems (Systems) that hold one or more voucher agreements with a Child Care Resource and Referral Agency (CCR&R) in Massachusetts.

THRESHOLDS FOR FILING

- any income eligible contractor and/or priority populations contractor of EEC that receives $100,000 or more from either or both of these contracts combined must file a UFR with OSD.
- any voucher provider that receives $500,000 or more from a combination of any of its voucher agreements with Child Care Resource and Referral Agencies (under the same Federal Tax ID number) must file a UFR with OSD.

REPORTING BY PROGRAM

Each provider/System that has a responsibility to file a UFR must complete a Schedule B for each of its programs. A program is defined in 808 CMR 1.02 as the "delivery of one or more discrete services in an organized and coordinated fashion in order to achieve contract objectives."

Center-based programs and schools
For purposes of filing a UFR, each center-based provider or school must prepare and file a Schedule B for each age group that the center/school serves through either a contract or a voucher agreement.

For example, if a center-based contractor/school has a contract to serve infants, toddlers, preschoolers, and school-age children, and is paid a different rate for each of these age groups, the contractor must file a separate Schedule B for each of these age groups. Additionally if a center-based contractor/school has an income eligible contract for infants and a priority populations contract to serve infants, the contractor must prepare one Schedule B for the combined data for all of the infants served through either contract.

Family Child Care Systems
If a System has a center-based program and a family child care program, they must file separate Schedule B's for each age group they serve at their center-based program and a separate Schedule B for the children served by their affiliated family child care providers (all age groups served will be combined for the family child care program).

Any administrative add-on revenue the System receives for supporting its affiliated family child care providers must also be included in the System's Schedule B for its family child care program.

Contracted Funds
Any contract revenue a provider receives related to the provision of subsidized early education and care services must be reported on line 20R of a provider/System's Schedule B (prepared by age group for center-based programs or schools and for the family child care program for Systems).

Training Funds/ Supportive Add-On Rates/ Family Child Care System Add-On Rates/ Transportation Revenue/ Grant Funds
Providers/Systems must not prepare separate Schedule B's for training funds, supportive add-on rates, family child care system add-on rates, transportation and/or grant revenue they receive that relates to one of their direct care programs. These funds must be included in the appropriate Schedule B (i.e. the Schedule B for a particular age group served for center-based programs and schools, and the Schedule B for family child care for Systems).

Voucher Revenue
All voucher revenue a voucher provider receives (under the same Federal Tax ID number) that relates to a particular age group (for center-based programs and schools) or family child care program (for Systems) must be listed on line 21R of the appropriate Schedule B.

If a provider/System holds a contract with EEC to provide subsidized child care and also holds a voucher agreement with a CCR&R to provide subsidized child care, the provider/System will report its contracted revenue and voucher revenue that relate to the same age groups being served (for center-based programs and schools) or the family child care program (for Systems) on the same Schedule B on lines 20R and 21R, respectively.

Voucher early education and care related services are considered human and social services as defined in 808 CMR 1.02.

Voucher revenue cannot be used to off-set non-reimbursable expenses reported in a provider/System's UFR.

Voucher revenue, if any, must be included in the total for "State Revenue" or "Commonwealth Revenue" of the calculation for determining excess commercial fee earnings.

Client Revenue
Client as defined in 808 CMR 1.02 includes parents/guardians that receive subsidized early education and care services **as well as** parents/guardians that receive non-subsidized early education and care services.

All parent fees collected from families that receive subsidized early education and care services must be listed on line 38R "Client Resources" of Schedule B. Any monies collected from private clients, i.e. families that do not receive early education and care subsidies, shall not be listed on line 38R. The number of families that receive subsidized early education and care services must be reported on the line entitled "Publicly sponsored clients."

All fees collected from non-subsidized families for early education and care services must be reported on line 41R "Private Client Fees (excluding 3rd Party)" of Schedule B. The number of families that these fees were collected from must be listed on the line entitled "Privately sponsored clients." Providers/Systems must retain records showing the names of such families, the amounts collected from them, and dates the amounts were collected. The rates charged and collected from non-subsidized families by program type must be reported in the preparer's comment field at the bottom of the Program Supplemental Information Schedule B.

Supporting documentation for the reported program service statistics and the preparer's comment field must be maintained by the reporting entity and made available for review by EE&C.

Providers/Systems cannot use all of the private client fees they charge and collect as revenue to off-set non-reimbursable expenses; only the differential, if one exists between the private client rate (rate paid by a non-subsidized client) and the Provider/System's EEC approved rate (assuming the private rate is greater than the EEC rate) for the same type of care, may be used as off-set to non-reimbursable costs as defined in 808 CMR 1.05. The differential from private client fees may only be available if a Provider/System sufficiently documents the amount of private client fees charged and collected each year (i.e. with receipts showing the dates and amount of payments and names of families making payments, etc.).

COMMERCIAL FEES (Apply to For-Profit Contracted Providers/Systems that receive $100,000 or more in contracted funds) (Apply to For-Profit Voucher Providers/Systems that receive $500,000 or more in voucher funds)

In conjunction with filing a UFR, each Provider/System must record a liability for surpluses that exceed the negotiated 5% earnings cap related to their contracts and/or voucher agreements, as applicable. Upon request, the Operational Services Division (OSD) will provide guidance on calculating the excess over the negotiated earnings cap.

Providers/Systems that exceed the earnings cap are responsible for repaying the Commonwealth the excess funds.

SURPLUS REVENUE RETENTION (SRR) (Applicable to Not-For-Profit Contracted Providers/Systems that receive $100,000 or more in contracted funds) (Applicable to Not-For-Profit Voucher Providers/Systems that receive $500,000 or more in voucher funds)

In conjunction with filing a UFR, each Provider/System may determine whether or not they have exceeded the 5% Surplus Revenue Retention (SRR) cap related to their contracts and/or voucher agreements, as applicable by reviewing the on-sheet SRR calculation on the far right-hand side of the Supplemental Schedule A-OSI.

Providers/Systems that exceed the surplus revenue retention cap are responsible for repaying the Commonwealth the excess funds.

FEDERAL LAW For-profit Providers/Systems must follow the commercial organization cost principals outlined in Title 48 Code of Federal Regulations Part 31.

Questions relative to the above EE &C's FY '13 UFR filing requirements should directed to William Concannon, Deputy Commissioner at: william.concannon@state.ma.us

UFR PREPARATION AND AUDIT CHECK LIST

The most common UFR filing deficiencies are the deficiencies classified as ***minimum filing deficiencies*** that do not fulfill the requirements noted in the checklist below. Minimum filing deficiencies are failures to meet the minimum requirements of the Operational Services Division UFR instructions and the provisions of OMB Circular A-133 http://www.whitehouse.gov/omb/circulars_default/ , if applicable. Filings containing these deficiencies require correction by the Contractor and/or independent auditor and resubmission of one or more statements schedules or reports. The UFR is not deemed as received until such time as all corrections have made by the Contractor and/or independent auditor. Check if one or more of the following elements of the UFR has been filed as required:

1. Cover Page must always be filed.
   Auditor's or Accountant's Reports (at least 3 for audited Financial Statements and 1 for reviewed Financial Statements)
   Balance Sheet/Statement of Position
   Statement of Activities
   Statement of Cash Flows
   Statement of Functional Expenses (must be audited)
   Notes to the Financial Statements
   Schedule of Federal Financial Assistance and appropriate OMB Circular A-133
   Board of Directors' Acknowledgment Letter
   Corrective Action Plan (CAP), if applicable
2. OMB Circular A-133 audit was appropriately conducted if required.
3. Audit was conducted in accordance with generally accepted government auditing standards (GAGAS).
4. Supplemental information paragraph was included in Independent Auditor's Report or separate report as required by Auditing Standards SAS 29 and 52.
5. Independent Auditor's Reports meet reporting standards of Generally Accepted Auditing Standards.
6. Information in supplemental schedules reconciles and is in agreement with the basic financial statements as appropriate.
7. Independent Auditor opined on the Statement of Functional Expenses.
8. Financial statements were prepared in accordance with the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO), as required for Voluntary Health and Welfare Organizations.
9. Administration (Management and General) costs were reported in the administration column and not in programs as direct program costs.
10. Full-time Equivalents (FTEs) were reported as required.
11. The same program number that was used on the Service Contract cover page and the Attachment # 3 program budget have been used consistently for reporting program activity in the UFR.
12. Audit Services Checklist and Management Certification was completed by the Contractor and filed along with the UFR.
13. Auditor's management letters that were referred to in the Auditor's Reports on Internal Controls and Compliance were submitted along with the UFR.
14. All UFR supplemental schedules were completed and uploaded to the UFR ***eFiling*** System or an approved waiver request has been uploaded along with the UFR.
15. Each Commonwealth cost reimbursement contract has been disclosed as a separate program or as separate cost center in a program of the UFR.
16. Schedule of passenger and sport utility vehicles has been included as required.
17. Other costs have been itemized and disclosed in a supporting schedule.
18. Compensation to the organization's principals has been disclosed in Organization Supplemental Information Schedule A.

19. A Corrective Action Plan (CAP) using OSD's template has been uploaded *(as a scanned or PDF document)** with the UFR filing addressing all Independent Auditor's audit findings.

* *Disregard prior instructions to upload CAP on Excel format.*

FILING REQUIREMENTS

Who Must File?

In accordance with Chapter 110, section 274, of the Acts of 1993 as amended by Chapter 151, section 113, Chapter 296, section 3 and Chapter 495, section 99 of the Acts of 1993 as further amended and the provisions of regulation 808 CMR 1.00, except as provided in the 'Exceptions/Exemptions' section, every individual, group, partnership, trust, corporation or other legal entity which owns or operates one or more programs of social, special education, mental health, mental retardation, habilitative, vocational, employment and training, or elder services programs, including any program provided pursuant to M.G.L. c. 71B, but excluding any program or service which is reimbursable under Title XIX of the Social Security Act unless required to file by The Division of Health Care Finance and Policy (DHCFP), and from which the Commonwealth of Massachusetts or any of its departments or political subdivisions purchased **social services directly or indirectly through subcontract** (MO3, and MM3) at any time during the Contractor's fiscal year must submit a properly completed Uniform Financial Statements and Independent Auditor's Report (UFR) for that fiscal year. In addition, other organizations such as Day Care Contractors that contract or subcontract with the Department of Early Education and Care (EE&C) (formerly the Office of Child Care Services) may be contractually required to file the UFR and/or be subject to the provisions of 808 CMR 1.00 pursuant to contract terms and conditions executed between the organization and the Commonwealth or other organizations or governmental entities. The provisions of 808 CMR 1.00 require where a Contractor utilizes a Subcontractor to provide some or all of the Human and Social Services or in a program approved by the Department of Education (DOE) under M.G.L. c. 71B, the subcontract between the Contractor and the Subcontractor shall require that all provisions of 808 CMR 1.00 shall apply to the Subcontractor as well. In addition, the Contractor is accountable for the satisfactory performance of Subcontractors and for adequate oversight of its Subcontractors to meet state and federal financial and program reporting requirements. Contractors contracting with the Commonwealth or any and all Subcontractors of such Contractors are strongly urged to provide to those Subcontractors furnishing human and social services to the Contractor or to the Contractor's Subcontractor, additional notification (over and above the terms and conditions of the subcontract(s)) of their UFR filing obligations. Subcontractors should utilize the guidance in the exceptions/exemptions section of these instructions to determine if the Subcontractor qualifies for a UFR filing exception or exemption. See instructions guidance contained in contract information section of Program Supplemental Information Schedule B instruction for further guidance on how to identify Subcontractors.

What to File

One must file a properly prepared Uniform Financial Statements and Independent Auditor's Report (UFR) or a UFR cover page and Exceptions/Exemption documentation, (see Exception/Exemption Documentation Requirements p 25-29) or an alternate report approved by the Operational Services Division (OSD) in accordance with these instructions. An electronic version of the UFR must be filed via the UFR ***eFiling*** application (www.mass.gov/ufr). UFRs forwarded to OSD on paper will not be accepted by OSD for filing purposes and are considered improperly prepared reports. Incomplete or improperly prepared reports forwarded to OSD on paper will be considered deficient until submitted to OSD via the UFR ***eFiling*** application. Deficient UFRs are considered public records and upon request will be made available to the public for review pursuant to the Commonwealth's public record law. The UFR consists of audited basic financial statements, independent auditor's reports, corrective action plans (*if applicable*), unaudited supplemental information (schedules, forms, and letters) and management and board of directors' certifications that are explained in the overview and page-by-page instructions of this document.

OSD considers the audited financial statements of UFR (UFR, Alternate Filing and For-Profit formats) prepared by the Contractor as the Contractor's primary financial statements. All other copies of

Contractor's financial statements such as commercial financial statements must be consistent in all material respects with the UFR financial statements.

The constituent parts of the UFR, as noted above, must be maintained by the Contractor at its place of business under the same cover in a mechanically fastened (bound/plastic spiral) fashion and the supplemental information must be an auditor-submitted document in accordance with The American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 29. and No. 52. (associated with the auditor's name by being referenced in the auditor's report on the financial statements or in a separate report). Piecemeal submissions of the UFR will not be deemed as acceptable by OSD, except as specified in the Refiling and Piecemeal Resubmission section of these instructions. **Applicable management letters and the Audit Services Checklist and Management Certification must be filed with the UFR**. UFR filers subject to the single audit provisions of OMB Circular A-133 should consult the instructions in this document for guidance concerning reporting and filing requirements.

The basic financial statements of the UFR must be prepared and audited as prescribed by the accounting principles and auditing considerations recommended by the American Institute of Certified Public Accountants (AICPA) in its audit and accounting guide, for Not-for-Profit Organizations as required for Voluntary Health and Welfare Organizations (VHWO) and Financial Accounting Standards Board (FASB) statement numbers 116 and 117 (FASB 116 and 117) that are now encompassed in FASB *Accounting Standards codification* (Codification). Furthermore, the guidance contained in FASB 94 should be followed for consolidated financial statements to include the consolidation of all majority-owned subsidiaries as required and as noted below in Consolidated and Combined Financial Statements. The Commonwealth Terms and Conditions for Human and Social Services, executed between most Contractors and the Commonwealth and 808 CMR 1.00, also contractually require the Contractor's (and Subcontractor's) financial statements to be prepared in accordance with the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO) as required for Voluntary Health and Welfare Organizations (VHWO) and that its books and records be maintained in accordance with the generally accepted accounting principles recommended in the same guide. The basic financial statements that are utilized for this year's UFR filing must be prepared using the financial statements in the form illustrated in these instructions and must be audited in accordance with Generally Accepted Government Auditing Standards (GAGAS), which incorporates the AICPA standards for fieldwork and reporting. Basic financial statements of UFRs that have not been prepared and presented as recommended in the AICPA audit and accounting guide for Not-for-Profit Organizations, as required for Voluntary Health and Welfare Organizations, are considered to be improperly prepared and will not be deemed acceptable until corrected and returned to OSD. Generally Accepted Government Auditing Standards are promulgated in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions ("Government Auditing Standards" or "Yellow Book"), issued by the Comptroller General of the United States. The use of an alternate reporting format for UFR filing must be pre-approved by OSD through a waiver process when the Contractor's circumstances and characteristics have not been considered for alternate reporting in the alternate report section or the exceptions/exemption section of these instructions. UFR Preparers who feel they may qualify to file an alternate report should consult the Alternate Reporting section or the Exceptions/Exemptions section of these instructions for further guidance.

Consolidated and Combined Financial Statements

Nonprofit and For-Profit Contractors having Chapters, Affiliates or Subsidiaries should follow the guidance contained in FASB 94/Codification for determining if consolidation should occur because subsidiaries are affiliated and controlled or they control other entities. If consolidation is warranted as prescribed by FASB 94/Codification and all entities hold similar tax status (nonprofit and for-profit) as noted below consolidated UFR basic financial statements should be prepared and audited in accordance with GAAP and GAGAS. In addition, an unaudited schedule of eliminations must be filed as part of the UFR under same cover that discloses all transactions that are eliminated in the preparation of the consolidated financial statements. The disclosure of the eliminated transactions must identify the following:

1. A description of the transactions eliminated, and other transactions to which no amounts or nominal amounts were ascribed, and such other information that is necessary to gain an understanding of the effects of the transactions that have been eliminated.
2. The dollar amount of the transactions eliminated.
3. Amounts due from or to the affiliate that have been eliminated and the terms and manner of settlement.

The UFR format must be utilized for filing of consolidated basic financial statements in accordance with GAAP by all filers, except Hospitals and Universities using the Alternate Reporting provisions of these instructions and as noted in Exemption/Exception number 11 and 12.

Consolidated financial statements must be filed if all of the other entities that your agency controls, or is controlled by, hold a similar tax status (exempt-nonprofit or for-profit) and are organized for the same or similar purposes and if any of the following conditions exist:

A. Your agency joins with any other entity in the registration or annual filing with any regulatory body or the Internal Revenue Service;
B. Your agency is not independently controlled by its own elected board or if there is a requirement for expenses to be approved by other entities;
C. Expenses of your organization are arbitrarily paid by other entities and excluded from your accounts, or expenses of other organizations are arbitrarily paid by your organization and excluded from the other entity's accounts.

Management Letters

Conditions in a Contractor's internal control structure that are not considered significant deficiencies and/or material weaknesses or that do not represent significant deficiencies in the design or operation of the internal control structure that are separately communicated to the Contractor in a management letter and referred to in the Auditor's Report on Internal Controls, in accordance with AICPA Statement on Auditing Standards Nos. 60. and 74, now superseded by SAS 117 and the additional reporting standards or financial statement audits of GAGAS must be filed with the UFR. In addition, nonmaterial instances of noncompliance that represent failures to follow requirements or violations of prohibitions contained in statutes, regulations, or grants and contracts that cause the auditor to conclude that the aggregation of misstatements resulting from those failures or violations is not material to the financial statements and that are separately communicated to the Contractor in a management letter and referred to in the Auditor's Report on Compliance, in accordance with AICPA Statement on Auditing Standards No 117 and the additional reporting standards or financial statement audits of GAGAS, must be filed with the UFR.

Alternate Reporting

The vast majority of organizations filing with OSD are voluntary health and welfare organizations that utilize the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for Not-for-Profit Organizations (ANPO) as required for Voluntary Health and Welfare Organizations (VHWO) for the preparation and audit of their UFRs. These organizations are voluntary health and welfare organizations by virtue of the fact that they are nonprofit organizations that concentrate their efforts and expend their resources in an attempt to solve health and welfare problems of society, and their support is primarily derived from charitable contributions and reimbursements furnished through program service fees and financial assistance furnished by departments of the Commonwealth and cities and towns for the delivery of programs of social services. The Commonwealth and most other government organizations consider revenues derived from government social service program service fees and financial assistance to be public money derived from the general public to be used for general or specific purposes connected with solving health, welfare and community problems.

Public money derived from the Commonwealth is generally available for solving the health, welfare and community problems of society only after a determination has been made that all other sources of revenue, such as voluntary contributions from the general public, are not available. Accordingly, nonprofit organizations that primarily derive their financial support from government social service program service fees and financial assistance must utilize the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO) as required for Voluntary Health and Welfare Organizations for the preparation and audit of their UFR. OSD recognizes that not all UFR filers are organized as nonprofit organizations to solve the health and welfare problems of a society that receives its support primarily from public funds for the delivery of social services.

It is also recognized that use of the Audit and Accounting Guide for Not-for-Profit Organizations (ANPO) as required for Voluntary Health and Welfare Organizations in the preparation and audit of a Contractor's UFR that is clearly not a voluntary health and welfare organization may not meet the Contractor's report user's needs. Many organizations file with OSD because of federal single audit obligations, and if it were not for these obligations, they would file only a cost report with the Division of Health Care Finance and Policy in that a substantial portion of their support is derived from Medicaid service fees.

Other organizations may be for-profit business enterprises. A substantial number of these other organizations need to prepare and have their financial statements audited in accordance with provisions that have been established in various AICPA audit guides for the industry in which they operate.

Contractors that are clearly not voluntary health and welfare organizations by virtue of the fact that they have been organized and incorporated as a college or university, hospital or Contractor of health care services (health care Contractors not meeting the definition of a Voluntary Health and Welfare Organization in FASB 116 or the guidance concerning the receipt of public money from the general public furnished above) should file an alternate report. **Contractors desiring to file the UFR as a Contractor of health care services using the AICPA Audit and Accounting Guide *Health Care Organizations* for the first time must seek prior approval from OSD.**

Colleges, universities, hospitals and Contractors of health care services should file an alternate report consisting of basic financial statements audited in accordance with generally accepted government auditing standards and presented, prepared and audited utilizing the accounting principles, financial statement format and auditing considerations prescribed by the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO) or the appropriate AICPA audit guide for the industry in which the Contractor operates (UFR format not required for financial statements). In addition, each social service program purchased by departments of the Commonwealth or cities and towns must be reported separately in the UFR supplemental schedules. All other revenues and expenses associated with non-social service programs or activities of the Contractor that are <u>not</u> purchased by departments of the Commonwealth or cities and towns should be reported separately as one program in the supplemental schedules of the UFR. The total of all program revenues and expenses reported in the UFR supplemental schedules must reconcile with the appropriate totals for revenues and expenses in the basic financial statements. All unaudited supplemental schedules and information of the UFR must be filed as auditor-submitted documents, in accordance with SAS No. 29. and No. 52. with appropriate reference made in the Auditor's Report on the basic financial statements or in a separate report under the same cover. In addition, if the Contractor is subject to the single audit provisions of OMB Circular A-133, all other auditor's reports, statements and schedules required by OMB Circular A-133 must be filed.

Contractor organizations other than colleges, universities, hospitals and Contractors of health care services that feel they may qualify to file an alternate report must seek pre-approval from OSD prior to filing. Contractor organizations that believe they should utilize the AICPA audit and accounting principles of the Audit and Accounting Guide for Not-for-Profit Organizations (ANPO) for entities previously subject to the AICPA audit guide <u>Audits of Certain Nonprofit Organizations</u> for filing an alternate report must seek pre-approval from OSD prior to filing. The Exceptions/Exemptions section of these instructions also provides specific alternate report filing guidance for certain Contractors that are not discussed above.

Refiling and Piecemeal Resubmission

Full and Complete Refiling of the UFR

The UFR may be refiled electronically a maximum of two times for modifications to the auditor's reports, financial statements, and supplemental information and schedules.

Changes to Nonreimbursable Costs and Offsetting Revenue

Only one refiling for reclassification, re-designation and re-allocation of nonreimbursable costs and offsetting revenues is acceptable.

Piecemeal Resubmission

Resubmission of the Uniform Financial Statements and Independent Auditor's Report (UFR) may occur one time in a piecemeal manner subject to the following restrictions:

1. Any modification to the auditor's opinion on the initial filing of the financial statements or other changes in the Auditor's Reports on the Financial Statements, Internal Controls and Compliance may not be refiled in a piecemeal manner.
2. Any change in the individual account or transaction level of the basic financial statements and notes to the financial statements or filing requirements of the UFR that could be large enough, individually or in aggregate, to be quantitatively and qualitatively material to the initial filing of the financial statements may not be refiled in a piecemeal manner.
3. Changes in the individual account or transaction level of the supplemental financial statements, schedules and information that result in the supplemental information, accompanying UFR financial statements, to be materially inconsistent with the information, or manner of its presentation, appearing in the initial filing of the UFR basic financial statements may not be refiled in a piecemeal manner.
4. All UFR report users must be furnished with copies of all UFR and OMB Circular A-133 changes that have been refiled in a piecemeal manner. OSD must be furnished with evidence by the independent auditor or provider indicating that all report users have been furnished with all UFR and OMB Circular A-133 changes that have been refiled in a piecemeal manner.
5. UFR report users other than OSD may elect not to receive UFR changes refiled in a piecemeal manner. OSD must be notified by the independent auditor or provider of the decision of other report users not to receive UFR changes refiled in a piecemeal manner.
6. OSD will accept only one UFR change refiled in a piecemeal manner.

Audit Services

Procurement of Audit Services

The independent auditor of the UFR must be selected and engaged by the Contractor's audit committee or others with equivalent authority and responsibility such as the board of directors, board of trustees or the owner in owner-managed entities. This **mandatory** guidance is consistent with the concept that the audit committee is an integral part of the agency's internal control environment as well as the need for the audit committee to fulfill its authority and responsibility of oversight of the agency's financial reporting as codified in AICPA Statements on Auditing Standards Nos. 55, 60, 61, 115, and 117.

While not an audit standard of GAGAS or a UFR filing requirement, it is important that a sound procurement practice for goods and services be followed in accordance with GAAP, which is mandated by the Commonwealth Terms and Conditions for Human and Social Services, when contracting for audit services. Sound contract award and approval procedures, including the monitoring of contract performance, should be in place.

The objective and scope of the audit should be made clear. In addition to price, other factors to be considered include: the responsiveness of the bidder to the request for proposal; the past experience of the bidder; availability of bidder staff with professional qualifications and technical abilities; and whether the bidder organization participates in an external quality control review program.

Auditor Responsibility

The comprehensive nature of government auditing places on the audit organization the responsibility for ensuring that the audit is conducted by personnel who collectively have the necessary skills; that independence is maintained; that applicable standards are followed in conducting government audits; and that the auditor organization has an appropriate internal quality control system in place and participates in an external quality control review program. The Operational Services Division recommends that the UFR be audited by an independent auditor that has attended a UFR training session for the year in which the UFR was audited. The Massachusetts Society of Certified Public Accountants (MSCPA) provides annual training on UFR preparation in July each year. Interested parties may access MSCPA training programs by visiting the society's website @ www.mscpaonline.org .

Auditor Qualifications

Audits of the UFR and audits conducted in accordance with the audit provisions of OMB Circular A-133 must be conducted by independent auditors. Independent auditor means:

(1) A federal, state, or local government auditor who meets the standards specified in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions ("Government Auditing Standards" or "Yellow Book") promulgated by the Comptroller General of the United States; or

(2) A public accountant who meets such standards. The public accountants engaged to conduct audits must be: (a) licensed certified public accountants or persons working for a licensed certified public accounting firm; or (b) public accountants licensed on or before December 31, 1970, or persons working for a public accounting firm licensed on or before December 31, 1970.

Accountants and accounting firms meeting these licensing requirements must also comply with applicable provisions of the public accountancy law and rules of the jurisdiction(s) where the audit is being conducted and the jurisdiction(s) in which they are licensed. Public accountants and accounting firms engaged to conduct audits in Massachusetts must be licensed by the Commonwealth of Massachusetts or licensed in other states or Canada in accordance with the reciprocity guidance pursuant to 252 CMR 2.08. The preliminary UFR review procedures employed by OSD include a review for compliance with the above provisions.

Federal Single Audit OMB Circular A-l33

Contractors that expend $500,000 or more in a year in federal awards furnished on a combined basis from the federal government, Commonwealth pass-through departments and other pass-through entities such as other state or local governments and other nonprofit organizations are subject to the audit provisions of federal OMB Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations."

Nonprofit organizations not exempt from filing the UFR and receiving funding from Commonwealth pass-through departments (Commonwealth also includes cities, towns and municipalities purchasing services for Massachusetts Chapter 766 clients) derived from federal financial assistance for the delivery of social services must utilize the basic financial statements of the UFR, except as noted in the What to File and the Exemptions and Exceptions section of this manual, for the purpose of fulfilling their OMB Circular A-133 audit obligations.

Agencywide Single Audit

An agencywide single audit conducted in accordance with the provisions of OMB Circular A-133 must be conducted if the government and nonprofit Contractor expended $500,000 or more in a year in federal awards in more than one federal program (more than one Catalog of Federal Domestic Assistance federal program number (CFDA number) furnished by the federal government, Commonwealth pass-through departments and other pass-through entities as noted above. In addition, an agencywide single audit must also be conducted if the nonprofit Contractor expended $500,000 or more in a year in one federal award (one CFDA number) and the federal program's laws, regulations, or grant agreements of the award required a financial statement audit to be conducted.

Use of the UFR for a federal, agencywide single audit requires that the financial statements, schedule of federal financial assistance and the audit to meet the additional requirements of federal OMB Circular A-133.

Program-Specific Audit

A program-specific audit may be conducted in lieu of an agencywide single audit if the nonprofit Contractor expended $500,000 or more in a year in one federal award (one CFDA number) and the federal program's laws, regulations, or grant agreements of the award did not require a financial statement audit to be conducted. If the nonprofit Contractor elects to have a program-specific audit conducted and the Commonwealth was the pass-through agency the Contractor is exempt from filing the UFR, but a copy of the program-specific audit must be furnished to OSD and the Contractor's PPA. However, if the nonprofit Contractor elected to have a program-specific audit conducted as a result of receiving one federal award from the Commonwealth and the Contractor was not exempt from filing the UFR, a program-specific audit and the UFR must be furnished to OSD and the Contractor's PPA. If the nonprofit Contractor elects to have an agencywide single audit conducted rather than a program-specific audit, as a result of receiving one federal award from the Commonwealth, the agencywide single audit conducted must utilize the basic financial statements of the UFR.

Program-specific audit provisions of OMB Circular A-l33 mandate that the financial statements are prepared and the audit is conducted in accordance with the federal audit guide for the specific program or in accordance with certain procedures prescribed in OMB Circular A-133.

Contractors should review the cover page of each standard service contract for social services to determine if the contract was federally funded. The contract may be considered totally federally funded if a Catalog of Federal Domestic Assistance (CFDA) Number has been listed without modifying language concerning match requirements being included in the contract or in a separate letter. Preparers of the UFR should apply the matching information provided in the payment box or in the separate letter to the revenues received from the Commonwealth contract to compute the total amount of federal assistance provided by that contract.

Prior to preparing financial statements and conducting the audit of the UFR nonprofit Contractors and independent auditors are strongly urged to consult the following requirements: OMB Circular A-133, as revised for "Audits of States, Local Governments, and Non-Profit Organizations" with fiscal years ending on or after June 30, 1997, FASB Codification, and the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO) as required for Voluntary Health and Welfare Organizations.

Major Auditee and Pass-Through Agency Responsibilities of OMB Circular A-133

The provisions of OMB Circular A-133 include certain major responsibilities for the government and nonprofit Contractor as the auditee and the Commonwealth purchasing departments as the pass-through entity that must be observed as follow:

Major Auditee Responsibilities

The nonprofit Contractor receiving federal financial assistance must fulfill the following requirements:

1. Identify, in its accounts, all federal awards received and expended and the federal programs under which they were received. Federal program and award identification must include, as applicable, the CFDA title number, award number and year, name of the federal agency, and name of the pass-through entity.
2. Maintain internal control over federal programs that provides reasonable assurance that the nonprofit Contractor is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.
3. Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its federal programs.
4. Prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with the provisions of OMB Circular A-133.
5. Ensure audits required by OMB Circular A-133 are properly performed and submitted when due.
6. Follow up and take corrective action* on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with the provisions of OMB Circular A-133.

Major Pass-Through Agency Responsibilities

The Commonwealth and other pass-through agencies must perform the following major responsibilities for the federal awards they make:

1. Identify Federal awards made by informing each nonprofit subrecipient of CFDA title and number, award name and number, award year, if award is a Research and Development award, and name of federal agency. When some of this information is not available, the pass-through agency must provide the best information available to describe the federal award.
2. Advise each nonprofit subrecipient of requirements imposed on them by federal laws, regulations, and the provisions of contracts and grant agreements, as well as any supplemental requirements imposed by the pass-through entity.
3. Monitor the activities of the nonprofit subrecipient as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and performance goals are achieved.
4. Ensure that nonprofit subrecipients expending $500,000 or more in federal awards during the nonprofit subrecipient's fiscal year have met the audit requirements of this part for the fiscal year, and that government subrecipients subject to OMB Circular A-133 have met the requirements of the Circular.
5. Issue a management decision on audit findings within six months after receipt of the nonprofit subrecipient's audit report and ensure that the nonprofit takes appropriate and timely corrective action.
6. Consider whether nonprofit subrecipient audits necessitate adjustments of the pass-through entity's own records.
7. Require each nonprofit subrecipient to permit the pass-through entity and its auditors to have access to the records and financial statements, as necessary, to comply with the provisions of OMB Circular A-133.

* In accordance with the guidance provided in OMB Circular A-133 "**Audits of States, Local Governments, and Non-Profit Organizations"**

Subpart C—Auditees: §.315 Audit findings follow-up:

(a) **General**. The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. The auditee shall also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings and the corrective action plan shall include the reference numbers the auditor assigns to audit findings under **§.510(c)**. Since the summary schedule may include audit findings from multiple years, it shall include the fiscal year in which the finding initially occurred.

c) **Corrective Action Plan**. At the completion of the audit, the auditee shall prepare a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date.

To ensure compliance with the above sections of OMB Circular A-133 and compliance with the provisions of 808 CMR 1.04(10) OSD is requiring contractors to include with their FY '2013 UFR filings a Corrective Action Plan (CAP) if applicable to address all independent auditor's audit findings. Contractor's must use the OSD-formatted Corrective Action Plan and upload the completed and signed plan to the UFR eFiling System along with their annual filing.

OMB Circular A-133 Sanctions

No audit costs may be charged to federal awards when audits required by OMB Circular A-133 have not been made or have been made but not in accordance with the provisions of OMB Circular A-133. In cases of continued inability or unwillingness to have an audit conducted in accordance with OMB Circular A-133, the circular indicates that federal agencies and pass-through entities shall take appropriate action using sanctions such as:

1. Withholding a percentage of federal awards until the audit is completed satisfactorily.
2. Withholding or disallowing overhead costs.
3. Suspending federal awards until the audit is conducted.
4. Terminating the federal award.

Auditor Access to Client Records Maintained by the Contractor

The provisions of St. 1193, c. 110, s. 274, as amended by St. 1993, c. 151, s. 113, St. 1193 , c. 296, s. 3 and St. 1993, c. 495, s. 99 of the Division of Purchased Services' of the Operational Services Division Enabling Legislation includes the following provision regarding access to client records by independent auditors:

"The disclosure of client records by providers to auditors, including independent auditors as defined by Federal Office and Management and Budget Circular A-133, as amended, as necessary to comply with state and federal audit requirements shall not constitute an invasion of privacy, or other wise be grounds for civil or criminal penalty."

UFR Template Submission

Contractors that have been furnished with templates by OSD via our website at www.mass.gov/ufr must submit the **completed** templates together with all other UFR materials to OSD using the UFR ***eFiling*** application. Revised templates for FY '2013 have been developed for this purpose and must be used for preparation of the UFR. See instructions accompanying the template for details.

Typed or Computer-Generated Submission

Paper copies of the Uniform Financial Statements and Independent Auditor's Report will not be accepted by OSD. Handwritten documents will be deemed not received or improperly prepared and the document will have to be *"electronically"* resubmitted. All Contractors must utilize the UFR ***eFiling*** application to file the UFR templates that have been furnished by OSD free of charge.

Notification of Mergers and Other Organizational Changes

Organizations that have merged with another entity are exempt from certain UFR filing requirements. Exception/exemption number 13 and 14 of these instructions provides UFR filing guidance for organizations that have merged during the UFR reporting period. Contractor organizations that have changed names, merged or consolidated must provide the Operational Services Division (OSD) with an uploaded copy of amended or restated Articles of Organization prior to using a new name when filing the UFR. In addition, charitable organizations that vote to close affairs must upload a copy of the petition for dissolution that has been reviewed by the Division of Public Charities and approved by the supreme judicial court. Nonprofit, non-charitable organizations and for-profit organizations that vote to close affairs must upload to the UFR ***eFiling*** system a copy of notification from the Office of the Secretary of State of the entry of a Decree for Dissolution with the supreme judicial court or superior court. Contractor organizations must furnish OSD with the above-noted dissolution documentation before a determination can be made that the Contractor is no longer subject to UFR filing requirements.

When to File and Extensions

A properly completed Uniform Financial Statements and Independent Auditor's Report or exemption documentation must be submitted via the UFR ***eFiling*** application on or before the 15th day of the fifth month after the close of the Contractor organization's fiscal year. For example, if your fiscal year ends June 30th, the Report must be filed on or before November 15th of that year. The Operational Services Division may in exceptional circumstances, grant one extension of the filing deadline for submission of the reporting requirements contained in 808 CMR 1.04(2) and (6). A written request for an extension must be received by OSD via the UFR ***eFiling*** application prior to the original due date. An extension request must exhibit credible cause beyond the control of the Contractor such as serious illness of key financial staff; breach of contract by the independent auditor or a natural disaster.

Colleges, Universities and Hospitals that are subject to the provisions of OMB Circular A-133 must submit via the UFR ***eFiling*** application a properly completed Uniform Financial Statements and Independent Auditor's Report or exemption documentation on or before nine months after the end of the Contractor's Fiscal Year.

Penalties and Sanctions

The regulations of the Operational Services Division provide for appropriate sanctions for failure to comply with important legal and contractual requirements and obligations. Massachusetts's law also requires OSD to impose civil penalties for a Contractor's failure to comply with the requirements on related party transactions, inventory of furnishings and equipment, and mortgage principal non-reimbursability. Penalties to be levied for failure to comply the regulatory requirements of 808 CMR 1.04 including the filing of a properly completed UFR are as follows:

Application.
The Operational Services Division and, Secretariats and Departments have authority to pursue remedial measures and assess penalties under the provisions of 808 CMR 1.04(11). In addition, OSD or Secretariats may require Departments or the Office of the Comptroller to take action necessary to carry out any penalty assessed by OSD or Secretariats. The availability of penalties under 808 CMR 1.04 shall not limit the Commonwealth's rights to pursue other remedies available by law, regulation, contract or the audit resolution policy.

(a) Failure to Comply with 808 CMR 1.04(1), (2), (3),(6),(8), (9) or (10). If a Contractor fails to comply with 808 CMR 1.04(1), including correction of deficiencies, 808 CMR 1.04(2), (3), (6), (7), (8), (9) or (10) in a timely manner, regardless of the stated reason, the Contractor may be subject to penalties up to and including: delay of payment, disallowance of payment of expenses relative to which documentation sufficient to meet the governmental agencies' inspection or auditing standards is not provided, restriction on bidding for new contracts, restriction from receiving additional funds or price increases, determination that the Contractor is ineligible for the ready payment system under 815 CMR 3.00, or debarment from doing business with the State. In addition, Contractors of special education services shall be deemed ineligible for an increase to prices authorized pursuant to the provisions of 808 CMR 1.06.

(b) Failure to Comply with 808 CMR 1.04(4), 1.04(5) or 1.05. If, after a hearing, DPS finds a violation of 808 CMR 1.04(4), 1.04(5) or 1.05, DPS may order that the contract(s) directly affected by such violation be terminated or may assess a civil penalty of not more than $2,000 or 10% of the Contractor's annual Maximum Obligation under such contract(s), whichever is greater. If DPS determines after a hearing that a Contractor has committed repeated willful violations of 808 CMR 1.04(4), 1.04(5) or 1.05, DPS may debar the Contractor for a period not to exceed five years.

Effective Date

The 6/30/2013 version of the Uniform Financial Statements and Independent Auditor's Report and its instructions are effective for Contractors and Subcontractors noted in the Who Must File? section above that have fiscal years ending on June 30, 2013 or prior to the end of the Commonwealth's Fiscal Year Ending June 30, 2013, and for other Contractors receiving separate notification to file during this period.

Where to File

The Uniform Financial Statements and Independent Auditor's Report *(*UFR) or, a UFR Cover Page, and Exemption Documentation, and completed templates must be filed with OSD via the UFR *eFiling* application at the following internet address:

www.mass.gov/ufr

A UFR forwarded to OSD on paper will not be accepted by OSD for filing purposes and are considered improperly prepared reports. Incomplete or improperly prepared reports forwarded to OSD on paper will be considered deficient until submitted to OSD via the UFR *eFiling* application.

All correspondence regarding UFR filings including extension and waiver requests, responses to deficiency notifications and responses to OSD's Request For Additional Information must be uploaded to the entity's file in the UFR ***eFiling*** System. UFR filing help may be obtained by contacting the Operational Services Division-Bureau of Audit's help lines at Phone: UFR Help Line (617) 720-3150 or by email at efilehelp@state.ma.us

EXCEPTIONS/EXEMPTIONS

Your organization may be relieved of some or all of the filing requirements. Requests for an exception or exemption must be submitted via the UFR ***eFiling*** application. The following exceptions and exemptions are available:

(Note that certain of these exemptions as numbered below may not be available in future years.)
SPECIAL NOTIFICATION: Filers of the Uniform Financial Statements and Independent Auditor's Report **must** meet all other federal and state governmental reporting and filing requirements and deadlines, including those of the Attorney General's Public Charities Division. The federal single audit provisions of OMB Circular A-133, as noted throughout this document, apply to all of the exceptions and exemptions noted below. **The provisions noted below also apply to Subcontractors that furnish social services to Contractors of the Commonwealth or to their Subcontractors as defined in the Who Must File section of these instructions.**

2. **Nonprofit Organizations with Very Limited Revenues and Support:** If your nonprofit organization is not a Chapter 766 school, *and* had gross revenues less than $100,000 from all sources during your organization's reporting year. ***See exempt filing #2a, #2b and #2c for documentation options in the Exceptions/Exemptions Documentation Requirements Matrix***.
3. **Small Nonprofit Organizations:** If during your nonprofit organization's reporting year your agency had gross revenues equal to or greater than $100,000 but less than $500,000* from all sources. ***See exempt filing #3 for documentation requirements in the Exceptions/Exemptions Documentation Requirements Matrix***. This provision does not apply to "for-profit" business enterprises.

   * **Note:** *Revised audit threshold effective for contractors with Fiscal Years Ending 12/31/2004, or later.*
4. **Governmental Agencies:** If your organization is a governmental agency, city, town municipality, local education authority, or regional school district it is exempt from filing the UFR.

   Other government organizations including, committees, education collaboratives, public entities or quasi-government agencies that are not considered agencies of the Commonwealth that do not qualify for other exemptions and exceptions and are **NOT** required to file financial statements audited in accordance with GAGAS and OMB Circular A-133 with the Bureau of Accounts (of the Division of Local Services) in the Commonwealth's Department of Revenue (DOR) **do not** qualify for this exemption as a government agency.

   See exempt filing #4 and #4a for documentation requirements in the Exceptions/Exemptions Documentation Requirements Matrix
5. **Business Enterprise:** If your organization (corporation, company, partnership, limited liability company, proprietorship etc.) is a taxable "for-profit" entity (contractor) that had gross revenues in excess of $100,000 from all sources or a for profit contractor with gross revenues less than $100,000 from all sources during your organization's reporting year. ***See exempt filing #5* and #5a *for documentation requirements in the Exceptions/Exemptions Documentation Requirements Matrix.*** **Note: The basic financial statements of the UFR must not be utilized by for-profit entities.**
6. **Foreign Nonprofit Organizations and Business Enterprises:** If your organization only operates programs outside Massachusetts and does not serve Massachusetts Chapter 766 clients, and the total number of Massachusetts clients in each program is less than twenty-five percent (25%) of that program's annual capacity, your organization is not required to file this Report. A completed UFR cover page must be submitted as evidence of exemption. ***See exempt filing #6 for documentation requirements in the Exceptions/Exemptions Documentation Requirements Matrix***

7. **Chapter 766 Approved Schools:** The following exemptions and exceptions apply only to Chapter 766 approved schools:

   A. If your organization is operating only a Chapter 766 approved school outside of the Commonwealth and the Commonwealth-funded students represent fewer than twenty-five percent (25%) of your total school enrollment as noted above, your organization is not required to file this Report.

   B. Certain exceptions apply if your organization is operating only a Chapter 766 approved school outside of the Commonwealth and Commonwealth-funded students represent over twenty-five percent (25%) of your total enrollment as noted above.

   See exempt filing #7* and #7a *for documentation requirements in the Exceptions/Exemptions Documentation Requirements Matrix

8. **Division of Health Care Finance and Policy Filers:** If your organization is not a Chapter 766 school and is required to file a Cost Report with the Division of Health Care Finance and Policy (DHCFP) this year which encompasses total organizational expenses, as noted above, your organization may be exempt from filing the UFR. Qualifying Division of Health Care Finance and Policy Cost Reports include the following:

   A. Home Health Agencies Cost Report.
   B. DHCFP – 403A Cost Report for Intermediate Care Facility for the Mentally Retarded (ICFMR).
   C. Adult Day Health Cost Report – Exemption applies only to stand-alone programs or for programs that are carried out by multi-service centers that have not received funding furnished through Purchase Of Service (POS) contracts.

   Note: This exemption is not available to Contractors that operated a psychiatric day treatment program or an outpatient mental health clinic. For example, a contractor does not qualify for this exemption if it operated an Adult Day Health program filed the Adult Day Health Cost Report with DHCFP, and also operated an outpatient mental health center.

   See exempt filing #8 for documentation requirements in the Exceptions/Exemptions Documentation Requirements Matrix. Hospitals should follow the guidance contained in the Alternate Filing Provisions of these instructions and the documentation requirements in the Exceptions/Exemptions Documentation Requirements Matrix for Hospitals and Universities.

9. **Limited Commonwealth Funding:** The following exemption applies to all Contractors, including Chapter 766 approved schools: If during your organization's reporting year the revenues received directly or indirectly (subcontracting) from the Commonwealth (including Chapter 766 revenues from cities and towns) for social service programs was less than $100,000 your organization is exempt from filing this report. ***See exempt filing #9a, #9b, #9c, #9d, and #9e for various documentation options in the Exceptions/Exemptions Documentation Requirements Matrix.***

10. **Area Agencies on Aging:** The UFR is not required to be filed for fiscal years ending at anytime during calendar year 2009 if your organization qualifies for exemption number 9 (EOEA Federal pass-through funds excluded) and is an area agency on aging but not a. Aging Services Access Point (ASAP)).

    Homemaker Organizations: that do not provide social services directly to the Executive Office of Elder Affairs (EOEA) but rather through a subcontract with Aging Services Access Points (ASAPs) are required to file the UFR this year consistent with the filing requirements contained in these instructions for social service Contractors. Homemaker organizations that provide social services directly to or through subcontract to departments of the Commonwealth (through MO3, and MM3 object codes) should observe the UFR filing requirements contained in these instructions for social service Contractors. ***See exempt filing #10a and #10b for documentation requirements in the Exceptions/Exemptions Documentation Requirements Matrix.***

11. **National Nonprofit and For-Profit Chapters, Affiliates or Subsidiaries:** Certain exceptions apply to **e**ntity that are controlled and have interlocking operations and finances with national entities that operate in 39 states or more. ***See exempt filing the guidance furnished in Consolidated and Combined Financial Statements Section of these instructions and exempt filing #11 for documentation requirements in the Exceptions/Exemptions Documentation Requirements Matrix.***

12. **State and Regional Nonprofit and For-Profit Chapters, Affiliates or Subsidiaries: Contractors (other than chapters or affiliates of national entities as noted above in 11):** Certain exceptions apply to entities that operate in less than 39 states, which are affiliated and controlled or control other entities. An unaudited schedule of eliminations must be filed as part of the UFR under same cover that discloses all transactions that are eliminated in the preparation of the consolidated financial statements. The disclosure of the eliminated transactions must identify the following:

    4. A description of the transactions eliminated, and other transactions to which no amounts or nominal amounts were ascribed, and such other information that is necessary to gain an understanding of the effects of the transactions that have been eliminated.

    5. The dollar amount of the transactions eliminated.

    6. Amounts due from or to the affiliate that have been eliminated and the terms and manner of settlement.

    The UFR must be utilized for filing of consolidated basic financial statements in accordance with GAAP by all filers, except as noted above in 11, and for for-profit entities.

    The Contractor may file consolidated financial statements using the guidance noted above, if the other entities that your agency controls, or is controlled by, does not hold a similar tax status. Consolidated financial statements must be filed if all of the other entities that your agency controls, or is controlled by, hold a similar tax status (exempt-nonprofit or for-profit) and are organized for the same or similar purposes and if any of the following conditions exist:

    D. Your agency joins with any other entity in the registration or annual filing with any regulatory body or the Internal Revenue Service;

    E. Your agency is not independently controlled by its own elected board or if there is a requirement for expenses to be approved by other entities;

    F. Expenses of your organization are arbitrarily paid by other entities and excluded from your accounts, or expenses of other organizations are arbitrarily paid by your organization and excluded from the other entity's accounts.

    See exempt filing the guidance furnished in Consolidated and Combined Financial Statements Section of these instructions and exempt filing #12 for documentation requirements in the Exceptions/Exemptions Documentation Requirements Matrix.

13. **Merger and Change in Fiscal Year:** If your organization's fiscal year has changed during this filing period (this exemption should be used for changes in an organization's fiscal year because of a merger with another organization), your organization is exempt from certain UFR filing requirements. However merging entities may not utilize the accounting concept known as a "pooling of interests," as described in APB Opinion No. 16, Business Combinations for UFR Filing Purposes. The existence of certain regulatory and contractual provisions, including the Not-for-Profit Contractor Surplus Revenue Retention Policy, Pricing for M.G.L. c. 71B Approved Private School Programs, cost reimbursement contract provisions, non-reimbursable cost and offsetting income provisions, do not permit the Commonwealth to accept financial statements as noted in the preceding sentence as part of the UFR filing. Organizations that have merged may find it necessary to prepare their financial statements that are filed as part of the UFR on a prescribed basis. Organizations that have merged during this filing period should also review the provisions of exception/exemption number 14 noted below. ***See Notification of Mergers and Other Organizational Changes section of these instructions and the exempt filing guidance furnished in Consolidated and Combined Financial***

Statements Section of these instructions and exempt filing #13 for documentation requirements in the Exceptions/Exemptions Documentation Requirements Matrix.

14. **Partial Year Filing:** If this is your organization's first year of contracting with the Commonwealth, and a full fiscal year of financial activity has not occurred during this filing period, or if your organization has terminated its contracts with the Commonwealth and a full fiscal year of financial activity has not occurred during this filing period (organizations that have merged with another entity during the filing period should also review exception\exemption number 13 noted above), your organization is exempt from certain UFR filing requirements. For periods in excess of five months in which your organization held contracts with the Commonwealth or was a Chapter 766 approved School and received in excess of $250,000 in revenue and support from all sources, the Contractor should follow the appropriate guidance found in provisions 2 through 12 of this section ***See exempt filing #14 for documentation requirements in the Exceptions/Exemptions Documentation Requirements Matrix***

15. **Colleges, Universities, Hospitals:** See the guidance contained in the Alternate Filing Provisions of these instructions and the documentation requirements in the Exceptions/Exemptions Documentation Requirements Matrix for Hospitals and Universities***. Colleges, Universities and Hospitals that are subject to the provisions of OMB Circular A-133 must submit via the UFR eFiling application a properly completed <u>Uniform Financial Statements and Independent Auditor's Report</u> or exemption documentation on or before nine months after the end of the Contractor's Fiscal Year.***

EXCEPTIONS/EXEMPTION DOCUMENTATION REQUIREMENTS MATRIX

Best Viewed at 200%

PLEASE REVIEW EXCEPTIONS/EXEMPTIONS IN PREVIOUS PAGES FOR APPROPRIATE EXCEPTION/EXEMPTION CRITERIA

Transaction Type	Sub Category	Cover Page	OSD Expenditures & Federal Funds Listing Letter	Independent Auditors Report on the Financial Statements	Auditor Report on Internal Control and Compliance-GAGAS	Independent Accountant's Review Board	Audited Financial Statements (UFR-Format)	Audited Financial Statements (non UFR-Format)	Reviewed Financial Statements (UFR-Format)	Reviewed Financial Statements (non UFR-Format)	UFR Supplemental Schedules	Notes to the Financials	OMB A-133	Board of Acknowledgement Letter	Auditor's Checklist & Certification Form	Auditor's Management Letter	Other 1(Please Specify)	Other 2(Please Specify)	AG PC Form
UFR Filing		X		X	X		X				X	X	X*	X	X	X**			
Exempt Filing #2a	Nonprofit Organizations with Very Limited Revenues and Support	X		X				X				X							
Exempt Filing #2b	Nonprofit Organizations with Very Limited Revenues and Support	X																	Xb
Exempt Filing #2c	Nonprofit Organizations with Very Limited Revenues and Support	X																	Xb
Exempt Filing #3	Small Nonprofits Organization > $100K < $500K***	X				X			X		X	X				X**			
Exempt Filing #4	Government Agencies	X																	
Exempt Filing #4a	Government Agencies Non-DOR Filer	X		X	X			X			X	X	X*			X**			
Exempt Filing #5	Business Enterprise (for-profit)> $100K	X		X	X			X			X	X		X	X				
Exempt Filing # 5a	Business Enterprise < $100K in Goss Revenue	X	X																
Exempt Filing #6	Foreign Nonprofit Organizations and Business Enterprises	X											X*						
Exempt Filing #7a	Chapter 766 Approved Schools-A < 25% MA Students	X																	
Exempt Filing #7b	Chapter 766 Approved Schools-B > 25% MA Students	X		X				X				X	X*						
Exempt Filing #8	Division of Health Care Finance Policy Filers	X											X*				Xa		
Exempt Filing #9a	Limited Commonwealth Funding < $100K in Commonwealth Revenue	X				X				X									
Exempt Filing #9b	Limited Commonwealth Funding < $100K in Commonwealth Revenue	X		X				X				X							
Exempt Filing #9c	Limited Commonwealth Funding < $100K in Commonwealth Revenue	X																	Xb
Exempt Filing #9d	Limited Commonwealth Funding < $100K in Commonwealth Revenue	X																	Xb
Exempt Filing #9e	Limited Commonwealth Funding < $100K in Commonwealth Revenue	X	X																
Exempt Filing #10a	Area Agencies on Aging if #9 applies and not ASAP	X																	Xb
Exempt Filing #10b	Area Agencies on Aging if #9 applies and not ASAP	X																	Xb
Exempt Filing #11	National Nonprofits and For-Profits Chapters, Affilaties or Subsidiaries	X		X				X			X	X	X*	X	X	X**			
Exempt Filing #12	State and Regional Nonprofits and For-Profits Chapters, Affilaties or Subsidiaries	X		X	X		X				X	X	X*	X	X	X**		Xc	
Exempt Filing #13	Merger and Changes in the Fiscal Year < 5 months of operation < $250K Gross Revenue	X				Xd			Xd		X	X		X	X				
Exempt Filing #14	Partial Year Filing < 5 months of operation < $250K Gross Revenue	X				Xd			Xd		X	X		X	X				
Alernative Filing	Hospitals and Universities	X		X	X			X			X	X				X**	Xe		

Key:

* Only requires if contractor is subject to A-133 based on the level of Federal Funds provided.

** Required if Management Letter indentified in the Auditor's Report(s) on Internal Control & Compliance

*** Revised Audit Thershold effective for Fiscal Years ending on 12/31/2004 or after.

Xa: certification page from HCFP Cost Report

Xb: Under the exemption form PC or Tax Return suitable alternative documention for exemption.

Xc: Schedule of eliminating Entries

Xd:stub period filers(< 5 months with <$250K gross revenue) can be substitute reviewed financial statements

Xe: written request for prior approval

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KEY CONCEPTS

Responsibilities of Independent Auditor and Management for the Organization's Financial Statement

The American Institute of Certified Public Accountants has issued various statements on auditing standards (SAS) which clarify the responsibilities of the auditor and the management of the organization for the financial statements. These statements include SAS No. 26; SAS No. 29; SAS No. 32; SAS No. 35, SAS No. 58, SAS 112 (superseded by SAS 115) and SAS 117.

Financial statements of most tax-exempt Contractor entities are composed of basic financial statements and supplemental financial statements, schedules and information.

Some financial statements and information are subject to the auditor's examination and expression of opinion and others are not, as follow:

- Basic financial statements for tax-exempt Contractor organizations which are subject to the expression of the auditor's opinion are listed in the first paragraph of the Independent Auditor's Report. These basic financial statements generally consist of the Balance Sheet (Statement of Position), statements of activities, cash flows and functional expenses.
- Other presentations that are identified as being part of the basic financial statements are subject to the expression of the auditor's opinion. These presentations, offered in conjunction with the basic financial statements, include descriptions of accounting policies, notes to financial statements, and schedules and explanatory material.

  The auditor has no obligation to apply auditing procedures to supplemental financial statements, schedules, and information accompanying the basic financial statements which the auditor is not engaged to report on. The auditor's responsibility with respect to other information in a document does not extend beyond the financial statements identified in his/her report, and the auditor has no obligation to perform procedures to corroborate other information contained in a document. However, the auditor may choose to modify or redirect certain of the procedures to be applied in the audit of the basic financial statements so that he/she may express an opinion on the accompanying information.

Management responsibilities for the financial statements

- Although the auditor may participate in the preparation of financial statements, the statements are representations of management, and the fairness of the financial statements' presentation in conformity with generally accepted accounting principles (GAAP) is management's responsibility. In summary, management is responsible for the preparation and fairness of all the financial statements, notes to financial statements and schedules.

The auditor's responsibilities for the financial statements

- The auditor's responsibility is to audit and express an opinion on certain of the basic financial statements that are considered necessary for presentation of financial position and the results of operations and changes in fund balances in conformity with GAAP.
- If management omits from the financial statements, including the accompanying notes, information that is required by generally accepted accounting principles, the auditor should express a qualified or an adverse opinion and should provide information in his/her report, if practicable, unless its omission from the auditor's report is recognized as appropriate by a specific SAS. In this context, practicable means that the information is reasonably obtainable from management's accounts and records, and the providing of the information in his/her report does not require the auditor to assume the position of a preparer of the financial information.

- When an auditor submits a document containing audited financial statements to his/her client or others, he/she has a responsibility to report on all the information included in the document. The auditor's responsibility with respect to information in a document does not extend beyond the financial information identified in his/her auditor's report, which usually includes supplemental financial statements, schedules and information. However, he/she should read the other information and consider whether such information or the manner of its presentation is materially inconsistent with information, or the manner of its presentation, appearing in the basic financial statements.

If the auditor concludes, on the basis of facts known to him, that any accompanying information is materially misstated in relation to the basic financial statements taken as a whole, he/she should discuss the matter with the client and propose appropriate revision of the accompanying information. If the client will not agree to a revision of the accompanying information, the auditor should either modify his report, to describe the misstatement or refuse to include the information or the use of his auditor's report in the document, or withdraw from the engagement, depending on the particular circumstances and the significance of the inconsistency in the other information.

Program Service

Programs funded fully or in part by contracts with the Commonwealth as the result of a request for response process or through earmarking by the legislature are contractually established jointly by the Contractor and the Commonwealth purchasing department furnishing the funding. Other programs are established and approved to provide services mandated by the Department of Education under the provisions of M.G.L. c. 71B or to provide services included in a program price approval by OSD. The financial and performance activities associated with the programs described above must be disclosed in the UFR in the same manner as was jointly agreed to in the contracts for the program executed between the Contractor and Commonwealth purchasing department or as approved by the Department of Education or as contained in a price approval by OSD. Programs jointly established by the Contractor and the Commonwealth purchasing department must utilize the same UFR program number that was jointly agreed upon in the contract executed between the Contractor and the Commonwealth purchasing department. Failure to utilize and disclose programs and their numbers in the UFR as agreed to in contract documents is a departure from the terms and conditions of the contract resulting in a breach of the contract and an accounting irregularity caused by noncompliance with OSD regulatory provisions.

The program is an integrated and coordinated delivery of a mix of services or a service and resources assigned and shared by clients to assist the clients in achieving a common objective, alleviate a common problem or meet a common need. For instance, a mental retardation program for supported employment that is designed to help clients obtain employment may consist of counseling services, case management services, certain job search activities and medical services. To properly complete the UFR, it is essential that the preparer understand that program resource and cost information is used to develop program prices. It is also important to understand that program prices utilized by clients receiving services in the program must either be derived from Commonwealth-sponsored (finances the delivery of a program of services or service to a client) clients eligible to receive program services purchased by the Commonwealth or other clients sponsored and supported by private entities. An adequate level of financial support must be furnished via the program prices paid by private entities to provide the resources utilized and services received by privately sponsored clients in the Commonwealth purchased program. In addition, an adequate level of financial support (offsets) must also be furnished in prices paid by third party payers to adequately defray the cost incurred by the Commonwealth to furnish the resources utilized to provide the third party services.

A common error in preparing this form is to separately report the costs associated with each unit rate contract rather than the costs associated with all of the unit rate contracts that fund each program. Separately reporting the costs associated with each contract is correct when the program budget document is related to one cost reimbursement contract. Each cost reimbursement contract constitutes one program that must be disclosed separately in the UFR. Reporting contract costs is correct for a negotiated unit rate contract only when the program budget document clearly indicates that all contract program costs will be defrayed by funding derived from the following:

- A single Commonwealth purchasing department;
- Budget offsets; and by
- Private purchasers;

and that the sole Commonwealth purchasing department and the other private purchasers will purchase the program's entire capacity. An example of such a program is the early intervention 89-313 supplemental services program that should be reported separately from the basic early intervention program.

Program budget offsets are derived from the Contractor's unrestricted or restricted funds, payments from state purchasing departments and Medicaid for services purchased using the Division of Health Care Finance and Policy's established Medicaid eligible class rates and revenues from private sources such as the United Way. Negotiated unit rate and cost reimbursement contracts may not be used for program budget offsets.

In some cases a Commonwealth department may establish a non-negotiated unit rate for a program or contract for a program composed only of services for which the department or the Division of Health Care Finance and Policy has established a non-negotiated (class) rate. These various services and their rates are separately identified in the program documents of the contract and should be reported in the UFR as a single program.

Frequently, several Commonwealth and private purchasers will acquire the services of a single program that has been negotiated by a Commonwealth department. In this situation, each contract may have different maximum obligations, but all contracts will utilize the same program budget and will have identical unit rates. The contracts that have been executed between the secondary Commonwealth purchasing departments and the Contractor (program budget may have third party Medicaid eligible class rate offsets) are all assigned the same UFR program number. **A program budget may never be supported by funding derived from multiple cost reimbursement contracts or a combination of negotiated unit rate contracts and cost reimbursement contracts**. Each program budget that has multiple contracts associated with it is assigned a UFR program number by the Contractor and Commonwealth department that initially negotiated the program. The UFR program number appears on the service contract cover page and the program budget. Additional guidance requirements concerning secondary purchases and cost reimbursement contracts may be found in selected sections of the EOHHS Secretariat Guidelines to Purchasing Agencies for Procurement and Contracting for Social and Rehabilitative Services that are part of the attachments to the UFR Auditor's Compliance Supplement.

The same UFR program number that has been assigned by the Contractor and purchasing department on these separate contract and budget documents must be utilized for reporting UFR program activity in the UFR. In limited situations, with prior approval from OSD and the Commonwealth purchasing department, a program may be supported with funding derived from a combination of a negotiated unit rate payments and cost reimbursement payments. Programs that have received prior approval from OSD and the Commonwealth purchasing department to be supported by a combination of a negotiated unit rate payments and cost reimbursement payments are disclosed as follows: Negotiated unit rate activity and cost reimbursement activity are disclosed as separate revenue and cost centers in the UFR program (ex. program 1-1 and 1-2 or 1-a and 1-b). Failure to utilize the same program number assigned to the program budget in the UFR is considered to be a UFR filing deficiency unless there are extenuating circumstances.

Another common error is to report the costs associated with broad program categories that sometimes have the same MMARS program code - such as all residential services, all mental health services or all sheltered workshop services - as a single amount rather than distinguishing the individually purchased and priced programs that have separate program numbers and rates assigned to their respective service contracts covering these broad categories. These programs often require a different mix of services to accommodate client needs (clients located in urban areas may need to learn how to use public transportation) because they are operated in different regions of the Commonwealth.

In the case of programs purchased by the Executive Office of Health and Human Services (EOHHS), or any of its departments, the identification of programs is simplified by an attachment to the instructions which lists each type of program purchased by EOHHS departments and the corresponding MMARS program codes.

The establishment of a program in the UFR that furnishes services solely to private or Non-Commonwealth sponsored clients is only appropriate if a separate set of resources from Commonwealth supported resources are used to furnish the services as follows:

1. The acquisition, maintenance and upkeep of the facilities, equipment and supplies used to furnish services to the private or Non-Commonwealth sponsored clients was **not** derived from Commonwealth funding.
2. No part of the salaries, fringe benefits and other expenses associated with the staff used to furnish services to the private or Non-Commonwealth sponsored clients was derived from Commonwealth funding.
3. None of the services furnished to the private or Non-Commonwealth sponsored clients at the time of delivery of the services were shared with or utilized by Commonwealth sponsored clients.

In addition, it is important to remember when establishing a program in the UFR that methods for charging or allocating expenditures for the purpose of reporting expenses in the UFR that utilize budgeted or received revenues, budgeted costs and anticipated or received contract reimbursements rather than resource usage bases are not acceptable or in accordance with Generally Accepted Accounting Principles.

Full-Time Equivalents (FTEs)

FTEs are a method of measuring the amount of time that a part-time employee works in terms of a full-time equivalent holding a comparable job. If 40 hours a week defines a full week (as noted in the organization's personnel policies and/or program proposal or description), then 40 hours of combined part-time work for a given position is 1.00 FTE and 20 hours is .5 FTE. The full-time work week for any given position **should never total to more than 1.00 FTE** even if employees consistently work more hours a week than the defined work week (overtime).

Contractor's with employees that work more hours a week than the defined work week and are paid overtime for such work are asked to disclose the expense associated with overtime in Program Supplemental Information Schedule B. Furthermore, Contractors are encouraged to furnish the number of overtime employees by position title and number of additional overtime hours paid during the reporting period in a supplemental schedule.

FTEs should be reported in annual terms so that a full-time person hired at midyear would be recorded as .5 FTE. Of course, one may have a person working less than 1.00 FTE on an annual basis. If an employee's work crosses two or more job categories within one program/cost center (i.e., supervision and direct care), reported FTE time should be split accordingly. In either case, FTEs and wages must reconcile so that an employee reported as working .65 FTE (26 hours) shows a salary of sixty-five percent (65%) of a full-time annual salary.

Required FTE Reporting By Program. FTEs for total Agency, total all programs and Support Services (Administration, Fund-raising and Non-charitable columns) must be reported on Supplemental Schedule A. **Reporting of FTEs for each individual program on each Schedule B is also required. FTEs must be reported to facilitate program pricing for all Chapter 766 programs and all Outpatient Mental Health Clinics**.

The record keeping requirements of OSD require personnel and payroll records to be maintained in a manner that would facilitate the reporting of FTE information for Commonwealth-purchased programs.

The FTE cell in the UFR template will accommodate a value of five (5) decimal places. However, the view furnished for values exceeding two decimal places will be a zero (0) value in the FTE cell and the full value exceeding two decimal places will be exhibited in the formula bar of the Excel spreadsheet. Unfortunately, the UFR user will be provided with distorted and inaccurate information for the contractor and all UFR filers when a FTE cell associated with a salary is left blank. Please include all FTE information with a value of two decimal places or less. FTE values for minor salary amounts of more than two decimal places (ex.003) should be disclosed with the value or as zero (0) in the template cell.

Service Unit

The service unit is the standard, measurable unit of program activity or performance determined by the purchasing governmental unit in programs from which the Commonwealth purchases services. The service unit may be a time unit, as in the case of an hour of counseling or a residential day; or the completion of a prescribed procedure such as a client evaluation or any other measurable unit of service. The reservation of all or a portion of a program's operational capacity for governmental unit's exclusive use, whether or not the capacity is in fact utilized, may constitute a unit of service. Not all programs have a single product, however. Methadone maintenance programs, for example, provide two services: one is the distribution of methadone; the other is a counseling hour. There are, consequently, two service unit types and two cost centers. Generally, however, a program will produce a single product or service unit.

A program/cost center may have service units even though they are purchased on a cost reimbursement basis. In such a case, the units of service must be reported.

INSTRUCTIONS TO THE PREPARER

General Instructions

1. Please read all instructions carefully, including the Account Definitions and the UFR Program Component and Title Descriptions in the appendix before preparing the report.
2. All entries must be typewritten or computer-generated.
3. Enter the Contractor organization's legal name, Federal Employer Identification Number (FEIN)*, Attorney General's Public Charities Account Number and date of fiscal year end where indicated at the top of each page (see Instructions to the Cover Page for further information). * *Please see F.I.P.A. prohibition on page 6 of this manual.*
4. The basic financial statements must be completed in accordance with generally accepted accounting principles (GAAP), including the accrual basis (not cash basis) of accounting. Supplemental schedules must also be completed in accordance with (GAAP) except where a more restrictive accounting treatment is specifically required by the Account Definitions. The supplemental information and the manner of its presentation in the organization's supplemental schedules must not be materially inconsistent with the information or the manner of its presentation appearing in the basic financial statements of the UFR.
5. The preparer should complete only those schedules, columns and line items that are applicable. For example, a Contractor organization which is not required to maintain a fund accounting system and which has no net assets released from restrictions funds to report, needs to complete only the All Funds columns on the Balance Sheet (Statement of Position) and the Statement of Activities. Similarly, a Contractor organization, which does not provide contracted client transportation, need not complete line 25E on the supplemental expense schedule. Please write "NA" if a schedule, column or line is not applicable to the Contractor organization.
6. All amounts should be shown in WHOLE dollars, rounded to the nearest dollar.
7. All subtotals and totals must be calculated and entered (See FTE exception in Key Concepts section). Note that on some statements/schedules, the individual items, subtotals and totals are all entered in the same column. Where this is the case, care must be taken not to double count.
8. Brackets, ( ), indicate negative amounts or subtraction.
9. XXXXXXXX indicate that no amounts should be entered.
10. All attachments should be clearly marked to indicate the schedule, column and line item to which they refer.
11. Preparers are encouraged to footnote or add information to the Notes to the Financial Statements for activities or transactions needing more explanation or detail for presentation purposes.
12. Whenever the term "OTHER" is used, the preparer should list separately, in the space provided or in an attachment, the amount and brief description of all items which are material in relation to the financial statements and to the Commonwealth purchased program.
13. The independent auditor may only complete the independent auditor's reports. Separate guidance for independent auditors is provided in the auditing guidelines' section.
14. Generally, it is easier to complete the Report and avoid errors in reconciling schedules/statements by starting, after the numbers are finalized by the independent auditor, with the cover page, then the supplemental schedules and finally the financial statements.

15. Independent auditors are strongly encouraged to review the guidance and publications noted in the auditing guidelines' section of these instructions prior to beginning the audit.
16. Retain a copy of the completed form for your files.

Questions concerning the proper completion of the Report may be forwarded to OSD using email through the UFR eFiling application to the attention of the Bureau of Audit at the following address: Efilehelp@state.ma.us. In addition, you may contact the Division through the helpline listed below to speak to one of the audit staff members

Operational Services Division
Bureau of Audit
One Ashburton Place, Room 1017
Boston, Massachusetts 02108
Phone: UFR Help Line (617) 720-3150

Contractors of mental health, substance abuse, early intervention services and psychiatric day treatment services having questions concerning HCFP Schedules must call the Division of Health Care and Finance Policy at (617) 988-3186

OVERVIEW OF THE REPORT AND PAGE-BY-PAGE INSTRUCTIONS

SEE 'KEY CONCEPTS' FOR IN-DEPTH INFORMATION CONCERNING INDEPENDENT AUDITOR AND MANAGEMENT FINANCIAL STATEMENT RESPONSIBILITIES

Cover Page

The UFR cover page is completed by the operating agency and captures basic identifying information about the Contractor and its programs, such as: reporting year, corporation name, address, Commonwealth vendor code number, MMARS program code found on each service contract and Organization Type Code (see below).

Report for the Fiscal Year Ended. In the space provided, enter the closing date of the agency's fiscal year for which this Report is prepared.

Filed Electronically Indicates that Uniform Financial Statements and Independent Auditor's Report (UFR) was filed with OSD using the UFR ***eFiling*** application rather than under a waiver.

Contractor Organization. Enter the name of the Contractor organization as it appears in the Articles of Organization or IRS form 941/941E**. Include the word consolidated or combined in parentheses after your organization's name if your affiliates, subsidiaries, or divisions have filed with you on a consolidated or combined basis.** Also include a separate listing of these organizations identified by legal name and FEIN number. Preparers should initially use the lines available on the Cover Page schedules for disclosure and when those disclosure lines are insufficient utilize the appropriate worksheet in the template (**Affiliates**), for the additional required disclosure. The Division cannot accept off-template supplemental schedules for meeting these disclosure requirements. Filings that continue to utilize off-template supplemental schedules to disclose other corporate names and FEIN#'s Information in lieu of the added template worksheets will be considered deficient

Doing Business As. If the Contractor organization conducts its business using a name other than the legal name given above, or is commonly known by a name other than the name given above, also enter the "doing business as" or "d/b/a" name. Program name should not be entered here.

Federal Employer Identification Number (FEIN)* for filing entity. If filing organization is composed of multiple entities filing on a consolidated or combined basis indicate FEIN for the primary entity receiving the most funding from the Commonwealth followed by FEIN for each entity filing on a consolidated or combined basis. Use the appropriate worksheets in the template (**Affiliates)** for the additional required disclosure. *Please s*ee F.I.P.A. prohibition on page 6 of this manual*.

Business Address. Indicate the address where the Contractor organization's administrative offices are located.

E-mail Address. The e-mail address used by the Contractor for administrative, business and accounting activities.

CEO or CFO Name and Phone Number. The name of Chief Executive Officer or Chief Financial Officer of the organization and their phone number. This individual is responsible for ensuring that the UFR is prepared and filed.

CPA Name, CPA License Number, CPA E-mail address & CPA Firm's FEIN Name of public accounting firm, license number of accounting firm engaged to assist in the preparation and/or audit or review of the Uniform Financial Statements and Independent Auditor's Report, E-mail address of CPA firm and FEIN* number of CPA firm.

*Please s*ee F.I.P.A. prohibition on page 6 of this manual*.

For-Profit Entity: Self-explanatory.

Management Company Name. Name of management company engaged to assist in the preparation of the Uniform Financial Statements (Basic and Supplemental Financial Statements and Schedules) or retained to perform administrative functions of the Contractor organization.

Organization Type Code.

Organization Type	**Code**
Corporation	C
Trust	T
Unincorporated Association	U
Partnership	P
Sole Proprietor	S
Other	O

If Other, Enter Type. Self-explanatory.

OMB Circular A-133 Audit. Self-explanatory.

Date of Organization/Incorporation. Date organization was established or incorporated (MM/DD/YY).

Federal Income Tax Exemption? Has the organization received a written exemption from federal income tax? If under a section other than 501 (c) (3), enter IRS section number.

Cost Allocation Method Code: Method of allocating administration (G&A) costs to programs in UFR schedules. See allocating administration instructions for definitions and requirements. Modified Direct Method (MD), Simplified Allocation Method (S), Multiple Allocation Base Method (MAB) and approved Federal Indirect Cost Rate (FICR).

See Allocating Administration instructions for Program Supplemental Information Schedule B for full definitions of methods that must be used to allocate administration in the UFR. **The FY 2013 UFR template auto-calculates administration when either the Modified Direct Method or Simplified Allocation Method is used.**

Has this Report been audited? Except as provided in the Exceptions/Exemptions section, all basic financial statements must be subject to an independent audit.

Exception/Exemptions. If an exemption or exception is applicable, other than number 1, enter the number of the paragraph of the Exceptions/Exemptions section of these Instructions under which an exemption is to be granted (e.g., Enter "3" for gross revenues between $100,000 and $500,000). For exemptions under any subparagraph, also enter subparagraph letter (e.g., 8a, 8b, etc.).

Special Education (SPED) Contractor. Indicate if the organization is a SPED Contractor.

Principal Purchasing Agency. Commonwealth Principal Purchasing department responsible for conducting the Contractor's contract prequalification review.

Primary Contractor. Name of Contractor(s) holding a contract with the Commonwealth or any of its Subcontractors that your organization contracts with as a Subcontractor. If your organization is a Subcontractor with more than one primary Contractor, attach a schedule listing names of Contractors and subcontracted programs reported in the UFR.

Program Information. For each program (as defined in Key Concepts) operated by your organization, enter in the space provided a sequential number, name by which the program is commonly known, the name and the Subcontractor carrying out the program, address (es) and zip codes that program is conducted, the type of program or brief description, and, in the case of programs purchased by the Executive Office of Health and Human Services or any of its departments, the MMARS program code found on each service contract. A current listing of MMARS program codes is included as an attachment to these instructions. If a program is purchased by more than one EOHHS department/agency, include all applicable MMARS codes on a separate schedule. Programs with more than one cost center should be numbered 1-1, 1-2, etc.

Please refer to the General Instructions, subparagraph 12, for instructions on program numbering. Improper numbering of programs as utilized in Commonwealth contracts is considered to be a minimum UFR filing deficiency.

A FULLY COMPLETED UFR COVER PAGE IN THE EXCEL TEMPLATE FORMAT UPLOADED TO THE UFR *eFILING* SYSTEM IS REQUIRED FOR ALL UFR FILING EXCEPTIONS OR EXEMPTIONS.

Independent Auditor's Report on the Financial Statements

The independent auditor must prepare this report, which either contains an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. The report should contain a clear-cut indication of the character of the auditor's work and the degree of responsibility the auditor is taking.

TO BE COMPLETED BY THE INDEPENDENT AUDITOR

Before rendering an opinion on the financial statements, the independent auditor should consult the Account Definitions' section of these instructions and the UFR program component and title descriptions in the appendix. In some cases, accounts have been defined more narrowly than GAAP accounting principles would require for commercial organizations.

The audit must be conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS), which incorporates the AICPA standards for field work and reporting, and includes the additional standards for financial audits set forth in the Comptroller General of the United States' Government Auditing Standards - Standards for Audit of Governmental Organizations, Programs, Activities and Functions, (2011 Revision), also known as the "Yellow Book" (GAGAS). Also, the AICPA standards require that public accountants state that the audit was made in accordance with generally accepted auditing standards. The independent auditor should consult and follow the guidance of the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO), as required for Voluntary Health and Welfare Organizations, in examining and reporting on financial statements of tax-exempt Contractor organizations which receive funding from the Commonwealth under purchase-of-service contracts. The legal requirements of these contracts and agreements require that the tax-exempt Contractor organization's financial statements are examined and reported upon in accordance with the recommendations of this audit guide. The auditor's standard report must be addressed to the board of directors of the Contractor organization whose financial statements are being audited.

The independent auditor's report on the financial statements for an audit conducted in accordance with GAGAS must be prepared in accordance with the issuance of Government Auditing Standards: 2011 Revision and the AICPA Statement on Auditing Standards No. 74, "Compliance Auditing Considerations in Audits of Government Entities and Recipients of Governmental Financial Assistance" or its successor guidance and the illustrative guidance furnished by the AICPA in Statement of Position 98-3 "Audits of States, Local Governments, and Not-For-Profit Organizations Receiving Federal Awards." Independent auditors are strongly urged to consult the above-noted publications prior to preparing independent auditor's reports filed with the UFR.

Audited Basic Financial Statements

The UFR basic financial statements are representations of the Contractor organization's management, and the fairness of the financial statements presentation in conformity with GAAP is management's responsibility. The independent auditor's responsibility is to express an opinion on the organization's basic financial statements which have been based on the auditor's audit. The Contractor organization's management and the auditor may both participate in the preparation of the UFR basic financial statements. UFR basic financial statements that are subject to the auditor's examination and expression of opinion in accordance with the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO), are as follows:

- Balance Sheet/Statement of Position
- Statement of Activities
- Statement of Cash Flows
- Statement of Functional Expenses

NOTE: The Statement of Functional Expenses is considered a basic financial statement subject to the auditor's examination and expression of opinion. See the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO) and FASB 117/Codification. The statement is <u>not</u> considered an optional or supplemental statement. If the financial statements do not disclose the functional classification of expenditures, such as fund-raising costs, the independent auditor's opinion should be qualified. *Commercial financial statements (with the exception of for-profit financial statements and Alternate UFR Filers) are not required or requested or to be included with UFR financial statements filed with OSD.*

Balance Sheet (Statement of Position)

Account Definitions Used With Balance Sheet (Statement of Position)

Except as specifically defined below, or in referenced appendices or procurement regulations, all accounts, funds and functional centers used in the Report or these instructions are presumed to have generally accepted accounting definitions. This statement may be titled Balance Sheet or Statement of Position.

A. FUNDS

1.) Current Operations Fund. Reflects how the organization manages its resources to service its beneficiaries.

2.) Plant Fund. Reflects how the organization uses its resources to purchase, maintain or replace land, buildings or equipment to house its operations. Disclosure of plant fund activity in the UFR is **not** optional and failure to disclose plant fund activity in the UFR is considered a minimum UFR filing deficiency. Contractors with very limited plant fund activity must obtain approval of a written request to waive these instructions from OSD prior to their filing due date before filing a UFR without a plant fund.

3.) Endowment Fund. An established fund of cash, securities, or other assets to provide income for the maintenance of a nonprofit organization. The use of assets of the fund may be permanently restricted, temporarily restricted, or unrestricted. Endowment funds generally are established by donor-restricted gifts and bequests to provide a permanent endowment, which is to provide a permanent source of income, or a term of endowment, which is to provide income for specified period. The principal of a permanent endowment must be maintained permanently-not used up, expended, or otherwise exhausted-and is classified as permanently restricted net assets. The principal of a term endowment must be maintained for a specified term and is classified as temporarily restricted net assets. An organization's governing board may earmark a portion

of its unrestricted net assets as a board-designated endowment (sometimes called funds functioning as endowments or quasi-endowment funds) to be invested to provide income for a long but unspecified period. The principal of board-designated endowment, which results from an internal designation, is not donor-restricted and is classified as unrestricted net assets.

4.) Custodian Fund. An established fund that the organization utilizes to discharge its fiduciary and stewardship responsibility for assets received and to be held or disbursed only on instructions from whom the assets were received.

5.) Other Funds. All other funds for which the organization maintains a separate account.

B CLASSES OF NET ASSETS:

1.) Unrestricted Net Assets The part of net assets of a nonprofit organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulation.

2.) Temporarily Restricted Net Assets The part of the net assets of a nonprofit organization resulting (a) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations; (b) from other asset enhancements and diminishments subject to the same kinds of stipulations; and (c) from reclassification to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations.

3.) Permanently Restricted Net Assets The part of the net assets of a nonprofit organization resulting (a) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization; (b) from other asset enhancements and diminishments subject to the same kinds of stipulations; and (c) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Statement of Activities

PLEASE REFER TO STATEMENT OF FUNCTIONAL EXPENSES AND SUPPLEMENTAL SCHEDULES FOR ACCOUNT DEFINITIONS

Classification of Revenues, Expenses, Gains, and Losses

1.) Unrestricted: Revenues or gains from fees, income and contributions and other support that are not restricted by donors.
2.) Temporarily Restricted: A donor-imposed restriction that permits the donee organization to use up or expend the donated assets as specified and is satisfied either by the passage of time or the actions of the organization.
3.) Permanently Restricted: A donor-imposed restriction that stipulates that resources be maintained permanently but permits the organization to use up or expend part or all of the income (or other economic benefits) derived from the donated assets.

Note: The amounts shown under the "TOTAL ALL FUNDS THIS YEAR" for certain line items must reconcile with amounts shown under the same account title on other statements and supplemental schedules in this report.

Statement of Cash Flows Direct and Indirect Method

The UFR contains two methods for preparing the Statement of Cash Flows. Preparers of the UFR may utilize either the Direct or the Indirect method in accordance with FASB No. 95/Codification as furnished in these instructions for preparing the Statement of Cash Flows.

Statement of Functional Expenses

The amounts shown under "TOTAL EXPENSES," line 8, must reconcile with lines 56E in each Program Supplemental Information Schedule B and Organization Supplemental Schedule A. Programs shown as a program in Program Supplemental Information Schedule B must coincide with the programs listed on the Cover Page and must satisfy the definition of Program given in 'Key Concepts'.

Functional Classification of Expenses

Contractors and independent auditors must be particularly concerned with the manner in which expenditures are reported. Auditors and Contractors are required to conform to the guidance provided for Voluntary Health and Welfare Organizations in the form of recommendations, concerning this issue in Chapter 13, Expenses, Gains, Losses, of the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO). Paragraph 13.04 of the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO) indicates that Voluntary Health and Welfare Organizations are required to report information about functional classifications, together with information about expenses by their natural classification (such as salaries, rent, electricity, interest expense depreciation, awards and grants to others, and professional fees), in a matrix format in a separate financial statement.

A wide variety of persons and groups are interested in the reported expenses of voluntary health and welfare organizations. The first group to be considered is the organization's contributors, who have given money, services, or material. The second group represents the organization's trustees or directors who have a fiduciary responsibility to conserve and expend its assets for the organization's stated objectives. The third interested group is the compensated executives of the organization who have the responsibility of carrying out the stated policies of the organization's governing board. The fourth group is made up of those governmental jurisdictions that have authority to control charitable solicitations through legislation and the local, state, and federal government, which grant tax exemptions to charitable organizations. Although each of these groups may be interested in information about particular types of expenses, the cost of providing various services or other activities is of greater importance and becomes apparent only when the expenditures are summarized on a "functional" basis.

The functional classifications used by most organizations include specific "program services," which describe the organization's social service activities, and "supporting services" under which management (or administrative) and general expenses, fund-raising costs and non-charitable costs are shown as separate items.

> *Expenditures for program services should be segregated from non-charitable, fund-raising and management and general expenditures and the amount of each should be clearly disclosed in the financial statements.*

Costs Which Pertain to Various Functions (Charging and Allocating Procedures)

Many organizations incur costs that apply to more than one functional purpose. The Contractor and Subcontractor is required by 808 CMR 1.04(1) to maintain and utilize a written cost allocation plan as part of its documentation efforts for demonstrating that costs applying to more than one functional purpose are directly attributable or allocable to the functional purpose. Some expenses are directly related to, and can be assigned to, a single major program or service or a single supporting activity. Other expenses are related to more than one program or supporting activity, or to a combination of programs and supporting services. These expenses should be allocated among the appropriate functions. Examples include salaries of persons who provide more than one kind of service and the rental of a building is used for various programs and supporting functions.

Direct identification of specific expense (also referred to as *assigning expenses*) is the preferable method of charging expenses to various functions. If an expense can be specifically identified with a program or supporting service, it should be assigned to that

function (direct costs). For example, travel costs incurred in connection with a program activity should be assigned to that program. Salaries of those who perform more than one type of service and certain administration (the portion of salaries and expenses that are related to the direct supervision of a program or fund-raising activity rather than the overall direction of the organization) and fund-raising activities that can be specifically identified with a function should be charged to those functions.

If direct identification (that is, assignment) is impossible or impracticable, an allocation is appropriate. The techniques used to allocate are common to all entities, for-profit and not-for-profit alike. A reasonable allocation of expenses among an organization's functions may be made on a variety of bases. Objective methods of allocating expenses are preferable to subjective methods. The paragraphs that follow provide guidance (in addition to that provided throughout chapter 13 of the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO)) on allocating or presenting certain costs that may be incurred by no-for-profit organizations.

The allocation may be based on related financial and non-financial data. For example, the expenses associated with occupying and maintaining a building, such as depreciation, utilities, maintenance, and insurance, may be allocated based on the square footage of space occupied by each program and supporting service. If floor plans are not available and the measurement of the occupied space is impractical, an estimate of the relative portion of the building occupied by each function may be made. Occupying and maintaining a building is not a separate supporting service. Interest costs, including interest on a building's mortgage, should be allocated to specific programs or supporting services to the extent possible; interest costs that cannot be allocated should be reported as part of the management and general function.

Where employees perform duties that relate to more than one function, the salaries of such individuals, as well as all other expenses which pertain to more than one function, should be allocated to the separate functional categories, based on procedures that determine, as accurately as possible, the portion of the cost related to each function. In some cases, and particularly where most of an individual's time is spent on one function, estimates of the time spent on each function may be appropriate. However, in many cases the maintenance of employee time reports for all employees **(required by OSD)** will be practical and will result in a more accurate determination of the costs attributed to each function (see sample time sheet following this section). In cases where the time of employees is spent on various functions and such functions do not vary significantly during each accounting period, the preparation of time reports for selected test periods during the year might be sufficient to determine the allocation of such costs to the related functions (see sample following this section). In some cases, the degree of usage of these indirect costs may not be readily and specifically identified with each function. A reasonable allocation of an organization's functional expenditures may be made on a variety of bases. The following allocation procedures are illustrative only, but use of these or similar procedures will ordinarily result in a reasonable allocation of an organization's multiple function expenditures:

1. A study of the organization's activities may be made at the start of each fiscal year to determine the best practicable allocation methods.

This study should include an evaluation of the preceding year's time records or activity reports of key personnel, the use of space, the consumption of supplies and postage, etc.

The results of this study should be reviewed periodically and revised where necessary to reflect significant changes in the nature or level of the organization's current activities.

Note: Sample <u>annual</u> employee time allocation summary and activity record for conducting this study is provided at the end of this section.

2. Daily time and expense records may be kept by all employees who spend time on more than one function and may be used as a basis for allocating salaries and related costs. These records should indicate the nature of the activities in which the employee is involved.
   Note: Sample daily time report sheet and activity record is provided at the end of this section.
3. Automobile and travel costs may be allocated on the basis of the expense or time reports of the employees involved.
4. Telephone expense may be allocated on the basis of use of the extensions, generally following the charge for the salary of the employee using the telephone, after making direct charges for toll calls or other service attributable to specific functions.
5. Stationery, supplies and postage costs may be allocated based on a study of their use.
6. Occupancy costs may be allocated on the basis of a factor determined from a study of the function of the personnel using the space involved.
7. The depreciation and rental of equipment may be allocated based on asset usage.

The guidance provided above has been derived from the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO). See instructions for functional classification of expenses in the Account Definition's section and the Administration guidance noted above for other reporting and allocation requirements.

Program and Supporting Services

1.) Administration. Administration and support (management and general) costs include expenditures for the overall direction of the organization, general record keeping, business management, budgeting, general board activities and related purposes for meeting organizational goals and objectives. "Overall direction" includes the salaries and expenses of the chief officer of the organization and his or her staff. Expenses incurred in keeping a charitable organization's name before the public that are not directly related to program services or fund-raising should be classified as Administration. The cost of disseminating information to inform the public of the organization's "stewardship" of contributed funds, the publication of appointments and the annual report (financial statements) should likewise be classified as Administration.

Note: Administration expenditures for the overall direction of the organization, general record keeping, business management, budgeting, publication of appointments, audited financial statements, general board activities and related functions for meeting organizational goals and objectives such as informing the public of the organization's "stewardship" of contributed funds, etc., must not be charged, prorated or allocated to fund-raising or programs, other than on line 52, Admin (M&G) Reporting Center Allocation of Program Supplemental Information Schedule B, in accordance with ANPO audit guide requirements noted above.

When the salaries and expenses of the chief executive officer and his or her staff and other management costs that are not related to the overall direction of the agency, they are not considered Administration costs (indirect costs).

If the chief executive officer and his or her staff spend a portion of their time directly supervising fund-raising or program service activities and their degree of usage can be readily and specifically identified, such salaries and expenses should be identified with those functions as direct costs. Direct supervision of fund-raising or program services generally occurs in two different ways and should be reported in the following manner:

- Direct Supervision of Fund-Raising or Program Director Activities.

  The chief executive officer and his or her staff may directly supervise a director of fund-raising or a program director and the activities that are directly related to the specific duties and functions of fund-raising or the program. The salaries and expenses of the chief executive officer and his or her staff that are associated with this activity should be prorated among fund-raising and the programs receiving the direct support (not administration) by utilizing the position titles of the chief executive officer and his or her staff. The time spent directly supervising the fund-raising or program director and the specific duties and functions receiving direct supervision must be documented by time sheets (see sample at the end of this section) or appointment calendars that reflect time spent on the activity and fund-raising or program outputs.

- Functioning as a Fund-Raising or Program Staff Person.
  The chief executive officer and his or her staff may spend time directly supervising fund-raising or program activities by performing the duties of a staff person in the fund-raising or program activity and their degree of usage can readily and specifically be identified. The salaries and expenses of the chief executive officer and his or her staff that are associated with performing these duties should be prorated among fund-raising and the programs that receive the direct supervision. The position titles (e.g., program director) of the fund-raising activity or program and the type of expense incurred should be utilized for reporting these costs. These activities must not be reported as administration. The time spent performing the duties and functions of a fund-raising or program staff person must be documented by time sheets (see sample at the end of this section) that reflect time spent on the activity, and fund-raising or program outputs.

  When the chief executive officer and his or her staff spend time directly supervising fund-raising or program activities by performing the duties of a staff person in the fund-raising activity or in numerous programs, and the degree of direct supervision and usage of their salaries and expenses may not be readily and specifically identified with each function, these costs are considered indirect fund-raising or program costs which pertain to various functions (not Administration). These indirect costs should be charged or allocated by using time sheets or a study conducted at least annually and revised periodically to reflect significant changes (see samples at the end of this section) among those functions by position title (e.g., program director) or type of expense.

  Note: A description of acceptable allocation methodologies and a sample of the sheet are provided in the 'Costs Which Pertain To Various Functions' section of these instructions for the Statement of Functional Expenses.

  For further information consult Chapter 13 of the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO).

2.) Fund-Raising. Activities associated with capital campaigns, solicitation of charitable donations, gifts and bequests, special events, volunteer programs, in-kind contributions, grant applications, etc. Does not include commercial activities carried on for the purpose of making a profit. These should be classified as Non-Charitable. Fund-Raising revenues may be assigned, net of expenses, to programs to defray reimbursable and non-reimbursable costs.

3.) Program Services. As defined in the 'Key Concepts' section. Note: The allocation of expenses to Program functional centers is restricted to items set forth in the UFR program component and title descriptions in the appendix. Items not included (e.g., administrative staff) may not be directly allocated to program functional centers. **Programs must be disclosed as contractually agreed to by the Contractor and Commonwealth Purchasing Departments**.

PLEASE REFER TO SUPPLEMENTAL INFORMATION SCHEDULES A_OSI and B_PSI FOR EXPENSE ACCOUNT DEFINITIONS

The Statement of Functional Expenses is considered a basic financial statement subject to the auditor's examination and expression of opinion. See Codification/FASB 117 and chapter 13.04 of the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO). The statement is not considered an optional or supplemental statement. In addition, if the financial statements do not disclose the functional classification of expenditures, such as fund-raising costs, the independent auditor's opinion should be qualified.

Caution

Methods for charging or allocating expenditures for the purpose of reporting expenses on the UFR that utilize budgeted or received revenues, budgeted costs and anticipated or received contract reimbursements rather than resource usage bases, as noted above, are not acceptable or in accordance with Generally Accepted Accounting Principles.

Sample of Daily Employee Time Report Sheet

FAMILY SERVICE AGENCY OF UTOPIA, INC.

Name: J. A. Wilkens
Job Title: Director of Casework

Description of Work Done	Function Benefited	Program Number	Number of Hours
Worked on the Development of a special project for adoption of "hard to place" children	Adoption	504	3
Assisted caseworkers in developing new foster home	Foster Home Care	506	2.5
Conducted staff seminar on new techniques in group counseling	Counseling	512	2
Interviewed a caseworker to fill a professional staff vacancy	Management & General	702	1.5
Attended a meeting with the executive in fund-raising issues.	Fund-Raising	801	.5
	TOTAL HOURS WORKED		9.5

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Supervisor's Approval

Sample of Annual Employee Time Allocation Summary

FAMILY SERVICE AGENCY OF UTOPIA, INC.

Name: J. A. Wilkens
Job Title: Director of Casework

Week Beginning	Total Hours	Counseling	Adoption	Foster Home Care	Management & General	Fund Raising
29-Oct	40	18	4	12	6	0
5-Nov	42	23	2	11	4	2
12-Nov	38	15	0	16	2	5
19-Nov	45	11	9	8	3	14
26-Nov	44	13	7	13	5	6
3-Dec	38	10	2	19	5	2
10-Dec	43	18	3	16	6	0
17-Dec	50	29	0	14	2	5
24-Dec	28	2	2	20	4	0
Annual	2080	890	196	710	180	104
Actual %	100	42.8	9.4	34.1	8.7	5.0
Estimate	100	45.0	12.0	30.0	10.0	3.0
Difference	--	(2.2)	(2.6)	4.1	(1.3)	2.0

Notes to Financial Statements

Notes to Financial Statements that are required to be disclosed in accordance with GAAP must be uploaded to the UFR eFiling system along with the UFR submission.

Related Party Disclosures

Contractor organizations subject to UFR filing requirements must disclose related party relationships and transactions in the notes to the financial statements of the Uniform Financial Statements and Independent Auditor's Report (UFR), in accordance with FASB 57/Codification and 808 CMR 1.02 which adopts use of FASB 57 for defining a related party.

Contractors that contract with the Commonwealth and file the UFR are audited in accordance with generally accepted government auditing standards (GAGAS) and are subject to various laws, regulations, contract and accounting principles and provisions governing disclosure of related party relationships and transactions. In government audits and in the Purchase-of-Service system, the materiality level and threshold for related party disclosure is lower than in similar-type audits conducted in accordance with generally accepted auditing standards (GAAS) in the private sector because of the public accountability of the entity, the various legal and regulatory requirements, and the visibility and sensitivity of government programs, activities, and functions.

The following OSD related party materiality guidance should be considered when determining the need for disclosure in the GAGAS audited financial statements of the UFR.

- Contractors that receive funding from the Commonwealth for the operation of social service programs:
  Generally, OSD recommends that all related party relationships and transactions, as defined by 808 CMR 1.02, associated with Contractors receiving funding for the operation of social service programs from the Commonwealth (state departments and local education authorities) be considered material related party transactions in accordance with GAGAS. These material related party transactions should be disclosed in the Notes to the Financial Statements of the UFR. Two exceptions to this consideration may, to the extent allowed by the **qualitative materiality factors** of GAGAS, as noted below, include the following:

  - Individual or aggregated monetary related party transactions where the total value of transactions with the related party was less than one hundred dollars ($100) within the year.
  - Gifts furnished to the Contractor by an official, administrator or manager of the Contractor.

  This greater degree of GAGAS materiality is predicated upon the sensitive nature of Contractors operating Commonwealth-purchased programs and the penalties and sanctions associated with failure to provide disclosure of related party transactions and relationships in the UFR. Failure to disclose material related party transactions in accordance with GAGAS could result in penalties or a disallowance of related party costs which could materially affect the financial statement amounts. These possible actions dictate that most Contractor related party relationships and transactions should be considered material in accordance with GAGAS.

  In addition, the GAGAS materiality level for disclosure of related party transactions is further magnified by the previously noted requirements for related party transactions and relationships. These requirements have been established pursuant to Chapter 495, Section 99 of the Acts of 1993 and 808 CMR 1.04 (5) and (7) (Effective 11/17/06)

808 CMR 1.03 (4) and (11)). Audit risk associated with disclosure of related party transactions in the Contractor's financial statements and/or the auditor's report on compliance would be substantially increased if the Contractor did not comply with prior disclosure of related party transaction requirements. Noncompliance with the prior disclosure requirements could include the following penalties that may materially affect the financial statement amounts: Failure to furnish prior disclosure of **all Contractor related party transactions in excess of $100** (except for gifts furnished to the Contractor by an official, administrator or manager of the Contractor) pursuant to 808 CMR 1.04 (5) and (7) (Effective 11/17/06, 808 CMR 1.04 (4) and (11)) could result in OSD ordering that the service contract or service contracts directly affected by the violation of related party prior disclosure requirements be terminated or the assessment of a civil penalty of no more than $2,000 or 10% of the Contractor's annual maximum obligation under such contract or contracts, **whichever is greater,** and the debarment of the Contractor for a period not to exceed five years in the event of repeated willful violations of 808 CMR 1.04 (5) (Effective 11/17/06, 808 CMR 1.04 (4)).

The Notes to the Financial Statements of the UFR should disclose material (GAGAS definition) related party relationships and transactions. The form of the disclosure of material related party transactions should meet the following requirements that have been derived from FASB No. 57:

a. Nature of related party relationship;

b. the receivables or payables associated with related party transactions for each period the Balance Sheet (Statement of Position) or program budget is presented and, if not clearly determinable, the conditions and methods of settlement;

c. for each period that an income statement or program budget is presented, the following is required:

   (1) A description of transactions and other necessary information needed for an understanding of the impact of the transactions; and

   (2) dollar amounts assigned to transactions, and the impact of determining the terms of the transactions, if different from prior periods.

d. If two or more companies are under common control via ownership or management, the disclosure in a. above is required, even though no transactions occurred, if the existence of that control <u>could</u> result in operating results or a financial position significantly different from that which would have been obtained if the enterprises were autonomous.

Preparers of the UFR should seek assistance from their independent auditor regarding appropriate interpretation of the requirements of 808 CMR 1.02 and the form and content of disclosure as noted above.

Related party disclosures must be made for transactions with related parties as defined by the Code of Massachusetts Regulations 808 CMR 1.00 and the AICPA Financial Accounting Standards Board FASB No. 57/Codification.

Definition of Related Party

On June 16, 1995 the Operational Services Division (OSD) amended 808 CMR 1.02 by adopting the definition for related party as set forth in Statement of Financial Accounting Standards No. 57 (FASB 57) of the Financial Accounting Standards Board (FASB). The use of FASB No. 57 for certain reimbursement restrictions of costs subject to 808 CMR 1.00 is effective July 1, 1995, and for use of disclosure of related party transactions in the Uniform Financial Statements and Independent Auditor's Report (UFR) for the Fiscal Year 2013 filing period. Participants in the purchase-of-service system are encouraged to consult the full text of the original pronouncement of FASB 57 and Section R36 of the Current Text issued by FASB to gain a full understanding of the various considerations that **must** be applied when determining if a related party condition exists. The following FASB 57 definition of related party and *examples* should be utilized for all reimbursement and disclosure requirements associated with 808 CMR 1.00:

FASB 57 Guidance Concerning Transactions

Transactions between related parties commonly occur in the normal course of business.
Some examples of common types of transactions that occur between related parties are as follows: sales, purchases and transfers of realty and personal property, services received or furnished, for example; accounting, management, engineering, and legal services; use of property and equipment by lease or otherwise; borrowings and lendings; guarantees; maintenance of bank balances as compensating balances for the benefit of another; intercompany billings based on allocations of common costs; and filings of consolidated tax returns. Transactions between related parties are considered to be related party transactions even though they may not be given accounting recognition. For example, an enterprise may receive services from a related party without charge and not record receipt of the services.

FASB 57 Related Party Definition

Affiliates of the enterprise; entities for which investments are accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests**.** ***An example of when such influence might exist might be when a person or organization is associated with the reporting Contractor. A person or organization is associated when the person or organization engages in a joint program or business venture directly or indirectly in which the Contractor or other person or organization receives direct or indirect financial benefits***.

For the purposes of the definition of related party, the following additional definitions from FASB 57 apply:

a. **Affiliate**. A party that, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with an enterprise. ***A company is under common control with the Contractor through common ownership or management, even though no transaction occurred, if the common control could have a material impact on the financial statements of the reporting Contractor. "Common ownership" exists where there is direct or indirect ownership of ten percent or more in value of voting stock or ten percent of the financial interest in the capital assets or profits of any organization.***

b. **Control**. The possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an enterprise through ownership, by contract, or otherwise.

c. **Immediate family**. Family members whom a principal owner or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship. ***In most instances, barring evidence to the contrary, the following family members should be considered to be able to control or influence or be controlled or influenced: a parent, child, brother, sister(whether by whole or half-blood), spouse, adopted child, adoptive parent, stepparent, stepchild, father-in-law, mother-in-law, sister-in-law, brother-in-law, son-in-law, daughter-in-law, grandparent or grandchild.***

d. **Management.** Persons who are responsible for achieving the objectives of the enterprise and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes members of the board of directors, the chief executive officer, chief operating officer, vice presidents in charge of principal business functions (such as sales, administration, or finance), and other persons who perform similar policymaking functions. Persons without formal titles also may be members of management**.** ***In most instances, management of a social service program will include program directors***

and program managers.

e. **Principal owners.** Owners of record or known beneficial owners of more than 10 percent of the voting interests of the enterprise ***or of more than 10% of the financial interest in the capital assets or profits of an organization.***

In promulgating this definition of related party, it is the intention of the Operational Services Division to incorporate all of the requirements and interpretations embodied in FASB 57.

The Division has identified a number of examples in the social service purchasing context which would satisfy at least one prong of the definition of FASB 57. Without limiting the scope of the definition, the following shall be deemed related parties:

1. ***Another organization that does business with the Contractor when a family member of management or of a board member of the Contractor is a member of the management or is a board member of the other organization.***
2. ***A real estate holding company that holds real estate primarily for the Contractor or owns all or a significant portion of the Contractor's program sites.***
3. ***Another organization which is in "competition" with the Contractor organization where a member of the board or an owner of the Contractor is a member of the board or an owner of the other organization.***
4. ***Another organization that does business solely with the reporting Contractor or the Contractor's related parties.***

The Field Work Standards for Financial and Performance Audits of GAGAS ("Yellow Book") that Govern Materiality and/or Significance

The auditor should (* - see note below) consider materiality and/or significance in planning the audit and in selecting the methodology and designing audit tests and procedures, as well as in deciding whether a matter requires disclosure in an audit report. One of the criteria to be considered in determining materiality includes the monetary value of the item. However, materiality and significance often depend on qualitative as well as quantitative factors. Qualitative factors include, but are not limited to, the cumulative effect and impact of immaterial items, the objectives of the work undertaken, and the use of the reported information. Decisions on these criteria are based on the auditor's professional judgment. In government audits the materiality level and/or threshold of acceptable risk may be lower than in similar-type audits in the private sector because of the public accountability of the entity, the various legal and regulatory requirements, and the visibility and sensitivity of government programs, activities, and functions.

In determining materiality and/or significance and audit risk, the auditor should consider that the Statement of Functional Expenses is a basic financial statement of the UFR which must be audited. Given that the Statement of Functional Expenses discloses expenses on a functional and natural basis by program services and supporting activities, the auditor must consider both program services and supporting activities when determining materiality and/or significance and audit risk. The following should also be considered in conjunction with the previous information for determining materiality and/or significance and audit risk.

a. Amount of revenues and expenditures
b. Newness of the activity or changes in its conditions
c. Adequacy of internal controls
d. Results of prior audits
e. Level and extent of review or other form of independent oversight
f. Adequacy of the internal controls for ensuring compliance with laws and regulations
g. Management's adherence to applicable laws and regulations

h. Audit report users' expectations

i. Public perceptions and political sensitivity of the areas under audit

j. Audit requirements

∗ When the term "should" is used to describe the auditor's and/or organization's responsibility, this means that the standards that are applicable to the work and necessary to satisfy the audit objectives are to be followed. Departures from applicable standards must be disclosed in the audit report.

Note: Independent auditors should also follow the suggested compliance testing procedures and audit guidance for compliance with related party disclosure requirements contained in the UFR Auditor's Compliance Supplement and the Auditing Guidelines section of this document.

Liabilities to the Commonwealth

Contractors may find it necessary to disclose a liability to the Commonwealth in the notes to the financial statements. Liabilities to the Commonwealth generally occur in conjunction with the surplus revenue retention policy, as a result of audit resolution for Commonwealth overpayments related to non-reimbursable costs and cost reimbursement contracts. Preparers of the UFR should consult the following information to facilitate the appropriate disclosure of liabilities to the Commonwealth in the Notes to the Financial Statements: 1. Not-for-Profit Provider Surplus Revenue Retention Policy, issued August 31, 1994, Question 2 of Additional Questions and Answers, May 1995, found in the UFR Auditor's Compliance Supplement. 2. Instruction for the preparation of Subsidiary Schedules A and B concerning guidance for determining the existence of non-reimbursable costs and resolution for Commonwealth overpayments found in this document. 3. Question 10 concerning surplus funds in cost reimbursement contracts noted in Questions and Answers on Audit and Preparation of the UFR, August 1994, of the UFR Auditor's Compliance Supplement.

Not-for-Profit Contractor Surplus Revenue Retention Policy Fund Pool Disclosure

The provisions of 808 CMR 1.03(7) and the "Not-for-Profit Surplus Revenue retention Policy" requires the Contractor to either make an entry in a segregated unrestricted fund balance account of the financial statements or an entry in its notes to the financial statements for the following fund pool activity:

- Beginning accumulated surplus revenue retention fund pool balance or deficit.
- The amount of surplus attributable to the Commonwealth in excess of 5% of the revenues furnished by Commonwealth purchasing agencies in the year.
- The amount and type of financial transactions that occurred in the surplus revenue retention fund pool during the year.
- The ending accumulated surplus revenue retention fund pool balance or deficit.
- The amount of any ending accumulated surplus revenue retention fund pool balance that is in excess of 20% of the Contractor's prior year's revenues received from Commonwealth purchasing agencies.

The surplus revenue retention fund pool may increase and decrease over time. The fund pool ending balance should be less than the previous year if the Contractor incurred a total deficit attributable to Commonwealth contracting. A copy of the "Not-for-Profit Surplus Revenue Retention Policy" is contained in the appendices of this document.

SUPPLEMENTAL FINANCIAL SCHEDULES A, B, AND SUBSIDIARY SCHEDULE D1 AND DIVISION OF HEALTH CARE FINANCE AND POLICY SCHEDULES

Information not Required to be Audited

The Contractor organization's management and the auditor may both participate in the preparation of the supplemental financial schedules. The auditor should read the supplemental schedules and consider whether such information is materially inconsistent with information, or the manner of its presentation, appearing in the basic financial statements and propose revisions to the supplemental schedules as appropriate. Supplemental Schedules A, B, D1 and HCFP Schedules, as appropriate, must reconcile and be consistent with certain totals in the basic financial statements. The supplemental schedules must be filed (via the UFR eFiling application) as auditor-submitted documents, in accordance with SAS No. 29 and 52., (excluding schedules E-1 and G-1) and referred to in the auditor's report on the financial statements or in a separate report and filed under the same cover and be maintained at the Contractor's place of business in a mechanically fastened (bound/plastic spiral) fashion with the basic financial statements.

Unaudited Supplemental Schedules include the following:

Organizational Supplemental Information Schedule A_OSI

Program Supplemental Information Schedule(s) B_PSI

MH, PDT and SA supplemental schedules (As required by the Division of Health Care Finance and Policy.)

Other Statements, Schedules and Information

Other statements, schedules and information that have been audited or not audited may be included as auditor-submitted documents, in accordance with SAS No. 29 and 52., and included under the same cover if requested by the client or required by other report users or as deemed appropriate by the auditor, in the UFR filing. These include, but are not limited to, statements of cash flows, schedule of federal awards, details or explanations or items in or related to the basic financial statements, consolidating information, historical summaries of items extracted from the basic financial statements, statistical data and other material, some of which might be from sources outside the accounting system or outside the entity.

Note: The auditor must include a supplemental information paragraph in the auditor's report on the financial statements or prepare a separate report concerning the supplemental information in accordance with SAS No. 29 and SAS No. 52 (Au 551.05 and .06).

Supplemental Schedules A, B, and DHCFP Supplemental Schedules are the representation of management, which are <u>not audited</u>. This is reflected in the suggested disclaimer included in the sample Independent Auditor's Report on Financial Statements.

The auditor should read the supplemental schedules and consider whether such information is materially inconsistent with information, or the manner of its presentation, appearing in the basic financial statements and propose revisions to the supplemental schedules as appropriate.

Organizational Supplemental Information Schedule A_OSI

Organizational Supplemental Information Schedule A_OSI provides a snap shot of the organization's results of operations for the filing year. The organization's unrestricted revenue support and net assets released from restrictions and expenses are disclosed and utilized on this schedule to derive the results of operations. In addition, the revenue and expense information is furnished to users by, disclosing total Organization, Administration, Fund Raising and total All Programs activity.

Administration Revenue

If all or a portion of Federated Fund-Raising Organization Allocations (Administration Revenue) was not earmarked or dedicated for use in any particular program(s) but, rather, was earmarked to support the Contractor agency as a whole during the reporting year or to support some non-charitable or fund-raising activity of the Contractor. Administration revenue should be disclosed in line 48R in the "Administration (M&G) column," or "Fund-Raising column" and then distributed as designated by the board of directors or by using the same factors developed to allocate Administration to programs and supporting services or any other reasonable method in accordance with the charitable purpose of the organization. Administration and Fund-Raising revenue that is designated by the board of directors to be used in future accounting periods **should not be allocated to programs and supporting services** but rather be reported in line number 50R of the Administration and Fund-Raising columns.

Compensation to Principals

Enter the name, title and all compensation furnished to the filing entity's principals from the filing organization and its parent organization, related parties, and affiliates (most senior individuals first). Hospitals, Colleges and Universities should disclose compensation for the twenty five (25) highest paid and compensated principals. **Compensation should be disclosed for all persons who are responsible for achieving the objectives of the enterprise and who have the authority to establish policies and make decisions by which those objectives are to be pursued.** Compensation consists of salaries, benefit packages, vehicles, consultant payments, loans, deferred compensation and other items identified as employee compensation in IRS Publication 525 Taxable and Nontaxable Income of the Internal Revenue Service. ***Preparers should initially use the lines available on Schedule A for disclosure and when those disclosure lines are insufficient utilize the appropriate worksheet in the template*** (**ExecCompADD**) ***for the additional required disclosures. The Division cannot accept off-template supplemental schedules for meeting these disclosure requirements. Filings that continue to utilize off-template supplemental schedules to disclose Principal's Information in lieu of the added template worksheets will be considered deficient For*** the purposes of this disclosure the definition of management as contained in FASB 57/Codification which includes management, members of the board of directors and officers of the organization is used to define Principals. Management is defined by FASB 57/Codification as follows:

> **Management**
>
> Persons who are responsible for achieving the objectives of the enterprise and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes members of the board of directors, the chief executive officer, chief operating officer, vice presidents in charge of principal business functions (such as sales, administration, or finance), and other persons who perform similar policymaking functions. Persons without formal titles also may be members of management. ***In most instances, management of a social service program will include program directors and program managers***.

Information furnished regarding compensation to principals and disclosure of related party transactions is subject to the provisions of Chapter 296 of the Acts of 1993. Further clarification and information regarding these issues may be found in the following regulations: 808 CMR 1.05(24) Salaries of Officers and Managers, 808 CMR 1.04(4) Related Party Transactions and 808 CMR 1.05(8) Related Party Transaction Costs and 808 CMR 1.04(11) Penalties (c) Failure to Comply with 808 CMR 1.04(4) Related Party Transactions. The current applicable compensation/salary threshold for officers and managers is available in the appendices of both the ***"UFR Audit and Preparation Manual"*** and the ***"UFR Auditor's Compliance Supplement"*** which can be located under the **Learn More** button on the OSD's UFR eFiling webpage @ www.mass.gov/ufr

Revenue Account Definitions

Definition of Terms Used in This Section:

- ***Sponsored*** – To finance the delivery of a program of services or service to a client (also referred to as ***Subsidized*** in some regulations of the Commonwealth).
- ***Commonwealth Supported Program*** **–** Program receives payments from the Commonwealth for the delivery of a program of services or a service to a client.
- ***Third-Party Payments*** **–** Payments received into the program on behalf of a client by third parties such as a person, entity or program (ex. insurance payments). Medicaid payments are considered third party payments. Third Party payment may not be derived from the Client, the client's legal guardian, the client's parents or from the Commonwealth or other governmental entities sponsoring the client or supporting the program.

1R.) Gifts, Legacies Special Events, etc. (Unrestricted). As commonly defined, except that items specifically included in other revenue account definitions (e.g., Client Resources) must be excluded from this account. Solicitations or events sponsored by the organization in which something of value, such as dinners, dances, bazaars, fashion shows, greeting card sales, bingo, etc., is offered to participants in exchange for a payment or contributions sufficient to yield revenue to the sponsoring organization.

2R) Gov. In-kind/Capital Budget. The imputed revenue value of donated goods and personal services. Note: An equal expense must be reported in the applicable expense category.

a) Government/Personnel. Include in this category the imputed value of staff assigned by the Commonwealth of Massachusetts to work in the Contractor organization's programs.

b) Government/Non-personnel. Include in this category the imputed value of donated space in state facilities, pharmacy services and other non-cash governmental resources.

c) Capital Budget. Revenues for assets purchased using Option 2 and 3 of the Purchase of Service (POS) Capital Items Procurement Policy.

3R.) Private In-kind. Non-governmental, In-kind Contributions.

5R) Mass Gov. Grants. Award of funds from a Commonwealth governmental agency to support or subsidize a particular project, program or the general charitable purposes and activities of the organization.

6R) Other Grants Award of funds from all other entities except grants received directly from the federal government.

8R-27R) Commonwealth Departments. Negotiated unit rate, non-negotiated unit rate, HCFP utilized class rate and uncompensated care pool payments (UCP) and cost reimbursement revenue from the Massachusetts departments for the purchase of human and social services. Federal funding received through Massachusetts government service contracts should be treated as Commonwealth Departments.

28R.) POS Subcontract. Purchase-of-Service financial assistance and service fees (includes pass-through federal financial assistance) for the purchase of human and social services received **indirectly** from Commonwealth purchasing departments through subcontract(s) executed between your agency and another Contractor that directly or indirectly holds the contract with the Commonwealth. Separately list the amount of revenues received for each subcontract and if revenue is federal pass-through financial assistance list the names of Commonwealth purchasing departments and Contractors that hold the primary purchase-of-service contract(s). **Medicaid payments received through a subcontract relationship should be disclosed on line 35R**.

29R) Other Massachusetts State Agency POS. In addition to those departments listed in lines 8R-27R, revenue received **directly** from the following departments should be reported as Other Mass State Agency POS line 29R (enter the applicable letter codes.):

Board of Library Commissioners (BLC)
Committee on Criminal Justice (CCJ)
Commonwealth Community Colleges (HECC)
Executive Office of Health and Human Services (EHS)
Governor's Alliance Against Drugs (GAAD)
Soldiers' Home, Chelsea (CHE)
Soldiers' Home, Holyoke (HLY)
Trial Court (TRC)
Victim & Witness Assistance Board (VWA)

30R) Mass State Agency Non-POS. Financial assistance, program service fees and reimbursements for programs and services not related to POS that were furnished by Commonwealth Agencies (Includes pass-through federal financial assistance).

31R) Mass Local Government and Quasi-Governmental Entities. Financial assistance, program service fees and reimbursements for programs and services (Includes pass-through federal financial assistance).

32R) Non-Mass State and Local Government. Financial assistance, program service fees and reimbursements for programs and services (Includes pass-through federal financial assistance).

33R) Direct Federal Grants and Contracts. Financial assistance and reimbursements for services received directly from the federal Government.

34R.) Medicaid – Direct Payments. Payment received on behalf of clients directly from Medicaid. By the terms of state contract and OMB Circular A-110, these resources when received in a Commonwealth supported program are utilized to offset Commonwealth and federal costs.

35R) Medicaid – MBHP Subcontract. Medicaid payments received as part of a subcontract relationship on behalf of Medicaid clients (MBH Partnership). Payments received on behalf of clients directly from Medicaid. By the terms of state contracts and OMB Circular A-110, these resources when received in a Commonwealth supported program are utilized to offset Commonwealth and federal costs.

36R.) Medicare. Medicare payments on behalf of service recipients. By the terms of state contracts and OMB Circular A-110, these resources when received in a Commonwealth supported program are utilized to offset Commonwealth and federal costs.

37R.) Mass Government Client Stipends. Pass-through income for expenses associated with the procurement of direct client care from individual care givers such as family day-care Contractors or foster families.

38R.) Client Resources. Revenue received in cash or in-kind from service recipients to defray the cost of program care and service (e.g., SSI, cash assistance (CA), food stamps, fixed or sliding fees, room and board payments). By the terms of state contracts and OMB Circular A-110, these resources when received in a Commonwealth supported program

are aggregated to offset Commonwealth and federal costs regardless of type of client or sponsor.

39R.) Mass Client 3rd Party Revenue and Other Offsets. Third-party payments (not Medicaid, see lines 34R and 35R) not directly received from the Commonwealth client (ex., insurance payments) in POS programs purchased by the Commonwealth that were made on behalf of service recipients sponsored (finances the delivery of a program of services or service to a client) by Commonwealth purchasing departments, cities, towns, or other governmental entities located within the Commonwealth of Massachusetts. Other offsets related to Commonwealth clients such as (not sliding fee and room and board payments) nutritional supports. By the terms of state contracts and OMB Circular A-110, these revenues when received in a Commonwealth supported program are aggregated to offset Commonwealth and federal costs.

40R.) Other Publicly sponsored client offsets. All other offsets related to clients publicly sponsored by states, cities, towns, or other governmental entities located outside of the Commonwealth of Massachusetts. Offsets include sliding fees for service (not sliding fee room and board payments) and other supports such as nutritional supports. By the terms of state contracts and OMB Circular A-110, these revenues when received in a Commonwealth supported program are aggregated to offset Commonwealth and federal costs.

41R) Private Client Fees. Payments received directly from clients, parents or guardians for services rendered to clients not sponsored by any governmental entity (does not include Medicaid or fixed or sliding fees, room and board payments or payments from any third party such as insurance companies). By the terms of state contracts, these revenues when received in a Commonwealth supported programs are used to offset the private client share of program costs. OMB Circular A-110 requires private fees received in a program supported by a federal grant to be used to offset federal governments' costs (Commonwealth costs are offset if federal revenues are passed through the Commonwealth).

42R.) Private Client 3rd Party and other offsets. Third-party payments (not Medicaid, see lines 34R and 35R) not directly received from the Commonwealth client (ex., insurance payments) that were made on behalf of service recipients not publicly sponsored by any state, city, town, or other governmental entity. Other offsets such as (not sliding fees and room and board payments) nutritional supports. By the terms of state contracts and OMB Circular A-110, the 3rd party revenues when received in a Commonwealth supported program are aggregated to offset the Commonwealth and federal costs. All other offsets related to private clients such as (not client resources such as sliding fees and room and board payments) nutritional supports are utilized to offset the private client share of program costs.

44R.) Federated Fundraising. Funds allotted to the organization from a federated fund-raising organization such as the United Way, Community Chest, Combined Jewish Philanthropies or the Commonwealth Campaign that have not been restricted for a specific use by the donor.

45R.) Commercial Activities. Revenues from commercial products and services, whether related to an organization's charitable purposes or carried on primarily for profit. Corresponding expenses must be disclosed on this Schedule. OMB Circular A-110 requires commercial revenues in excess of cost that are received in a program supported by a federal grant to be used to offset federal governments' costs (Commonwealth costs are offset if federal revenues are passed through the Commonwealth). By the terms of state contracts, these revenues when received in a Commonwealth supported program may be used if designated by the purchasing department or Contractor to offset Commonwealth costs.

46R.) Non-Charitable Revenue. Revenues derived from functions or activities which are not directly related to the nonprofit organization's charitable purposes or social services program of purposes, such as the production of commercial products and services carried on primarily for profit and subject to income tax (unrelated business income activity). Note: For-profit entities should not utilize this line.

47R.) Investment Revenue. Revenue derived from investments held by the organization.

48R.) Other Revenue. Revenue not falling under any other revenue accounts definition. Note: A description of the revenue type and amount must be furnished in a separate schedule.

49R.) Allocated Administration (management and general). Administration (and Fund-Raising revenue) not restricted by donors that is assigned or allocated to programs and supporting services by management with the approval of the board of directors for use in defraying reimbursable operating program costs and non-reimbursable program costs**. Administration and Fund-Raising revenue that is designated by the board of directors to be used in future accounting periods should not be allocated to programs and supporting services but rather be reported in line number 53R of the Administration and Fund-Raising columns (Caution: Do not add line 49R of Administration column into total of Administration and Fund-Raising columns (Line 53R)).**

50R.) Released Net Assets-Program. The portions of the Contractor's net assets that are temporarily restricted by donor-imposed program stipulations and then become unrestricted because the program stipulations are met. Net assets released from restrictions must be allocated or prorated on this line to a specific program(s) if they were previously restricted for a specific program(s).

51R.) Released Net Assets-Equipment. The portions of the Contractor's net assets that are temporarily restricted by donor-imposed equipment acquisition stipulations and then become unrestricted because the equipment acquisition stipulations are met. Net assets released from restrictions must be allocated or prorated on this line to a specific program(s) if they were previously restricted for a specific program(s).

52R.) Released Net Assets-Time. The portions of the Contractor's net assets that are temporarily restricted by donor-imposed time stipulations and then become unrestricted because the time stipulations are met. Net assets released from restrictions must be allocated or prorated on this line to a specific program(s) if they were previously restricted for a specific program(s).

Expense Account Definitions

The UFR utilizes a program component and description of expenses by title that coincides with budgets in Commonwealth purchase-of-service contracts. A copy of definitions of the various component and titles making up the UFR program component and title descriptions has been included in the appendix of the ***"UFR Audit and Preparation Manual"*** and on the Operational Services Division website with the Purchase-of-Service Contract Attachments on the OSD Forms page.

Successful completion of the Statement of Activities, Statement of Functional Expenses and Supplemental Schedules requires careful adherence to the definitions and allocation restrictions established in the schedule instructions, expense account definitions and the UFR program component and title descriptions. **A crosswalk of Expenses and Corresponding UFR Components and Titles has been included in this document.**

As noted in the revenue account definition section, the imputed value of donated goods and services should be reported in the applicable expense category. Staff assigned by the Commonwealth to work in the Contractor organization's programs and donated space in state

facilities should be treated as donated services and their imputed value reported in the applicable expense categories.

These imputed values should also be reported in the Supplemental Schedules in the appropriate Employee and Occupancy Expense categories.

1E-12E) Employee Compensation and Related Expenses.

Direct program and administrative employee expenses should be recorded in accordance with the definitions established in the UFR program component and title descriptions in the appendix and corresponding Administrative and Fund-raising activities as permitted in the schedule.

1E) Total Direct Care Program Staff. Salary wages or other non-fringe compensation for the direct care program positions defined in the Client Care/Program Staff section of the UFR program component and title descriptions (101-138) as found in the appendix. Salary, wages, or other non-fringe compensation for all employee duties should be disclosed the Total Organization column and Total All Programs columns respectively.

2E) Chief Executive Officer. Salary, wages, or other non-fringe compensation for all duties should be disclosed the Total Organization column. Disclose salary amounts associated with CEO's duties involving the overall direction of the agency in the Admin (M&G) column. The portion of the CEO's salary and wages or other non-fringe compensation associated with providing fund raising and direct care services should be disclosed in the Fund Raising and Total All Programs columns respectively.

3E) Chief Financial Officer Salary, wages, or other non-fringe compensation. Disclose salary amounts associated with CFO's duties involving the overall direction of the agency in the Admin (M&G) column. The portion of the CFO's salary and wages or other non-fringe compensation associated with providing fund raising and direct care services should be disclosed in the Fund Raising and Total All Programs columns respectively.

4E) Accounting, Clerical, and Support Staff. Salary, wages, or other non-fringe compensation for accounting, clerical and other support staff furnishing administrative support to the overall direction of the organization and direct care operations of the program(s). Disclose salary amounts associated with employee's duties involving the overall direction of the agency in the Admin (M&G) column. The portion of the employee's salary and wages or other non-fringe compensation associated with providing fund raising and direct care services should be disclosed in the Fund Raising and Total All Programs columns respectively.

5E) Administrative, Maintenance, Housekeeping, Groundskeeping, and Janitorial staff. Salary, wages, or other non-fringe compensation for maintenance housekeeping grounds keeping and janitorial staff. Disclose salary amounts associated with employee's duties involving the administrative offices in the agency in the Admin (M&G) column. The portion of the employee's salary and wages or other non-fringe compensation associated with providing services to fund raising and direct care services in program facilities should be disclosed in the Fund Raising and Total All Programs columns respectively.

7E) Commercial Products & Services Marketing Staff. Salary, wages, or other non-fringe compensation for staff persons whose responsibilities relate primarily to the production, marketing and delivery of commercial products and services and do not involve, except incidentally, client care or supervision. Disclose salary amounts associated with employee's duties involving the administrative services and marketing initiative in the Admin (M&G) column (ex. providing management services and operating agency gift shop). The portion of the employee's salary and wages or other non-fringe compensation associated with providing services to direct care program initiatives should be disclosed

in the Total All Programs column.

9E) Payroll Taxes. Employer's share of FICA, MUICA, Worker's Compensation Insurance, FUTA (in the case of for-profit Contractors) and other payroll taxes paid on behalf of the Contractor agency's staff.

10E) Fringe Benefits. Life, disability, health and medical insurance, pension and annuity plan contributions, day care, tuition benefits and all other non-salary/wage benefits received by the agency staff as compensation for their personal services.

11E) Accrual Adjustments. Adjustment Account to record adjusting entries for accruals such as Accrued Vacation Pay and Partial Payroll expenses when accruals have not been included in other Employee Compensation & Related Expense accounts.

NOTE: Unadjusted employee compensation and related expense information that does not include accrued expense information may be reported in line 1E if the accrual adjustment line (11E) is utilized.

13E-17E) Occupancy.

Includes both "Program Facilities," as defined in the UFR program component and title descriptions in the appendix, and corresponding Administrative and Fund-raising facilities as permitted in the schedule. Note 1: Facility expenses other than those meeting the "Program Facilities" component definition may not be directly allocated to Program functional centers; 2) Additional restrictions established by procurement regulations (e.g., Related Party depreciation and Donated Asset limitations) apply in certain circumstances. Where expenses exceed established limitations, the excess amount must be recorded as Non-reimbursable Expense on lines 54E and 55E and itemized in Subsidiary Schedules A and B. See the UFR Program Component and Title Descriptions in the appendix for full definitions and descriptions.

13E.) Facility and Program Equipment Expenses. Expenses related to the leasing and financing (mortgage interest) of facilities buildings; space and program equipment (does not include office equipment).

14E.) Facility and Program Equipment Depreciation. Depreciation expense associated with facility space mortgaged or owned by the Contractor and program equipment and furnishings (does not include office equipment).

15E.) Facility Operation/Maintenance/Furnishings. Includes operation, maintenance, and furnishings for Program Facilities, as defined in the appendix for such items as utilities, and routine repair and maintenance of facilities and equipment.

16E.) Facility General Liability Insurance.

18E-36E) Other Program Expense

Direct program expenses should be recorded in accordance with the definitions established in the UFR program component and title descriptions in the appendix and corresponding Administrative and Fund-raising activities as permitted in the schedule. See the UFR Program Component and Title Descriptions in the appendix for full definitions and descriptions.

18E.) Direct Care Consultant. Includes direct care program consultants, as defined in "Other Direct Care/Program Resources" in the Program Component's appendix.

19E.) Temporary Help. Individuals, in some cases, possessing specialized skills or expertise in client care and treatment, engaged on an "as needed", "on call", "standby" or "specialist" basis, to provide client care or treatment. This component includes contracted relief staff services furnished by individuals or organizations as defined in "Other Direct Care/Program Resources" in the Program Component's appendix.

20E.) Clients and Caregivers Reimbursement/Stipends.

21E.) Subcontracted Direct Care.

22E.) Staff Training.

23E.) Staff Mileage/Travel.

24E.) Meals.

25E.) Contracted Client Transportation. Fees charged by external entities to transport clients.

26E.) Vehicle Expenses. Any expense with the exception of depreciation that is associated with the purchase, operation and maintenance of vehicles owned and leased by the organization for the transport of clients and to fulfill program needs rather than for administrative purposes. ***Provide a separate schedule that lists passenger and sport utility vehicles used by the organization. The schedule should identify the purchase or lease price and date, make, model, model year, primary use of vehicle (ex. client transportation, administration, and maintenance vehicle) and location vehicle is garaged at night if different than program or administrative office location. The schedule should NOT include busses, eight persons and greater passenger vans and vehicles such as dump trucks, pick-up and panel trucks that are used by plant and facility maintenance staff.***

27E.) Vehicle Depreciation. Depreciation expense associated with vehicles that are used primarily to transport clients and to fulfill program needs rather than for administrative purposes.

28E.) Incidental Medical/Medicine/Pharmacy.

29E.) Client Personal Allowances.

30E.) Provision Material Goods, Services and Benefits.

31E.) Direct Client Wages.

32E.) Other Commercial Products and Services.

33E.) Program Supplies & Materials.

34E.) Non Charitable Expenses. Expenses related to activities that are not consistent with the charitable purpose as stated in the not-for-profit organization's articles of organization.

35E.) Other Expenses. Miscellaneous expenses. Identify type and amount of expense on separate schedule.

37E-51E) Administrative Expense.

This category includes additional expense accounts for resources reasonably necessary for the policy making, management and administration of the Contractor organization. **Administrative expenses are generally associated with the "overall direction" of the organization and must be reported separately on the Statement of Functional Expenses and on Organization Supplemental Information Schedule A and should not be directly charged or allocated to program services, and fund-raising except when the expenses in question directly benefit the program or fund-raising activity**. Costs that are related to the direct supervision of program services, fund-raising and activities should be directly charged or prorated to those functions on the Statement of Functional Expenses and Program Supplemental Information Schedule B as permitted. These costs should be identified with those functions by position title or type of expense (e.g., program director, legal) or by utilizing line 48E, "Program Support," on Program Supplemental Information Schedule B.

37E.) Management Fees. Expenses related to contracted general management services such as accounting, bookkeeping, payroll and billing services (does not include management advisory or consulting services).

38E.) Fund-Raising Fees. Expenses directly associated with fund-raising activity, including the costs of contracted professional fund-raising services.

39E.) Legal Fees. All fees or compensation paid by the organization for the legal services of an attorney (does not include lobbying).

40E.) Audit Fees. All fees or compensation paid by the organization for audit and review services, that benefits the agency as a whole (externally mandated), which are performed by an independent auditor (does not include accounting services or review services that are not performed to meet regulatory filing requirements).

41E.) Management Consultant. All fees for management consultant services.

42E.) Other Professional Fees and Other Administrative Expenses. All fees or compensation paid by the organization for the services of professionals that do not provide management services and other administrative expenses that have not been disclosed elsewhere. Identify amount and type professional and administrative expense on separate schedule.

43E.) Leased Office/Program Office Equipment. All payments for leased office and program equipment (does not include equipment used to provide direct care).

44E.) Office Equipment Depreciation. Depreciation expense associated with office equipment (does not include program equipment).

45E.) Administrative Vehicle Expense. Any expense with the exception of depreciation that is associated with the purchase, operation and maintenance of vehicles owned and leased by the organization that are used primarily for administrative purposes rather than for use in fulfilling program needs and to transport clients. ***Provide a separate schedule that lists passenger and sport utility vehicles used by the organization. The schedule should identify the purchase or lease price and date, make, model, model year, primary use of vehicle (ex. client transportation, administration, and maintenance vehicle) and location vehicle is garaged at night if different than program or administrative office location. The schedule should NOT include buses, eight persons and greater passenger vans and vehicles such as dump trucks, pick-up and panel trucks that are used by plant and facility maintenance staff.***

46E.) Administrative Vehicle Depreciation. Depreciation expense associated with vehicles that are used primarily for administrative purposes rather than to fulfill program needs or to transport of clients.

47E.) Director & Officers Insurance. Professional liability insurance that is acquired to support directors and officers in their board governance and oversight responsibilities.

48E.) Program Support. This expense item is for direct administrative program support that is associated with a single program(s). This line does **NOT** include expenses allocated across programs as an indirect cost or identified in component title 410 as other professional fees, office equipment depreciation, professional insurance, and working capital interest or in title 390 as leased office equipment and office furnishing used in a program**.** This line item does not include personnel**.** Program support is for costs separately identified in a POS program contract budget of Attachment 3 on the line titled Program Support. These costs are intended to meet the specialized and/or non-recurring needs of the program(s), which may include maintenance, and accreditation fees. Program support also includes expenses of the chief officer of the organization and his or her staff, excluding those required to be classified as "Non-Reimbursable Expense," which directly pertain to various functions, including fund-raising, and program services. These expenses include the costs noted in the Program Component's appendix for this category. Costs that are related to the direct supervision of program services and fund-raising activities should be directly charged or prorated to those functions on the Statement of Functional Expenses. These expenses do not include personnel costs or expenses related to the "overall direction" of the organization.

49E.) Professional Insurance. Liability insurance for administrative professional staff.

50E.) Working Capital Interest. Interest expense to meet cash flow needs.

53E.) Allocation of Administration and Support Expense (Management & General). This line is used to provide report users with an understanding of the indirect benefit derived by programs and supporting services from administration. The administration costs are allocated to the programs and supporting services that receive benefit from agency administration costs related to the overall direction of the organization.

See Program Supplemental Information Schedule B instructions for requirements and approved methods of Allocating Administration.

54E.) *Non-Reimbursable State and Federal Expense*. Use of this account should be strictly limited to State and Federal Non-reimbursable expenses that are noted in 808 CMR 1.05 and OMB Circular A-122. These include costs such as tax penalties, bad debts, related-party payments in excess of procurement regulation limitations, or other unreasonable, unauthorized, or non-reimbursable items. (A brief description of itemized non-reimbursable items and revenues available in each program (not Commonwealth and mandatory offsetting revenue) to defray these costs must be given in Subsidiary Schedules A and B, for all entries on this line).

55E.) *Non-Reimbursable State and Federal Administration Expense*. Use of this account should be strictly limited to State and Federal Non-reimbursable administration expenses that are noted in 808 CMR 1.05 and OMB Circular A-122. These include costs such as tax penalties, bad debts, related-party payments in excess of procurement regulation limitations, or other unreasonable, unauthorized, or non-reimbursable items. (A brief description of itemized non-reimbursable items and revenues available in each program (not Commonwealth and mandatory offsetting revenue) to defray these costs must be given in Subsidiary Schedules A and B, for all entries on this line).

Note: Bad debt expense must be reported as a Program Cost on line 54E or 55E in the respective program that it has been incurred on the Organization Supplemental Information Schedule A and B and the Statement of Activities.

Massachusetts Surplus Revenue Retention Calculation

Calculates Commonwealth Not-for-Profit Provider Surplus Revenue Retention Policy (SRR) amounts that may be retained and liabilities due the Commonwealth using the 5% and 20% thresholds. Entries for calculation are derived from disclosures in the UFR supplemental schedules and the organizations SRR disclosure in the Notes to the Financial Statements.

1. Prior Year MA. Revenue. Enter the amount of revenue received from the Commonwealth in prior year. UFR template cell comment box for this entry identifies which revenue lines should be used for this entry.
2. Starting Balance. Enter the beginning balance of SRR fund pool disclosure from the Notes to the Financial Statements.
3. Expended Amount. Enter the amount of funds expended from the SRR fund pool during the filing period as noted in the SRR fund pool disclosure from the Notes to the Financial Statements. A separate Supplemental Information Schedule (not in the UFR Template) titled Surplus Revenue Retention Program Expenditures should be prepared to disclose expenses incurred using retained surplus revenue retention fund pool funds.
4. Accrual Amount. Amount is automatically calculated. Entry indicates the amount of SRR revenue not exceeding the 5% and 20% thresholds that may be retained.
5. Liability Amount. Amount is automatically calculated to indicate total dollar value of SRR revenue exceeding the 5% and 20% thresholds that is considered a possible liability due to the Commonwealth. This amount should be disclosed as a contingent liability in the organizations Notes to the Financial Statements until such time as OSD recalculates the SRR amount and the Commonwealth departments notify the Contractor of the existence of a liability.

Commonwealth of Massachusetts Cost Reimbursement Overbilling

This field automatically calculates total potential overbillings in all cost reimbursement contracts. Final determination of overbilling is subject to possible adjustments and analysis by OSD.

Nonreimbursable Costs (See Nonreimbursable Costs Schedules A & B)

Program Supplemental Information Schedule B_PSI

A separate Program Supplemental Information Schedule B_PSI is prepared for each individual program. Each cost reimbursement contract represents a single UFR program with its own UFR program number and Program Supplemental Information Schedule B.

Programs with Multiple Cost Categories Departments may also establish a program that contains a cost reimbursement cost category and/or the following cost categories: negotiated unit rate (code 23), negotiated accommodations rate (code 24), non-negotiated accommodations rate (code 25), and other non-negotiated unit rate (code 26) cost categories. This type of program with multiple cost categories is assigned one split UFR program number (ex. 1-1 and 1-2) and requires the use of one Program Supplemental Information Schedule B to disclose the program's cost reimbursement activity and a separate Program Supplemental Information Schedule B to disclose the activity in all of the other cost categories.

UFR Program Number

The same program number that was utilized in Attachment # 3 Program Budget of the Contractor's contract with the Commonwealth must be used to report the same financial and program activity in all of the UFR Schedules. See paragraph above for guidance in numbering of programs containing multiple cost categories.

Program Type

Utilize the following codes to identify the type of program related to the information furnished in this schedule:

Code 21	Special Education Program (SPED)
Code 22	Division of Health Care Finance Policy (HCFP) Medicaid Class Rate (payments made directly or indirectly by Medicaid)
Code 23	Negotiated Unit Rate
Code 24	Negotiated Accommodations Rate
Code 25	Non-Negotiated Accommodations Rate
Code 26	Other Non-Negotiated Unit Rate (Department may establish its own rate or utilize rate established by other entity such as HCFP)
Code 27	Cost Reimbursement
Code NA	Non Applicable (includes privately operated program with no Commonwealth funding)

Program Name Furnish the name used by your organization to identify the program.

Description Identify the type of program service furnished (ex. halfway house, adoption, and counseling).

CFDA Number Catalog of Federal Domestic Assistance number appearing on the Purchase of Service - Attachment 3 Fiscal Year Program Budget of the contract or furnished via communication from the Commonwealth, federal government, other governmental entity or Contractor.

Program Address Indicate where the program is physically located.

Number of Weeks operated during audit period Indicate the number of weeks the program was in operation during the year under audit. For example, a program operated for a full year indicates 52 weeks.

Number of operating hours in a week Furnish the program's operating hours in a week. For instance, a program would report 40 hours if it operated from 9AM to 5PM Monday through Friday.

Revenue Utilize the instruction for revenues found in Organization Supplemental Information Schedule A.

Staffing See the UFR Program Component and Title Descriptions in the appendix for definitions of staff titles 1S through 38S.

Expense Utilize the instruction for expenses found in Organization Supplemental Information Schedule A.

Planned Column If the program is supported by negotiated unit rate contracts or a cost reimbursement contract from the Commonwealth enter the appropriate program cost from the last amended Purchase of Service-Attachment 3 Fiscal Year Program Budget. If this is a SPED program, utilize your organization's program price application budget and report activity as defined in the UFR program component and title descriptions in the appendix. If a program price application budget or a Commonwealth contract budget was not prepared, utilize your organization's internal program budget and report activity as defined in the UFR program component and title descriptions in the appendix.

Percentage % Variance This value will be automatically calculated.

Number of hours in a year for one FTE (full time equivalency) in the program Indicate the number of hours worked by a full-time direct care worker in one shift for a year. For instance 2080 hours would be reported if the program's direct care workers had a 40-hour workweek and the program operated 52 weeks per year.

SERVICE STATISTICS

Enter defined unit of service If the program is funded by a POS contract utilize the definition used in the contract. See the Key Concepts section for guidance concerning a service unit.

Enter total unit capacity If the program is funded by a POS contract utilize the total unit capacity used in the contract if available. The amount used in the contract denotes the maximum number of service units the program can produce on an ongoing basis, given available resources. Many programs can accommodate increased service provision during emergencies, but this effort may not be sustained over the long-term. Consequently, the phrase "ongoing" is an essential element of the definition. If programs are licensed, the annual program unit capacity is generally the "licensed capacity" stated on an annualized basis. If the total unit capacity is not available in the POS contract indicate maximum number of units that may be furnished given staffing, facilities and other resource limitations for the program.

Publicly sponsored clients Provide an unduplicated count of clients and total number of service units furnished. Includes only clients for which payment was received (does not include individuals receiving indirect benefit (collateral clients)) from any governmental entity. The client would be reported as a fraction (derived from the amount of services paid for or given free of charge) if payment for services were also received from a private entity or as a result of free care.

Privately sponsored clients Provide an unduplicated count of clients and total number of service units furnished. Includes only clients for which payment was received (does not include individuals receiving indirect benefit (collateral clients)) from any non-governmental entity or individual. The client would be reported as a fraction (derived from the amount of services paid for or given free of charge) if payment for services were also received from a governmental entity or as a result of free care.

Free care clients Furnish an unduplicated count of clients and total number of service units delivered. Includes all service units actually delivered by a program for which there was no payment received from any source. Operating subsidies, grants-in-aid or philanthropic support used to defray the cost of free care should not be treated as a payment source unless tied to specifically identified clients. Units of service reimbursed in advance for vacation, sick and inclement weather, through the eighty-five percent (85%) rule, or similar utilization factor adjustments as part of the rate calculation process should not be treated as free care.

Has performance information been filed through OSD D-1 reporting system Indicate yes with Y and no with N. See D-1 section of instructions to determine if reporting of performance results is required for your **organization.**

MASSACHUSETTS PURCHASING AGENCY CONTRACT INFORMATION

Direct Contracts Identify the contracts directly supporting this program if your organization has entered into a contract(s) with a Commonwealth department(s) to provide services in this program. Provide the Commonwealth department name (abbreviation used in revenue section of schedule), eleven digit contract number and Massachusetts Management and Accounting and Reporting System (MMARS) program code found on the contract.

Subcontracts If your organization is a Subcontractor (to a prime Contractor or another Subcontractor) by furnishing services via this program to another entity identify the names and FEIN(s)* of the other entities that pays your organization for these services. on the lines provided on Schedule B and in the additional schedule in the template (**SubRevADD**) if more lines are needed. Filings that continue to utilize off-template supplemental schedules to disclose other POS Subcontract Revenue Information in lieu of the added worksheets will be considered deficient. **See F.I.P.A. prohibitions on page 6 of this document.*

Subcontractors Identify the names and FEIN(s)* of entities (Subcontractors) that your organization pays to provide services your organization and this program. Also identify the Commonwealth source of funding (by abbreviation) for the subcontracted services and the amount paid to the Subcontractor(s). on the lines provided on Schedule B_PSI and in the additional schedule in the template (**SubExpADD**) if more lines are needed. Filings that continue to utilize off-template supplemental schedules to Subcontracted Direct Care Expense Detail Information in lieu of the added worksheets will be considered deficient. **See F.I.P.A. prohibitions on page 6 of this document.*

Subcontractor Defined

An individual or organization which provides some or all of the needed Human or Social Services or operates a Program on behalf of a Contractor(s), of the Commonwealth, or to entities operating programs approved by the Department of Education under M.G.L. c. 71B, or to their Subcontractors provided, however, that the term Subcontractor does not include an individual (including a client) or firm providing personnel services or non-direct client services, unless specifically provided for in the service contract or agreement. This term also includes sub-Subcontractors. The term human and social service as used in this definition does not include management and business support activities. For further information regarding Subcontractors see the "Who Must File?" section of these instructions.

Allocating Administration

Administration and support (management and general) costs include expenditures for the "Overall Direction" of the organization, general record keeping, business management, budgeting, general board activities, and related purposes. **Administration costs (indirect costs) are disclosed separately in a column, as Administration (not allocated) in the Statement of Functional Expenses. Administration costs are also allocated to Program Supplemental Information Schedule B on line 52E (Administration (M&G) Reporting Center Allocation) to fulfill contract management and pricing needs.** Direct supervision of program services and of fund-raising are not allocated administration and should be charged too directly to those functions.

"Overall Direction" will usually include the salaries and expenses of the chief officer of the organization and his or her staff. If they spend a portion of their time directly supervising fund-raising or program service activities, such salaries and expenses should be prorated among those functions. Expenses incurred in keeping a charitable organization's name before the public are not properly classified as program services or as fund-raising expenses and should be classified as administration expenses. **The cost of disseminating information to inform the public of the organization's "stewardship" of contributed funds, the publication of appointments, the annual report, etc., should likewise be classified as administration expenses.**

The guidance provided above has been derived from the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO). Administration and Fund-Raising expenses must be separately reported from program services on the Statement of Functional Expenses in accordance with Generally Accepted Accounting Principles. Generally Accepted Accounting Principles prohibit administrative and fund-raising expenses from being charged or allocated to program services on the Statement of Functional Expenses. The UFR furnishes report users with a general understanding of the benefit derived by program services from administrative expenses by allocating all administrative expenses to programs on line 52E of the Program Supplemental Information Schedule B. These administrative expenses are reimbursed through the Contractor's contract with the Commonwealth as allocated administrative support costs. The Commonwealth reimburses the Contractor for actual administrative support costs incurred up to the level of the Cap for administrative support as set forth in the negotiated program budget.

Prior to allocating indirect administration costs to programs all costs are separated into three categories in the schedules of the UFR: (1) Administration (only costs related to the overall direction of the organization (M&G)), (2) Fundraising, (3) General and Other Direct costs pertaining to various functions. Fundraising costs are not allocated to programs. Direct costs that can be identified to a particular cost objective and program are assigned directly thereto. Joint, general and other direct costs such as program rental costs, operation and maintenance of facilities, and program telephone expense pertaining to various functions are allocated and distributed to programs and supporting services based on usage and benefit received (see instructions for the Statement of Functional Expenses and Costs Pertaining to Various Functions for allocation and distribution guidance). Finally, indirect administration costs related to the overall direction of the agency that is disclosed in the Admin. Column is allocated using one of the methods noted below.

The UFR template automatically allocates administration to the programs using as default the Modified Direct and Simplified Methods as explained below.

Allocation of Administration (only costs related to overall direction of the organization) to programs shall be accomplished using one of the four following methods, only after direct and joint costs have been distributed to programs and supporting services:

- **Simplified Allocation Method (S)**

  This method allocates indirect administration costs utilizing a distribution percentage derived simply from the total employee compensation and related expenses (line 12E). Line 12E of the fundraising activity (Organization Supplemental Information Schedule A) and each individual program (Program Supplemental Information Schedule B) are then applied to the distribution base composed of the total all programs and fundraising costs in line 12E (Organization Supplemental Information Schedule A). Excluded from the distribution percentage are distorting items such as: Nonreimbursable costs (lines 54E and 55E), client and caregivers reimbursements and stipends (line 20E), subcontracted direct care expense in excess of $25,000 for any program reporting center (line 21E), Incidental medical, medicine, and pharmacy expense (line 28E), Client Personal Allowances (line29E), provision of material goods, services and benefits (line 30E) and expenses related to in-kind services other expenses as prescribed in OMB Circular A-122. ***The Simplified Allocation Method is calculated automatically in the UFR template***.

- **Modified Direct Method (MD)**

  Indirect administration is distributed using a distribution percentage derived from direct and joint costs that have been distributed to programs and supporting fundraising services (before allocation of administration). Line 52E of the fundraising activity (line 52E Organization Supplemental Information Schedule A) and each individual program (Line 52E Program Supplemental Information Schedule B) are then applied to the distribution base composed of total all programs and fundraising costs before allocation of administration (line 52E Organization Supplemental Information Schedule A).

  However, excluded from the distribution percentage are distorting items such as: Nonreimbursable costs (lines 54E and 55E), client and caregivers reimbursements and stipends (line 20E), subcontracted direct care expense in excess of $25,000 for any program reporting center (line 21E), Incidental medical, medicine, and pharmacy expense (line 28E), Client Personal Allowances (line29E), provision of material goods, services and benefits (line 30E) and expenses related to in-kind services other expenses as prescribed in OMB Circular A-122. ***The Modified Direct Method is calculated automatically in the UFR template***.

- **Multiple Allocation Base Method (MAB)**

  This method of distributing administration may used when employed using the guidance prescribed in OMB Circular A-122. Use of this method requires prior approval from OSD and the principal purchasing agency of the Commonwealth (PPA). A written cost allocation plan for distributing costs pertaining to various functions and administration must be submitted to OSD and the principal purchasing agency prior to receiving approval for the use of MAB. The written request to use MAB must demonstrate how the supporting service, program, affiliate, or subsidiary is different from other activities of the organization and why it should receive a disproportionate amount of allocated administration (more or less benefit of overall direction of the Administration function). Colleges, universities and hospitals should not submit a written cost allocation plan if they have received an approved federal indirect cost rate or if they file a Hospital Cost Report with the Division of Health Care Finance Policy.

- **Approved Federal Indirect Cost Rate (FICR)**

  Contractors receiving federal assistance which have an approved federal indirect cost rate may utilize the federal approved method of cost allocation utilized to establish the approved federal indirect cost rate.

The existence of non-reimbursable costs, as contained in 808 CMR 1.05 (effective 2/1/97, 808 CMR 1.05) and OMB Circular A-122, must be disclosed on lines 54E and 55E and must also be disclosed and itemized in Subsidiary Schedules A and B. Social services contract and agreement reimbursements and federal assistance may not be used to defray non-reimbursable costs. It is presumed that Commonwealth and Federal funds have been used to defray non-reimbursable costs when those costs are not appropriately disclosed. A full description and definition of non-reimbursable costs may be found in Massachusetts Regulation 808 CMR 1.00, Section 1.05 (effective 2/1/97, 808 CMR 1.05) and Federal OMB Circular A-122.

Depreciation expense must be recorded in accordance with the depreciation guidance provided below. Lines 54E and 55E and Other Expense should be used to reconcile the difference between depreciation expense on this schedule and the depreciation expense reported in accordance with GAAP on the basic financial statements.
This is required only when depreciation expense is reported on this schedule in accordance with Massachusetts Code of Regulation 808 CMR 1.00 and Federal Single Audit requirements of OMB Circular A-122. Footnotes should report the existence of any reconciliation.

Depreciation

Depreciation for not-for-profit organizations should be defined and determined in accordance with the recommendations of the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO). The guide notes that paragraph 149 of FASB Concepts Statement No. 6, Elements of Financial Statements, describes depreciation as a "systematic and rational" process for allocating the cost of using up assets' service potential or economic benefit over assets' useful economic lives. FASB Statement No. 93, Recognition of Depreciation by Not-for-Profit Organizations requires all not-for-profit organizations to recognize depreciation for all property and equipment except land used as a building site and similar assets and collections. Depreciation should be recognized for contributed property and equipment as well as for plant and equipment acquired in exchange transactions.

The not-for-profit guide also indicates that depreciation expense should be reported in a Statement of Activities as a decrease in unrestricted net assets. If the property and equipment being depreciated have been contributed to the organization with donor-imposed restrictions on the items in use, temporarily restricted net assets should, over time, be reclassified as unrestricted net assets in a Statement of Activities as those restrictions expire. The amount reclassified may or may not be equal to the amount of the related depreciation. The amount to be reclassified should be based on the length of time indicated by the donor-imposed restrictions while the amount of depreciation should be based on the useful economic life of the asset. For example, a computer with an estimated useful economic life of five years may be contributed by a donor and restricted for a specific use by the organization for three years. Reclassifications are also necessary if the not-for-profit organization has adopted an accounting policy that implies a time restriction on contributions of property and equipment that expires over the useful life of the contributed assets. Reclassifications should be included as "Net Assets Released form Restrictions" in the statement of activities.

Contractors that receive restricted revenue from the Commonwealth to purchase capital items under a Capital Budget Contract should recognize the revenue as current unrestricted revenue in a custodial fund when the asset is purchased. Revenue derived from Commonwealth Capital Budget Contracts should also be disclosed on line 2R, *Free Use of Assets - Commonwealth Capital Budget,* Organization Supplemental Information Schedule A of the UFR. Assets purchased with revenues derived from a Commonwealth Capital Budget Contract are owned by the Commonwealth and used free of charge by the Contractor. Generally accepted accounting principles require that purchases having a future economic benefit and life beyond one year be capitalized and depreciated over a certain time period. In addition, the provisions of FASB No. 116 indicate that the revenue should not be recorded in a temporary or permanently restricted class as these classifications are restricted for donations. Depreciation of an asset furnished under a Commonwealth Capital Budget is considered non-reimbursable and should be reported on Supplemental Schedules A and B. The obligation to report funds not derived for Commonwealth revenue to offset the non-reimbursable cost of depreciation from the asset furnished by the Capital Budget Contract is met by indicating on Schedule A and B that the depreciation is offset by revenue derived from the Capital Budget Contract (in essence, no offsetting revenue is necessary). Contractors with programs that are supported by funding from the Commonwealth must record depreciation for those programs in accordance with the Massachusetts Code of Regulation 808 CMR 1.00 and Federal Single Audit requirements of OMB Circular A-l22 and/or A-21. Programs which are not supported by funding from the Commonwealth or Federal Assistance must record depreciation in accordance with ANPO recommendations, but may utilize reasonable service lives that may differ from the 808 CMR 1.00 and OMB Circular A-122 lives.

The Massachusetts Code of Regulation 808 CMR 1.00 subscribes to the above but requires that depreciation be reported on the supplemental schedules on a straight-line basis over a service life not less than the periods given as follows:

Schedule of Service Lives of Assets

ASSET CATEGORY	YEARS OF LIFE	YEARLY RATE
Buildings: Type 1 - Fireproof Construction and Type 2 - Non-Combustible Construction (as classified by the State Board of Building Regulations and Standards in accordance with 780 CMR 400.00) Type 3 - External Masonry Wall Construction and Type 4 - Frame Construction (as classified by the State Board of Building Regulations and Standards in accordance with 780 CMR 400.00)	40 27.5	2.5% 3.6%
Building/Improvements	20	5.0%
Leasehold Improvements	5 (or term of lease, whichever is greater)	20.0%
Equipment	10	10.0%
* Computer Equipment	3	33.33%
** Other Office and Other Program Equipment: Includes items such as copiers, ovens, washers, dryers, office files and capitalized office and program supplies.	5	20.0%
Life Safety Improvements: Building or leasehold improvements or equipment acquisitions made solely to satisfy the requirements of any Department regarding life safety or physical environment. Purpose must be documented.	5	20.0%
Motor Vehicles	5	20.0%
Used Motor Vehicles	3	33.33%
Residential Furnishings	3	33.33%
Office Furnishings	7	14.2%

* Denotes decreased years of life, effective January 1, 1997.

** Denotes additional category, effective January 1, 1997.

The Contractor may request OSD to make an exception in the calculation of allowable depreciation in circumstances where the useful life employed by the Contractor differs from the above schedule (due to greater or lesser consumption). The request must be substantiated by adequate documentation. Non-reimbursable Costs Schedules A & B

Non-Reimbursable costs are disclosed only for programs operated by Chapter 766 approved schools or purchased by departments of the Commonwealth in which the Contractor has incurred non-reimbursable costs.

This means that preparers are not required to disclose in this schedule non-reimbursable cost activity for programs that have not been purchased by departments of the Commonwealth or are not Chapter 766 approved.

The existence of non-reimbursable costs, as contained in 808 CMR 1.05 (Effective 2/1/97, 808 CMR 1.05) and OMB Circulars A-21 and A-122, must be itemized by natural classification and disclosed in the component and program as applicable. Non-reimbursable costs that exist and have not been disclosed are presumed to have been defrayed using Commonwealth and Federal funds. A full description and definition of non-reimbursable costs may be found in Massachusetts Regulation 808 CMR 1.00, Section 1.05 (Effective 2/1/97, 808 CMR 1.05) which is attached to the UFR Auditor's Compliance Supplement, and Federal OMB Circulars A-21 and A-122.

Total direct state and federal nonreimbursable expenses and allocation of state and federal administrative nonreimbursable expenses are disclosed on Schedules A and B on lines 54E and 55E respectively. Schedule A provides for a summary of the itemization of direct and administrative nonreimbursable costs by cost category as disclosed on lines 54E and 55E. Program Supplemental Information Schedule B requests the preparer to **itemize ONLY Direct nonreimbursable costs**.

In addition, the Subsidiary Schedules automatically calculates on line 12N the excess or deficit amount of nonreimbursable costs that have not been defrayed by available unrestricted revenues not derived from public funds and net assets released from restrictions, as disclosed in the appropriate lines in Supplemental Schedule A and B, that the Contractor's board of directors and the donor have designated for use in defraying non-reimbursable costs.

This information, taken together with the auditor's compliance testing of non-reimbursable costs, provides UFR report users with a measure of assurance that all non-reimbursable costs have been defrayed with revenues not derived from public funds or designated by donors for other purposes.

Report users and the auditor are readily able to determine whether or not an overbilling has occurred by reviewing Schedules A and B. In addition the review makes it apparent to the reader if a noncompliance finding is required inasmuch as there was not an adequate level of non-Commonwealth revenue as designated by the board of directors and donors in the program, to defray the nonreimbursable costs.

Procedures for Determining the Existence of Non-Reimbursable Costs

Contractors should review the following guidance for determining when and how non-reimbursable cost disclosure and repayments should occur:

The provision of 808 CMR 1.05 (effective 2/1/97, 808 CMR 1.05) indicates that funds received from purchasing departments (includes cities, towns and municipalities and other states purchasing services in Massachusetts Chapter 766 programs) may only be used for reimbursable operating costs as defined in 808 CMR 1.02. In addition, funds from purchasing departments may not be used for costs specifically identified in 808 CMR 1.05 (effective 2/1/97, 808 CMR 1.05) as non-reimbursable.

Reimbursable operating costs are defined in 808 CMR 1.02 as costs reasonably incurred in providing services described in a service contract or, in the case of a program approved under the provisions of M.G.L. c. 71B, in providing services mandated by the Department of Education or included in a program price approval by OSD, with the exception of costs enumerated in 808 CMR 1.05 (effective 2/1/97, 808 CMR 1.05) (non-reimbursable costs). Operating costs are considered "reasonably incurred" only if they are reasonable and allocable using the standards contained in Federal Office of Management and Budget Circular A-122.

The use of Commonwealth funds to defray costs enumerated in 808 CMR 1.05 (Effective 2/1/97, 808 CMR 1.05) and for costs that are not considered reimbursable operating costs in accordance with 808 CMR 1.02 are subject to recoupment and, where appropriate, the program price is subject to adjustment.

It is recognized that Contractors often incur non-reimbursable costs in addition to reimbursable operating costs in the service contract, a program approved under the provisions of M.G.L. c. 71B, in providing services mandated by the Department of Education or included in a program price approval by the Operational Services Division.

The OSD contract provisions permit Contractors to designate in the negotiated program budget of the service contract anticipated unrestricted revenues or certain net assets released from restrictions that are intended to be used as voluntarily designated offsetting revenue (defined in 808 CMR 1.02) to defray anticipated non-reimbursable costs that are in addition to the reimbursable operating costs of the program. This provision, when utilized, ensures that anticipated non-reimbursable costs are not utilized for development of the authorized program price used to defray program costs.

When non-reimbursable costs are included in these prices, the prices become artificially inflated by including more funding than is necessary to defray reimbursable operating costs. Such excess payments that occur or are used to defray non-reimbursable costs are subject to recoupment.

Certain revenues such as client resources or third party payments made on behalf of a client are commonly judged to be unrestricted revenues and available to defray non-reimbursable costs. However, when these revenues are received in a Commonwealth program, they must be used to defray or offset reimbursable operating costs and to reduce the amount of the Commonwealth's obligation for services rendered to the client (pursuant to 808 CMR 1.18, (Effective 2\1\97 808 CMR 1.03(5))). These revenues are commonly referred to as Commonwealth required offsetting revenues (defined in 808 CMR 1.02) to be used for program or invoice offsets.

In addition, if the program is financed in whole or in part with federal assistance, the program income provisions of OMB Circular A-110 (Section 2 Definitions (x) and Section 24 (b) (3) and (d)) permit a limited number and types of unrestricted revenues, such as charitable contributions, to be used for defraying non-reimbursable costs. Other unrestricted revenues and income in the federally financed programs are considered restricted to those programs and must be used as required offsetting revenues (Program Income-Section 2 Definitions (x) and Section 24 (b)(3) and (d)) to reduce the level of allowable costs on which the federal share of the program cost is based. These offsetting revenues and income consist of, but are not limited to, income from fees for services performed, use of rental of real or personal property acquired under federal awards and subawards, sale of commodities or items fabricated, interest on loans made with award or subaward funds or if required by the federal awarding agency regulations or the terms and conditions of the award, license fees and royalties on patents and copyrights. Revenues derived from these two Commonwealth and federal required offsetting revenue provisions are utilized to reduce the maximum obligation of the contract rather than to defray program costs when the level of program costs (funded and not-funded program costs) exceeds the maximum obligation of the contract. Commonwealth and federal required offsetting revenues are added to the Commonwealth revenues (including federal assistance furnished by the Commonwealth) and used to reduce reimbursable operating costs when the level of reimbursable operating costs does not exceed the maximum obligation of the contract.

In addition, Contractors often voluntarily designate unrestricted revenue as being available for use as offsetting revenue to defray reimbursable operating costs during the budget negotiation process. These voluntarily designated offsetting revenues must be used as specified in the contract and are unavailable for defraying non-reimbursable costs.

Other provisions of OSD also authorize Contractors to utilize unanticipated unrestricted revenues and net assets released from restrictions that become available in the program during the reporting period as offsetting income to defray non-reimbursable program costs. These offsetting revenues that become available after the budget has been developed are designated and disclosed by the Contractor's board of directors and the donor as offsetting revenue to defray non-reimbursable program costs in Schedules A and B of the UFR. In some cases the disclosure of non-reimbursable costs and the designation of offsetting revenue to defray those costs will only occur in the UFR when a program budget may not be negotiated or filed with the Commonwealth.

Certain procedures have been adopted by OSD to accomplish the disclosure of non-reimbursable costs and offsetting revenue used to defray those costs in the UFR. These procedures are intended to ensure that Commonwealth and offsetting revenues are used to defray reimbursable operating costs and to lower the Commonwealth's obligation rather than to defray non-reimbursable costs.

Methods for disclosure of non-reimbursable costs, offsetting revenue and repayment for Commonwealth overpayments (when Commonwealth revenues and offsetting revenues required or voluntarily designated for use in defraying reimbursable operating costs are used to defray

non-reimbursable costs) in the program are as follows:

1. Initial Filing of the UFR:

Offsetting revenues that are designated and disclosed by the Contractor's board of directors and the donor as being available to defray non-reimbursable program costs in Schedules A and B of the UFR may only be derived from the same program in which the non-reimbursable costs are disclosed.

Total unrestricted revenues available to defray non-reimbursable costs may only be derived from unrestricted and net assets released from restrictions that have been reported for the same program in which the non-reimbursable costs are reported on Program Supplemental Information Schedule B. Unrestricted administration revenue (G&A) and Fund-raising revenue that exceeds expenses and is allocated to programs on line 73 of Organization Supplemental Information Schedule A of the UFR may be used to defray non-reimbursable costs.

Commonwealth and federal required offsetting revenue and voluntarily designated offsetting revenue must be used to defray reimbursable operating costs and are unavailable for use in defraying non-reimbursable costs in any program. Other revenues and income from Non-Charitable or other designated supporting services, other than administration and fundraising, and other programs may not be used to defray non-reimbursable costs in other programs. The UFR report user expects the revenues and expenses and results of operations disclosed in a UFR program to accurately reflect the revenues and expenses and program results of operations attributable to that program. The use of program revenue and income (including excess revenues) from one program or supporting service to be used in another program to defray non-reimbursable costs during the reporting period is misleading to the UFR report user. Accordingly, the use of program revenue and income from one program or supporting service to be used in another program to defray non-reimbursable costs during the reporting period is not permitted.

Frequently, grantors and donors restrict the use of any excess revenues or income derived as a result of program operations. For instance, income derived from the sale of commodities in a program that receives federal domestic assistance must be used to reduce the federal share of the program rather than to defray non-reimbursable costs. Donor and grantor entities often require organizations to return any money not spent, making the money unavailable for other uses. In addition, revenue that has been voluntarily designated to be used by the Contractor as offsetting revenue to defray reimbursable operating costs during the budget process must be used as designated rather than to defray non-reimbursable costs.

In addition, revenues and income associated with a Commonwealth or federal cost reimbursement contract may not be used to offset non-reimbursable costs. Any excess revenue (except for a commercial fee) associated with a Commonwealth or federal cost reimbursement contract is considered to be a contract overbilling. Income attributable to a for-profit earnings factor (commercial fee) in the program with the non-reimbursable costs may be used to offset those non-reimbursable costs.

A condition of overbilling exists in a Commonwealth-funded program if the following conditions are met: (1) the unit of service reimbursements from the purchasing agency (reimbursements include Commonwealth and federal required offsetting revenue and Contractor voluntarily designated offsetting revenue used to defray reimbursable operating) exceeds reimbursable operating costs of the program and (2) the Contractor has failed to identify a sufficient level of offsetting revenue available in the program to defray non-reimbursable costs in the program. The following criteria must be used consistent with the definition of reimbursable operating costs for establishing the existence and extent of reimbursable operating costs in a program when determining the existence of a condition of Commonwealth and federal overbilling:

Reimbursable operating costs of the program do not include costs not negotiated in a program budget or total costs in excess of the maximum obligation of the contract. In the case of a program approved under the provisions of M.G.L. c. 71B, in providing services mandated by the Department of Education or included in a program price approval by OSD, reimbursable operating costs do not include the following: Costs not required or in excess of required need

for the delivery of services mandated by the Department of Education, costs in excess of revenues derived from payments received that utilized prices established by OSD and offsetting revenues or costs not included in a program price approval by OSD or costs in excess of a program price approval by OSD.

A condition of overbilling exists because the Contractor failed to identify a sufficient level of offsetting revenue (unrestricted program revenue) to defray non-reimbursable costs in the program during the reporting period. The failure to identify and use offsetting revenue to defray non-reimbursable costs in the program requires the use of excess Commonwealth and federal reimbursements (including required and voluntarily designated offsetting revenue) to defray the non-reimbursable costs in the program during the reporting period (as part of the results of operations). Overbilling issues must be resolved after the reporting period has ended in accordance with the guidance furnished below in number 2 or 3. Income and excess revenues derived from other programs and supporting services may be used after the close of the reporting period to repay the Commonwealth for overpayments that occurred during the reporting period in accordance with the guidance furnished in number 2 or 3 below to resolve overbilling issues.

2. Refiling of the UFR:

The Division will consider, **only in the first refiling of the UFR**, authorizing the reclassification and use of revenue not previously identified in the initial filing of the UFR to be used as offsetting revenue to defray non-reimbursable costs as part of a UFR refiling when certain conditions are met.

Unrestricted and net assets released from restrictions previously designated by the board of directors or by a donor for use in other programs or supporting services during the reporting period may be reclassified if such revenues were not used to defray costs.

Reclassification of other program and supporting service revenue may occur to rectify a condition of overbilling, as noted above in number 1, in the initial filing of the UFR if the following conditions are met:

a) The Contractor's initial filing of the UFR must reflect that the program with the non-reimbursable costs did not have a sufficient level of board or donor-designated unrestricted and net assets released from restrictions available to defray the non-reimbursable costs in the program.

b) Unrestricted administration revenue (G&A) that is allocated to programs on line 73 of Organization Supplemental Information Schedule A of the UFR may be reclassified and used to defray non-reimbursable costs. However, administrative revenue must not be reclassified from a program that operated in a deficit position in the initial filing of the UFR, and the reclassification of administrative revenue must not cause any program disclosed in the refiled UFR to incur a deficit.

c) The Contractor's refiled UFR must disclose that Commonwealth and federal reimbursements are not used to defray non-reimbursable costs in the other programs that the offsetting revenue is derived from. Rather, a sufficient level of offsetting revenue must be available to defray all non-reimbursable costs in the other programs that the offsetting revenue is being reclassified from.

d) Commonwealth and federal required offsetting revenue and voluntarily designated offsetting revenue must be used to defray reimbursable operating costs and are unavailable for reclassification and use in defraying non-reimbursable costs in any program.

e) The Contractor's refiled UFR must also reflect that the unrestricted revenues from other programs or supporting services are available for reclassification and use as offsetting revenue in defraying the non-reimbursable costs. Revenues from other programs and supporting services that are to be reclassified as offsetting revenue are not available if prior to or after reclassification the results of operations of the other programs and supporting services resulted in a deficit position.

f) Certain activities are never available to defray non-reimbursable costs because they lack liquidity. For instance, plant funds generally may not be used because the value of assets in the plant fund represents the net value of property, plant and equipment. The net value of these assets is not considered readily available for designation by the board of directors in defraying costs unless the assets are sold and the proceeds from the sale are used to defray costs. Other types of revenues or support that may not be used would include in-kind contributions such as personnel, material and services. However the value (in-kind revenue) of in-kind contributions such as personnel and material services may be used to offset the benefit received (in-kind expenses) from the in-kind contributions.

g) The board of directors or donor must authorize the reclassification and use of any unrestricted or net assets released from restrictions from other programs or supporting services as offsetting revenues to defray non-reimbursable costs in the refiled UFR.

   A new board of director's acknowledgment letter or a letter from the donor must be furnished to OSD indicating that the board of directors or donor has authorized the reclassification and use of revenues from other programs or supporting services as offsetting revenue to defray non-reimbursable costs as appropriate.

h) The independent auditor must conduct additional testing and reporting on the basic financial statements of the refiled UFR if the changes in reclassified revenues disclosed in the basic financial statements of the refiled UFR are materially inconsistent with the information, or manner of presentation, appearing in the initially filed basic financial statements of the UFR.

i) The Contractor must be prepared to provide documentation upon request to substantiate that revenues reclassified for use as offsetting revenue to defray non-reimbursable costs were available for reclassification and use during the reporting period.

j) The UFR may be refiled only once for the purpose of reclassifying revenue to be used as offsetting revenue to defray non-reimbursable costs. Any additional UFR refiling for the purpose of reclassifying revenue to be used as offsetting revenue will not be accepted by OSD.

k) Commonwealth overpayments not rectified with a refiled UFR resulting from non-reimbursable costs must be resolved in accordance with number 3 below. ***See 1 above for specific guidance for determining if a condition of overbilling exists in a Commonwealth-funded program.***

3. Resolution of Commonwealth Overpayments:

Contractor reimbursements from the Commonwealth in programs funded with unit of service contracts frequently exceed the amount of reimbursable operating costs incurred in a program during the reporting period. This condition may occur because Commonwealth revenues are received in the program as budgeted, but then some of the budgeted reimbursable operating costs are determined to be non-reimbursable during audit. At other times Commonwealth revenues are received as budgeted in the program but some of the budgeted reimbursable operating costs are then not incurred and, instead, unanticipated non-reimbursable costs are incurred. Commonwealth revenues received in excess of reimbursable operating costs by a Contractor are subject to recoupment and could not be retained by the Contractor.

Often unrestricted or net assets released from restrictions are not available to defray the unanticipated non-reimbursable costs. ***Unit of service Reimbursements from the Commonwealth (reimbursements include Commonwealth and federal required offsetting revenue and Contractor voluntarily designated offsetting revenue used to defray reimbursable operating costs) in excess of reimbursable operating costs are often the only funds available to defray non-reimbursable costs during the reporting period because board unrestricted revenues or donor-designated net assets released from restrictions were not received.***

The use of these Commonwealth funds during the reporting period to defray non-reimbursable costs violates the provisions of 808 CMR 1.05 (Effective 2/1/97, 808 CMR 1.05), thereby causing the results of operations to include an overpayment that is subject to recoupment. See 1 above for specific guidance for determining if a condition of overbilling

exists in a Commonwealth funded program.

a) When an overpayment occurs in a situation such as the one noted in the previous paragraph, repayment to the Commonwealth must be made using several methods and procedures as noted below:

   The OSD Questions and Answers, issued August 1994 as part of the UFR Auditor's Compliance Supplement, provides guidance in question 11 as follows:

   The independent auditor should, as part of the tests on compliance with laws and regulations and internal controls, write an audit finding in the report on compliance if overbilling is detected because support that does not include public funds was not available to defray non-reimbursable costs, and a finding in the report on internal controls should also be written concerning the material weakness that permitted the overbilling to occur. The Contractor should report on Schedule A and B of the UFR that there was not an adequate level of support, not derived from public funds, available to defray the non-reimbursable costs and should work with Commonwealth purchasing departments to adequately resolve the overbilling and internal control findings using the OSD audit resolution policy.

b) Prior to approval of a corrective action plan by the purchasing agency and OSD, the Contractor must begin a resolution process for the overbilling by including a footnote or additional explanation concerning its plans to make repayment. The footnote or additional explanation in the notes must disclose the effect on the fund balance (net assets or retained earnings and proceeds from negotiated for-profit earnings factor) and liabilities (possibly contingent liability if repayment terms need to be arranged with the purchasing agency or OSD) or the use of borrowed funds to be used for repayment to the Commonwealth.

c) The Contractor is responsible for initiating a formal plan of corrective action to initiate repayment for overpayments by the Commonwealth. Repayments to liquidate a liability may be made from the Contractor's net assets or retained earnings or from the proceeds of a negotiated for-profit earnings factor. Such a liability could be liquidated in the plan of corrective action approved by the purchasing agency and OSD by reducing the amount of the Massachusetts Not-for-Profit Contractor Surplus Revenue Retention amounts to be retained by the Contractor, reducing future prices to recoup overpayment and to prevent future overpayments as a result of reoccurring non-reimbursable costs, using borrowed funds or net assets or retained earnings and proceeds from negotiated earnings' factor for cash repayment or by using other provisions contained in the OSD Audit Resolution Policy.

d) Given that Commonwealth overpayments occur during the reporting period, as noted above, repayment to the Commonwealth using the options previously noted are the only appropriate methods available for resolution of the overpayments. Non-reimbursable costs that have not been defrayed with Commonwealth overpayments during the reporting period are the only non-reimbursable costs that may be liquidated with Net Assets.

The procedures of OSD provide for recoupment action to take place if appropriate adjustment of the program price pursuant to 808 CMR 1.05 (effective 2/1/97, 808 CMR 1.05) does not occur and if a corrective action plan is not initiated for an overpayment as described above.

Bad Debt Expense in Commonwealth Purchased Programs

The Commonwealth in purchasing a social service program is not permitted to pay for costs which have been identified in 808 CMR 1.05 (Effective 2/1/97, 808 CMR 1.05) (1) through (27) as "non-reimbursable costs." A Contractor should include and identify non-reimbursable bad debt expense in the program budget. The Contractor should also include voluntarily designated offsetting revenue to be used to defray the non-reimbursable costs in the program budget. Where it is determined through disclosure in the UFR, or otherwise, that an authorized price includes (d) non-reimbursable costs because the costs were not identified in the program budget or not defrayed with non-public sources of revenue, the costs will be subject to recoupment by the Commonwealth.

UFR Definition of Bad Debt:

A bad debt expense is identified in 808 CMR 1.05(6) (Effective 2/1/97) as a non-reimbursable cost as follows:

> Those amounts which represent uncollectible accounts receivable (whether estimated or accrual) and any related legal cost.

Bad Debt or Contractual Allowance

Contractors frequently are involved with contractual allowances and confuse those allowances with bad debts. It is important to recognize the distinction between bad debts and contractual allowances because contractual allowances are not considered non-reimbursable items.

Identifying a Contractual Allowance and Bad Debt

Contractual allowances are frequently recognized by the fact that they were never considered to be a firm or good receivable that carried a legal obligation for payment. Whereas, bad debts are recognized by the fact that there is a legal obligation for payment associated with the bad debt.

> Contractual allowances occur frequently in the purchase-of-service (POS) system. For instance, when fees are charged to a third party, i.e., an insurance company for a specific service rendered by a Contractor to an individual. The third party has an agreement to pay a specific price for the service rendered. The Contractor may charge more for that service for various reasons but will only be paid the agreed-upon price by the third party. The difference between the gross amount charged by the Contractor and the amount agreed to for a particular service is considered a contractual allowance and not a bad debt.
>
> **Accounting for contractual allowances**
>
> Contractual allowances should be netted with the revenue when the revenue is recorded at its gross amount and not recorded via an allowance for doubtful accounts as bad debts.
>
> If a receivable is recorded that was never a good receivable, it should be adjusted by crediting the account receivable and debiting the revenue account directly or debiting a contractual allowance account which would be netted with the third-party revenue for financial statement presentation.
>
> Contractual allowances have no effect on the excess revenue over expenses for financial statements when they are properly recorded.

Bad debts as noted above occur when services are rendered as agreed upon between the parties but a legal obligation for payment for those furnished services has not been fulfilled as required. The receivable associated with services that have been furnished as agreed upon by both parties is considered a good receivable because the entity furnishing the services has fulfilled its legal obligations. However, sometimes the agreement between the parties is not always so clear cut.

> For instance, insurance companies frequently employ coverage and claim limitations that are not clearly or fully understood by the Contractor. When a Contractor furnishes

services to a third party insurance company it does so by agreeing to the insurance company limitations. The insurance company agrees to make its payments in accordance with the specified limitations when the insurance policy is executed. If the insurance company fails to make payment to the Contractor as the Contractor expects a bad debt situation may or may not exist. It is possible that the services furnished and payment requested may not be in accordance with the limitations agreed to between the parties. However, a bad debt does not exist if the insurance company has fulfilled its legal obligations for payment in accordance with the limitations noted above and as agreed to between the parties. This condition of doubt happens frequently and is not always eliminated prior to the time necessary to prepare the financial statements.

Accounting for Bad Debt

The Financial Standards Board of the AICPA has furnished accounting guidance for the treatment of bad debt in its Statement Number 5 (FASB-5 Contingencies). If at the date of its financial statements, a Contractor does not expect to collect the full amount of its accounts receivable a contingency exists. Under this circumstance, an accrual for a loss contingency must be charged to income, if both of the following conditions exist:

- It is probable that as of the date of the financial statements an asset has been impaired or a liability incurred, based on subsequent available information prior to the issuance of the financial statement; and
- The amount of the loss can be reasonably estimated.

If both of the above conditions are met, an accrual for the estimated amount of uncollectible receivable must be made, even if the uncollectible receivable cannot be specifically identified, by recording the estimated amount of uncollectible account receivable, the allowance for doubtful accounts and as a bad debt expense.

Financial Implications Associated with Bad Debt

When a Contractor is not paid the full amount agreed to between the parties for services rendered there is a potential that the resources committed by the Contractor to furnish the services will not be fully funded. If the amount of bad debt in question is substantial it could adversely impact cash flows and financial viability of the organization. Bad debt incurred by Contractors could also impact the Commonwealth.

The Commonwealth utilizes anticipated and unanticipated third party and client sliding fees that are received by the Contractor in a POS program as mandatory offsets to reduce the cost to the Commonwealth of providing the program resources benefiting the third parties and clients. Third party and sliding client fees that are not realized in a POS program because of a substantial amount of bad debt could force the Commonwealth to furnish additional funding or to alter its financial participation in the program. The Commonwealth does not require Contractors to furnish reimbursement to the Commonwealth for unrealized offsets that occur because of bad debt. However, the Commonwealth does expect the Contractor to dedicate other funding (in an equal amount of the bad debt) from a non-public source that has not already been utilized as offsetting revenue in the program to fund the resources that would have been supported by the unrealized revenue. Any Commonwealth revenue furnished in the contracting year in which the bad debt was incurred that is used to fund resources that would have been supported by the unrealized revenues related to the bad debt is considered an overbilling. In addition, bad debt expense is considered non-reimbursable and any Commonwealth revenue that is used to defray bad debt expense is subject to recoupment.

Contractor Revenue that is Unavailable for Defraying Bad Debt Expense

Third-party revenue, client resources, client sliding fees and revenues restricted by a specific use by a donor and not considered non-public revenue and as such are not available to defray bad debt expense or other non-reimbursable costs. The types of revenues noted in the preceding

sentence are considered mandatory-offsetting revenues.

Why Some Revenues are Unavailable for Defraying Bad Debt Expense

To understand why the revenues noted above as well as other types of revenues are unavailable for defraying bad debt expense or any other non-reimbursable cost one has to understand the contracting process. The Commonwealth predominately contracts for social services using two methods of reimbursement: cost reimbursement and a negotiated unit rate.

In cost reimbursement contracting, the Commonwealth is the payor of last resort and reimburses the nonprofit Contractor only for actual reimbursable costs incurred up to the maximum obligation of the contract. If third-party revenues and client resources are received, they must be used as mandatory-offsetting revenue to lower the Commonwealth's obligation. Other revenue may be unavailable for use in defraying bad debts because it has been restricted by a donor for use in defraying reimbursable program costs or voluntarily designated by the Contractor in the program budget to be used as program offsetting revenue. If the third-party revenues and client resources are anticipated in the contract budget process, the revenue is reported as program offsetting revenue and the budget maximum obligation is lowered. An overbilling could occur if the third-party revenues and client resources were unanticipated in the budget but were subsequently realized during the year and the Contractor failed to appropriately adjust its billing to the Commonwealth to reflect the receipt of new mandatory-offsetting revenue. Cost reimbursement contracts with nonprofit Contractors do not provide for any surplus. The Contractor is reimbursed only for actual costs incurred in accordance with the constraints of the budget. The third party revenues, client resources and revenue restricted by a donor to defray reimbursable program costs must be used as mandatory-offsetting revenue. In addition, other types of unrestricted revenues may be designated by the Contractor for use as offsetting revenue in the Commonwealth purchased program pursuant to 808 CMR 1.18 (Effective 2\1\97, 808 CMR 1.03(5)). Offsetting revenue that has been donor restricted or voluntarily designated as offsetting revenue and included in a POS program becomes part of the contract and must be used as included in the budgeted.

Why is Mandatory and Voluntarily Designated Offsetting Revenue Generally Unavailable to Defray Bad Debt Expense?

Program offsetting revenue is composed of revenues that benefit the entire program and can be expected to continue to be available for the program regardless of which clients are in the program. The inclusion of program offsetting revenue in a budget lowers the unit cost of service and maximum obligation for the Commonwealth. Most offsetting revenue in a program is generally not deducted from the billings to purchasing departments. Examples of Commonwealth and federal program offsetting revenue include but are not limited to, the following:

<u>Voluntarily Offsetting Revenue</u>

Philanthropic contributions and gifts, federated fundraising (United Way), interest income or commercial revenue designated for use in a Commonwealth purchased program to defray reimbursable or non-reimbursable program costs.

<u>Mandatory-Offsetting Revenue</u>

Third party fees, client resources, client sliding fees, revenues restricted by a donor for a specific use, utilization of public facilities and/or state employees, fees for service, excess Commonwealth surplus revenue as required by the Surplus Revenue Retention Policy (defined in 808 CMR 1.19 (3) (Effective 2\1\97, 808 CMR 1.03 (7)).

Third-party revenue, SSI, food stamps, rent and client resources are usually included as invoice offsets on billings, but they may also be used as program offsetting revenue in the budget when the program serves a stable client population for whom client-based revenues will not fluctuate.

In negotiated unit rate contracts as with cost reimbursement contracts, the Commonwealth is recognized as the payor of last resort when computing the unit rate utilized in the contract. If third party revenue, client resources and/or revenues restricted by a donor for use in defraying reimbursable program costs were not anticipated in the budget or in invoice billings as program offsetting revenue when the rate was established the Commonwealth would cease to be the payor of last resort. In addition, the rate would be inflated if all potential private clients were not recognized when the rate was established. Unanticipated third-party revenues, and client resources and revenues restricted by a donor for use in defraying reimbursable program costs must be used as offsets to invoices or to amend the contract rate of reimbursement, thereby reducing the cost to the Commonwealth. Use of invoice offsets to reflect unanticipated third-party revenues, client resources and revenues restricted by the donor to be used for reimbursable program costs that were received after the contract was negotiated and not included in a contract amendment also ensures that the Commonwealth is the payor of last resort. Thus, anticipated and unanticipated third-party revenues, client resources and revenues restricted by a donor for use in defraying reimbursable program costs must be utilized for computing the negotiated unit rate and to ensure that the Commonwealth is the payor of last resort. Using third-party revenues, client resources and program revenues restricted by a donor for use in defraying reimbursable program costs to defray non-reimbursable costs, including bad debt expense, is not permitted because this also would result in the Commonwealth not being the payor or last resort.

What Type of Revenue is Available to Defray Bad Debt Expense?

Voluntary offsetting revenue that has dedicated for use in defraying non-reimbursable costs may be used to defray bad debt expense. Voluntary offsetting revenue consists of philanthropic contributions and gifts, federated fundraising (United Way), interest income or commercial revenue designated for use in a Commonwealth purchased program. Revenues received as noted in the previous sentence that have not been designated as voluntary offsetting revenue in the POS program budget may also be used to defray bad debt expense and other non-reimbursable costs. Revenues restricted by a donor for defraying non-reimbursable costs or bad debt specifically may be used for that purpose.

How to Disclose and Defray Bad Debt Expense in POS Programs

Offsetting revenue and non-reimbursable costs such as bad debt should be anticipated and disclosed on a net basis in the contract program budget. Whereas the financial statements and the Supplemental Schedules A and B discloses revenue and support on a gross basis with the corresponding bad debt, if applicable, reported on the financial statements and on Supplemental Information Schedules A and B in the same manner. The Commonwealth requires Contractors that incur bad debt expense to disclose the expense as a non-reimbursable cost in the Schedules A and B of the UFR. Further, non-reimbursable bad debt expense must also be disclosed in Schedule A and B. A disclosure must be made in Schedule B (automatically inserted) for the existence of an appropriate level of non-public revenue that is available in the program that the bad was incurred in to defray the non-reimbursable bad debt expense. These procedures attempt to ensure that the Commonwealth does not fund any part of the non-reimbursable bad debt expense. Bad debt expense that cannot be offset with nonpublic revenue in a Commonwealth purchased program should be disclosed in Schedules A and B with a footnote that identifies this fact. This procedure for disclosure will provide adequate information to report users regarding the existence of unfunded bad debt expense and its effect on Commonwealth purchased programs. A liability to the Commonwealth must be established if it is determined that Commonwealth revenues were used to defray the bad debt expense because no non-public revenues were available for that purpose. If a liability to the Commonwealth was not established when required the CPA auditing the Contractor is compelled by the “Yellow Book” to write a material finding related to the overbilling to the Commonwealth in the compliance and internal control reports. Non-public revenue is composed of revenue not derived from the Commonwealth or revenue not designated or required to be used by the Contractor as offsetting revenue to reduce the Commonwealth’s maximum obligation.

When is Recoupment Warranted for Bad Debt?

Recoupment by the Commonwealth is not required when the Contractor does not have nonpublic funds available to defray bad debt expense if the Contractor has followed all of the appropriate regulatory, contract and UFR instructions. This is possible because 808 CMR 1.05 (Effective 2/1/97, 808 CMR 1.05) requires all anticipated non-reimbursable bad debt expenses to be included and offset with nonpublic revenues in the program budget. If the Contractor incurs less or the same but not more than the bad debt expense that was previously anticipated and offset in the program budget recoupment is not necessary because the bad debt expense was not included in the rate of reimbursement.

Of course making this comparison may not be straightforward because bad debt expense and offsetting revenue activity is disclosed in the program budget on a net basis whereas the activity disclosed in the UFR is on a gross basis.

Accordingly, recoupment and a liability due to the Commonwealth is **not** required to be established if nonpublic revenues are not available to defray bad debt expense in a Commonwealth purchased program if the bad debt expense was ***previously included as an anticipated expense and offset*** in the program budget.

Non-reimbursable bad debt expense that was ***previously included as an anticipated expense but not offset*** in the program budget is subject to recoupment by the Commonwealth if nonpublic funds are not available in the UFR program to defray the bad debt expense. A liability due to the Commonwealth must be established in the UFR for bad debt expense subject to recoupment.

CRE Preliminary Calculation of Cost Reimbursement Excess Revenue

The field automatically calculates the preliminary result of analysis for cost reimbursement contracting. The results of this calculation are carried forward to Schedule A_OSI. Final determination of overbilling is subject to further OSD analysis and adjustments.

Schedule D-1 Supplemental Program Outcome and Output Measures – Electronic Submission Suspended for FY ’11

Please note: The Operational Services Division (OSD) has suspended until further notice the D-1 filing requirement as a prerequisite to filing a UFR. Please note that this change applies to D-1 performance filings via the UFR ***eFiling*** system and does not in any way exempt human service contractors from maintaining the appropriate performance measure information required by departments for their on-going contract monitoring.

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Supplemental Psychiatric Day Treatment Services Schedule

Providers need to complete a separate Schedule for each of their separate programs for PDT. Also, please be sure to complete all related sections of the Schedule. If you have a question about whether any of your PDT activity represents a "program", please call us at (617) 988-3186.

Section 1: UFR Program Number, from the cover page. Each additional PDT program will have a separate program number from the UFR cover page, as well as a separate entire Supplemental PDT Services Schedule.

Section 2: Schedule B Expense and PDT Employee Information calls for separating PDT employee salary and FTE information between direct care and administrative functions. The "Key Concepts" section of the UFR Audit & Preparation Manual addresses the FTE concept. If an employee splits his/her time between functions, allocate on the basis of hours of service. Some positions are "x-ed out", or not available for direct care designation, because these positions are not thought to be involved in this program or are administrative in nature. **Note**: the "Total PDT" section is linked to the data you have already completed about your program in the Program Supplemental Information B schedule. This linkage is meant to help provide consistent reporting of data throughout the report. There are other linkages also provided, for the same purpose.

Allocation of Management & General expenses:

See Allocating Administration instructions for Program Supplemental Information Schedule B for full definitions of methods that must be used to allocate administration in the UFR. The modified direct method is the method used by default in the UFR template. (The FY 2002 UFR template auto-calculates administration when the modified direct method or the simplified allocation method is used).

Section 3: Supplemental Personnel is designated for consultants to the program, subcontracted personnel, or donated staff. Please be sure to provide the FTE information as well as the wage/salary amounts.

Donated services refers to the value of services rendered to the center by workers who work more than 20 hours per week and who are not paid. The positions of these workers would normally be occupied by paid personnel. Each non-paid worker's qualifications must be comparable to those of paid workers.

Section 4: PDT Census, captures visits by type, and days of operation, mirroring the old Schedule "O".

Section 5: Payer Mix information is self-explanatory.

Section 6: Other Program information is self-explanatory.

Section 7: Net Assets Released From Restrictions refers to those assets, such as Grants, Gifts, and Donations which are designated by the donor for paying certain program operating costs, or groups of costs, or costs of specific groups of patients, and which have been released from restriction. These also include funds which are earmarked for specific programs. You can find further reference to "Classes of Net Assets" within the Manual's discussion of Audited Financial Statements on or about page 41.

Donated Services: The value of services rendered to the center by workers who work more than 20 hours per week and who are not paid by the clinic. The positions of these workers would normally be occupied by paid personnel. Each non-paid worker's qualifications must be

comparable to those of paid workers. Net assets released from restrictions are allocated to programs on the Organization Supplemental Information Schedule A (see 52R-54R).

FOR OUTPATIENT MENTAL HEALTH CLINICS

Supplemental Mental Health Class Rate Services Schedule

Each outpatient mental health clinic that is required to file a UFR must complete this schedule.
Providers are responsible for determining whether their services match with any stipulated within this Schedule; the service descriptions follow.

In general, if your clinic provides any of these services, and you receive revenue from any of the following (Medicaid directly through fee-for-service, DMH for outpatient services, or the Massachusetts Behavioral Health Partnership), there is a good chance that your agency needs to complete the "MH" schedule. Report on the basis of the **whole** program (all expenses, all revenue).

This schedule is separated into sections (1-7) to capture that information.

Section 1: UFR Program Numbers. Note that you will need to record your program number(s) from your UFR cover page which constitute your outpatient mental health program. This schedule will automatically consolidate (load up) program information supplied on your corresponding B Schedule(s) into the "Total Outpatient" column once you indicate the program number(s). On the B schedules, be sure to capture all, but only, outpatient mental health activity that reflects the various services expressed in the cost centers indicated (Diagnostics, Individual & Family Therapy, Medication visits, etc.) within this the Supplemental Mental Health Class Rate Services Schedule.

(If you scroll down this page you will find definitions for the MH cost centers)

Section 2: **Program Staff and Expense Breakout**

The Total Outpatient column must be a sum of the entries across the various service categories, or cost centers. In some cases, occupancy for example, your entries are totals for the components, after which a formula automatically allocates the amount across the cost centers.

This schedule also uses the occupancy formula for allocating a number of other line items, starting with Clients and Caregivers Reimbursement/Stipends (line 20E and the columns in gray) then continuing from Staff Training down through a series of line items. You will see that you can override this method of allocation for items beginning at Clients and Caregivers Reimbursement/Stipends if you wish.

The Division of Health Care Finance and Policy encourages first that line items be expensed directly, if record-keeping permits this; otherwise, that a reasonable basis be used for allocation across modalities (please indicate within the report what "reasonable basis" you have used for a given expense item) or, thirdly, that the "Administration" column be used.

Allocation of Management & General expenses:

See Allocating Administration instructions for Program Supplemental Information Schedule B for full definitions of methods that must be used to allocate administration in the UFR. The modified direct method is the method used by default in the UFR template. (The FY 2002 UFR template auto-calculates administration when the modified direct method or the simplified allocation method is used).

Definition of Mental Health Cost Centers

Total Outpatient

The total cost, per expense account, for the operation of the Outpatient Mental Health program.

Outpatient Administration

Expenditures for administrative salaries, associated taxes and fringe benefits, and overhead; that is, costs that cannot reasonably be assigned to a given service center but which are, nonetheless, essential to Outpatient Mental Health.

Diagnostic Services

That portion of operating expense which has been incurred directly or indirectly for sessions between a client and one or more staff members who are authorized to render mental health services for the determination and examination, by interview techniques, of a patient's physical, psychological, social, economic, educational and vocational assets and disabilities for the purpose of developing a diagnostic formulation and designing a treatment plan.

Psychological Testing

That portion of operating expense which has been incurred directly or indirectly in the use of standardized test instruments and procedures by a qualified staff member in order to evaluate aspects of an individual's functioning, including aptitudes, educational achievement, cognitive processes, emotional conflicts, and type and degree of psychopathology. These tests must be published, valid and in general use as defined by listing in the Mental Measurement Yearbook or by conformity to the Standards for Educational and Psychological tests of the American Psychological Association.

Individual/Family Therapy

That portion of operating expense which has been incurred directly or indirectly in the treatment of an individual by one or more authorized staff members for emotional, behavioral, personality and psychiatric disorders based primarily upon verbal communication with the patient, in contrast to treatment using chemical or physical measures.

Group Therapy

That portion of operating expense which has been incurred directly or indirectly in treatment conducted by one or more authorized staff members using psychotherapeutic techniques to effect changes in the maladaptive behavior of the group members in their everyday interpersonal exchanges. Most of the group members are not related by blood, marriage or legal guardianship. The group shall not include more than ten publicly-aided individuals.

Medication
That portion of operating expense which has been incurred directly or indirectly for recipient visits to the clinic which is specifically for prescription, review, and monitoring of medication by a psychiatrists, or administration of prescribed intra-muscular medication by qualified personnel.

Community Consultation and Education
That portion of operating expense which has been incurred directly or indirectly for services provided by professional personnel to representatives of schools, courts, police, organizations, or agencies with the aim of problem solving and imparting knowledge in areas such as prevention, availability of resources, and clinical procedures. Such consultation may take place off the premises of the facility. Community consultation is distinct from case consultation in that it does not address the problems of a particular patient but rather the community at large.

Case Consultation
That portion of operating expense which has been incurred directly or indirectly for consultation with another agency when the center's clinic program has accepted the patient for treatment and continues to assume primary responsibility for the patient's treatment, while the other agency continues to provide ancillary services.

Emergency Services
That portion of operating expenses which has been incurred directly or indirectly for services providing immediate mental health evaluation, diagnosis, hospital prescreening, treatment and arrangements for further care and assistance as required, up to 24 hours a day, 7 days a week, to individuals showing sudden incapacitating emotional stress. This includes expenses incurred for services provided by on-call qualified professionals who are available to talk to patients over the telephone and, when indicated, to arrange and provide for examination and evaluation on a face-to-face basis, in order to effect a reasonable disposition.

Family Consultation
That portion of operating expense which has been incurred directly or indirectly for services provided by professional personnel in a preplanned meeting with the parent or parents of a child who is being treated at the center when the parent or parents are not clients of the center.

Section 3: **Service Statistics**

Please complete all service categories for units provided, weeks of service during the year, and complete the special requests regarding group therapy, if you provided this service.

Section 4: **Occupancy Space Utilization**

Your entry for square feet used 1) for the entire outpatient MH program, and 2) for the Administration portion of the outpatient MH program (executive, management, accounting, clerical purposes), will automatically lead to an allocation of occupancy expense across the cost centers. The linkage to the "B Schedule (s) for outpatient mental health will load up occupancy expenses which you have provided on the B Schedule (s). As the occupancy expense allocation also partly depends upon units of service by cost center, this fact is another reason why the accurate indication of service units is essential.

Section 5: **Supplemental Information – Consultants, Temporary Help, Subcontracted Direct Care**

Be certain to include both the salary, and FTE information, requested by position. The "Total Outpatient" column will sum from across the page.

Section 6: **Supplemental Information for In-Kind Donated Personnel Services**

Same as in Section 5. Donated services refers to the value of services rendered to the center by workers who work more than 20 hours per week and who are not paid by the clinic. The positions of these workers would normally be occupied by paid personnel. Each non-paid worker's qualifications must be comparable to those of paid workers.

Section 7: **Supplemental Information on Net Assets Released from Restriction**

Restricted assets released from restrictions such as grants, gifts and donations are funds or cash which are designated by the donor for paying certain clinic operating costs, or groups of costs or costs of specific groups of patients. These also include funds which are earmarked for specific programs such as emergency care. Net assets released from restrictions are allocated to programs on Organization Supplemental Information Schedule A. You can find further reference to "Classes of Net Assets" within the Manual's discussion of Audited Financial Statements on or about page 41.

If you have questions on completing the above supplemental schedule, please call the Division of Health Care and Finance Policy at (617) 988-3186.

DIVISION OF HEALTH CARE FINANCE AND POLICY CERTIFICATION OF OUTPATIENT MENTAL HEALTH CENTER SERVICES THAT DO NOT FURNISH NON-MEDICAID REIMBURSABLE SOCIAL SERVICES TO PURCHASING DEPARTMENTS OF THE COMMONWEALTH

The owner, partner or officer must submit along with the financial statements, but not under the same cover, (auditor-submitted) the signed certification page at the end of the UFR Audit and Preparation Manual. Other Outpatient Mental Health Centers, substance abuse, early intervention and psychiatric day treatment Contractors must file the Acknowledgment of the Board of Directors Letter noted above.

REPORT ON THE INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The independent auditor must prepare a written report on his/her understanding of the entity's internal control structure and the assessment of control risk made as part of the financial statement audit. This separate report must include as a minimum: (l) the scope of the auditor's work in testing and obtaining an understanding of the internal control structure and in assessing the control risk; (2) present the results of those tests and report deficiencies considered to be the significant deficiencies, including the identification of material weaknesses, identified as a result of the auditor's work in understanding and assessing the control risk in internal controls (see note 1). Other matters related to the audited entity's internal control structure not included in the required report must be separately communicated to the audited entity, preferably in writing. Such control structure conditions, when communicated in a management letter to top management, must be referred to in the report on internal controls. All communications must be documented in the working papers. The single audit provisions of OMB Circular A-l33 expand upon the requirements and also require that the auditor determine and report whether the entity has internal controls that provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations.

Note: Independent auditors should consult the "Yellow Book" and the publications listed in the auditing guidelines' section of these instructions prior to conducting the audit and reporting on internal controls. OSD strongly encourages independent auditors to consult the OMB A-133 circular, supplements and the financial Accounting Standards board (FASB) *Accounting Standards Codification* (Codification).

The Report on Internal Controls must be prepared in accordance with the additional reporting standards for financial statement audits of Generally Accepted Government Auditing Standards and the AICPA Statement on Auditing Standards (SAS) No. 115 and 117.

These standards provide for separate communication of conditions in an audited entity's internal control structure, in writing, to management and those charged with governance.

The independent auditor's report on Internal Controls must be prepared in accordance with the issuance of Government Auditing Standards: 2003 Revision and the AICPA Statement on Auditing Standards No. 74, "Compliance Auditing Considerations in Audits of Government Entities and Recipients of Governmental Financial Assistance," and the illustrative guidance furnished by the AICPA in Statement of Position 98-3 "Audits of States, Local Governments, and Not-For-Profit Organizations Receiving Federal Awards." **Independent auditors are strongly urged to consult the above-noted publications prior to preparing independent auditor's reports filed with the UFR.**

Independent Auditors should refer to **AU Section 325** for further guidance on Internal Control reporting and **AU Section 9325** for auditing interpretations of the effects of SAS #112 on OMB Circular A-133 Audits. In addition, final illustrative reports issued by the AICPA Government Auditing Quality Center are available for review on the AICPA website at:

http://www.aicpa.org/interestareas/governmentalauditquality/resources/illustrativeauditorsreports/pages/governmentauditingstandards.aspx

REPORT ON COMPLIANCE

The independent auditor must prepare a written report on the scope of his/her tests of compliance with applicable laws and regulations and present the results of those tests. This separate report must present the results of those tests by reporting instances or likely irregularities, illegal acts and other material noncompliance (see note 1). In some circumstances, auditors should report irregularities and illegal acts directly to parties external to the audited entity.(see note 2) Instances of noncompliance with laws and regulations that are nonmaterial from a quantitative and qualitative perspective must be reported to top management in a separate communication, preferably in writing (management letter). If applicable, the compliance report must state that the auditors found instances of nonmaterial noncompliance with laws and regulations that are being separately reported to management. All communications must be documented in the working papers. The single audit provisions of OMB Circular A-l33 include additional reporting requirements for instances of noncompliance with laws and regulations which should be consulted for single audits.

Note: Independent auditors should consult the "Yellow Book" and the publications listed in the auditing guidelines' section of these instructions prior to performing the audit and reporting on compliance. OSD strongly encourages independent auditors to consult the Financial Accounting Standards Board Accounting Standards Codification (Codification), specifically relating to audits of states, local governments, and not-for-profit organizations receiving federal awards and OMB Circular A-133.

Independent Auditors Report on Compliance. The Report on Compliance must be prepared in accordance with the additional reporting standards for financial statement audits of Generally Accepted Government Auditing Standards and the AICPA Statement on Auditing Standards (SAS) No. 117, *Compliance Audits*, which supersedes SAS No. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. SAS No. 117 is effective for audits for fiscal periods ending on or after June 15, 2010, but allows earlier implementation.

SAS 117 provides standards and guidance on performing and reporting on an audit of an entity's compliance with applicable compliance requirements of a governmental audit. Illustrative examples may also be found at:

http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeAuditorsReports/Pages/default.aspx

The independent auditor's report on Compliance must be prepared in accordance with the issuance of Government Auditing Standards: 2011 Yellow Book Revision and the AICPA Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* and SAS 117, *Compliance Audits*. **Independent auditors are strongly urged to consult the above-noted publications prior to preparing independent auditor's reports filed with the UFR.**

CONTRACTOR ORGANIZATION'S RESPONSE TO AUDITOR'S REPORTS AND CORRECTIVE ACTION PLAN

This affords an opportunity for the Contractor organization to respond to or comment upon any matter included in the report. The Contractor prepares this optional response to items reported in the auditor's reports not requiring correction under the provisions of OMB Circular A-133 or the OSD audit resolution policy. A corrective action plan (CAP) prepared by the Contractor must contain all items in the auditor's reports requiring correction pursuant to OMB Circular A-133 and the OSD audit resolution policy. **The Contractor is responsible for preparing and filing the corrective action plan (CAP)* as part of the UFR.** OMB Circular A-133 and the OSD audit resolution policy contain mandatory preparation specifications for corrective action plans. A copy of OMB Circular A-133 and the OSD audit resolution policy has been provided in the UFR Auditor's Compliance Supplement. The Contractor organization's management must provide UFR report users, including the Contractor's board of directors, with pertinent facts and insight concerning all internal control and compliance findings appearing in the auditor's reports.

Please note:** Beginning with fiscal years ending 6/30/2007 all corrective action plans (CAP) prepared by contractors to address cited internal control deficiencies or compliance issues must download and utilize the CAP form developed by OSD and must upload a signed and completed CAP form along with the UFR to the ***eFiling site. Your organization's PPA will review the submitted CAP, approve it if appropriate and convey its approval to OSD for oversight review.

Instructions for completing the new Excel formatted-Corrective Action Plan (CAP) form:

CAP Header: Complete the CAP header fields that are applicable to the CAP to be submitted following the guidance provided by the cell pop-up comments.

Identified Issues Field: Enter the specific internal control deficiencies or compliance issues referencing the finding identification number (if applicable) utilized by the independent auditor.

Corrective Measures Field: Enter the specific measures taken to correct each identified issue. Follow the pop-up comment guidance when the measures are not consistent with the auditor's recommendations.

Time Frame Field: Identify the time or dates when the corrections will occur.

Action Deemed Successful Field: Identify the appropriate criteria for determining the corrective measures have succeeded, such as, issue not cited in subsequent audit.

Means of Evaluation Field: Identify the appropriate criteria for determining the corrective measures have succeeded, such as, issue not cited in subsequent audit.

Responsible Person Field: Identify by name and title the person responsible for correcting the issue. An organization may not list its independent auditor or CPA firm in this field.

Board Approval and Date Field: Self-explanatory. **Please note**: OSD has discontinued the requirement for an "electronic" signature on the CAP form.*

* *All documents containing a signature of the Board's designee including the Corrective Action Plans (CAP) should be either scanned or converted to a PDF format prior to uploading to the UFR* ***eFiling*** *System.*

ACKNOWLEDGMENT OF THE BOARD OF DIRECTORS

The board of directors must acknowledge receipt and review of the Uniform Financial Statements and Independent Auditor's Report (UFR). The acknowledgments must be accomplished through a vote of the board of directors to recognize and accept the representations of management and the expression of opinions by the Independent Auditor as embodied in the UFR. The board of directors must also certify under pains and penalties of perjury and to the best of the members of the board of directors' knowledge, all material (as defined by GAGAS) related party disclosures and other representations made by management are accurate and disclosed as required in the notes to the financial statements and schedules of the UFR. A representation letter on the organization's stationary, addressed to the independent auditor, must be utilized to accomplish this acknowledgment. A sample of the narrative of the representation letter, which contains the minimum essential elements necessary to fulfill this requirement, has been included in the forms package. The board of directors may vote to authorize a subcommittee of the board of directors such as the audit committee or the finance committee to perform the above noted acknowledgments and oversight responsibilities on its behalf. Members of management may not participate in any of the above noted board of director's acknowledgments and oversight responsibilities.

AUDIT SERVICES CHECKLIST AND MANAGEMENT CERTIFICATION

The Audit Services Checklist and Management Certification must be prepared, signed and submitted along with the UFR, but under separate cover (not filed as auditor-submitted documents in accordance with SAS No. 29 and 52), by the Chief Executive Officer or Chief Financial Officer of the Contractor organization. Failure to file the Audit Services Checklist and Management Certification is considered to be a minimum filing deficiency. Preparers are requested to provide the information requested and to request further clarification as needed.

Please note: Commonwealth Contractors are subject to provisions of OMB Circular A-110 if they receive any direct or indirect federal assistance.

OMB Circular A-110 requires formal competitive procurement for all purchases of goods and services (audit and legal, etc.) with federal funds, whenever practical. Contractors are also required to make procurement documentation available to federal funding agencies for any purchases exceeding the newly defined "small purchase" threshold (currently at $100,000).

Procurements that do not adhere to the A-110 standard are not reimbursable. A copy of OMB Circular A-110 has been furnished in the Fiscal Year '11 UFR Auditor's Compliance Supplement.

AUDITING GUIDELINES

The audit must be conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS), which incorporates the AICPA standards for field work and reporting of Generally Accepted Auditing Standards (GAAS). The AICPA requires the public accountant to state in the Independent Auditor's Report that the audit was made in accordance with Generally Accepted Auditing Standards. Auditors should review the additional requirements of GAGAS that are contained in the "Yellow Book" prior to beginning the audit. Particular attention should be paid to the GAGAS General Standards and Field Work and Reporting Standards for GAGAS Financial Audits. In performing an audit in accordance with GAAS and GAGAS, the auditor assumes certain audit and reporting responsibilities.

The field work standards of GAAS requires that the work is to be adequately planned and supervised, a sufficient understanding of internal controls is obtained and sufficient evidential matter is reviewed to form a basis for an opinion regarding the financial statements. The additional planning field work standards of GAGAS relate to: a) auditor communication, b) consideration of previous audits, c) detecting material misstatements resulting from violations of contract or grant provisions, d) developing elements of a finding, e) audit documentation.

Knowledge of an entity's business is ordinarily obtained through experience with the entity or its industry and inquiry of personnel of the entity. Working papers from prior years may contain useful information about the nature of the business, organizational structure, operating characteristics, and transactions that may require special consideration. Other sources an auditor may consult include AICPA accounting and audit guides, industry publications, textbooks, periodicals, and individuals' knowledgeable about the industry.

In planning the GAAS, GAGAS and Federal Single audit engagement of a Contractor organization, the independent auditor should consult:

(1) AICPA Audit and Accounting Guide for Not-for-Profit Organizations (ANPO)

(2) Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations, "Black Book," Revised 1988 - Third Edition of the National Health Council, Inc., National Assembly of National Voluntary Health and Social Welfare Organizations, Inc., and United Way of America

(3) AICPA, "SAS 53, The Auditor's Responsibility to Detect and Report Errors and Irregularities" (Supersedes SAS 16 for fiscal years beginning 1/1/89)

(4) AICPA, "SAS 54, Illegal Acts by Clients" (Supersedes SAS 17 for fiscal years beginning 1/1/89)

(5) AICPA, "SAS 117 Compliance Audits, and SAS 75 Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance" (Supersedes SAS 74 which supersedes SAS 68.)

(6) AICPA "SAS 78 Consideration of Internal Control in a Financial Statement Audit" (Supersedes SAS 55.)

(7) AICPA "SAS 115 Communicating Internal control related Matters Identified in an Audit" (Supersedes SAS 112 which supersedes SAS 60.)

(8) AICPA Statement of Position 98-3 "Audits of States, Local Governments, and Not-For-Profit Organizations Receiving Federal Awards".

(9) FASB Accounting Standards Codification®

(10) AICPA Professional Standards

(11) Comptroller General of the United States, Government Auditing Standards - Standards for Audit of Governmental Organizations, Programs, Activities and Functions (1988) as Amended (GAGAS)

(12) Circular A-110: Uniform Requirements For Audits of Institutions of Higher Education, Hospitals and Other Non-Profits"

(13) OMB, Circular A-133: Audits of Institutions of States, Local Governments and Non-Profit Organizations

(14) OMB, Circular A-122: Cost Principles for Nonprofit Organizations

(15) OMB, Circular A-21: Cost Principles for Educational Institutions

(16) OMB, Catalog of Federal Domestic Assistance

(17) Compliance Supplements to OMB A-133

(18) Commonwealth of Massachusetts, Operational Services Division, Uniform Financial Statements and Independent Auditor's Report, Auditor's Compliance Procedures Supplement

(19) Code of Federal Regulation (CFR)

(20) FASB 93 and Technical Bulletin 88-1

(21) AICPA, "SAS 99 Statement on Auditing Standards No. 99, Consideration of Fraud in a Financial Statement Audit"

The following Nonprofit Organization Reference Checklist specifies matters customarily disclosed in financial statement notes which should be disclosed to the Commonwealth of Massachusetts' funding and regulatory bodies, the intended users of the Report.

NONPROFIT ORGANIZATION REFERENCE CHECKLIST

Explanation of References in Brackets:

Reference	Explanation
ARB	Accounting Research Bulletin
APB	Accounting Principles Board Opinion
Codification®	FASB Accounting Standards Codification®
SFAS	Statement of Financial Accounting Standards
SAS	Statement of Auditing Standards
SOP	AICPA Statement of Position
FASBI	Financial Accounting Standards Board Interpretation
TB	Technical Bulletin issued by staff of the *FASB
ANPO	AICPA Audit and Accounting Guide for Not-for-Profit Organizations
(AC)	Reference to section number in FASB Accounting Standards Current Text
(AU)	Reference to section number in AICPA Professional Standards (vol. l) of SAS cited
OMB	Office of Management and Budget
CMR	Code of Massachusetts Regulation
CMRID	Code Of Massachusetts Interpretive Document

.Subject	Reference Source
Disclosure of Accounting Policies and Other Disclosures	(APB 22) (AC A1O and 128)
Accounting Changes	(APB 20) (AC AO6 and A35) (SFAS 83, 32 and 16)
Financial Statements of Not-for-Profit Organizations	(SFAS 117) (ARB 43) (AC F43) (ANPO)
Nonmonetary Transactions	(APB 29) (AC C11 and N35) (FASBI 30) (ANPO)
Contingencies and Commitments	(SFAS 5) (AC C59) (FASBI 34) (AU 530)

Subsequent Events	(SFAS 5) (AC C59 and BO) (SAS 1) (AU 560 and 561) (APB 16)
Pension Plans	(SFAS 87) (SFAS 36) (TB 81-3) (AC P15)
Carrying Amount of Investments	(ANPO)
Related Party Transactions	(SFAS 57) (808 CMR 1.02) (SAS 45) (AU 334) (AU 9334)
Investments	(ANPO)
Affiliated Organizations	(ANPO)
Receivables	(ARB 43) (AC R36, I69, V18) (APB 12, 21)
Property, Plant and Equipment and Depreciation (1)(2)	(SFAS 93) (APB 12) (SFAS 34) (AC I67) (ANPO)
Interest on Inter-fund Borrowing	
Notes Payable	(SFAS 5 pars. 18-19; SFAS 47, par. 118) (ACC 59) (APB 21) (AC I69) (ARB 43) (AC BO5) (SFAS 6) (FASBI 8) (TB 79-3)
Capital Leases	(SFAS 13) (AC L1O)
Operating Leases	(SFAS 13) (AC L10) (SFASs 17, 22, 23, 26, 27, 28, and 29) (FASBs 19, 21, 23, 24, 26, and 27) (TBs 79-10, 79-11, 79-12, 79-14, 79-15, 79-16, 79-17 and 79-18)
Other Liabilities, Deferred Credits, Loss contingencies	(SFAS 5) (FASB 14) (AC C59)
(Vacation and Sick Accruals and Termination)	(SFAS 43) (SFAS 74) (AC C44 and C45)
Donor Restrictions	(SFAS 116) (S0P 78-10, par. 59 & 54-62) (ANPO)
Tax Status	(FASBI 5) (AC C59)
Donated Goods and Services (3)	(ANPO)
Fund-Raising	(ANPO)
Allocation of Expenses	(ANPO)
Federal Grants	(OMB A-133, A-110, A-122)

(1) Note that the Operational Services Division' reporting policy requires depreciation to be computed on a straight-line basis over prescribed services lives (see Instructions to Program Supplemental Information Schedule B).

(2) Also note that title to all furnishings and equipment provided by the Commonwealth of Massachusetts or wholly purchased through a Commonwealth of Massachusetts Purchase-of-Service Contract or Cooperative Funding Agreement vests in the Commonwealth. Accordingly, such assets should not be treated as assets of the Contractor organization. Assets held in trust for the Commonwealth, if material, should be disclosed in financial statement notes.

(3) Note that staff assigned by the Commonwealth of Massachusetts to work in the Contractor organization programs and free, donated space in state facilities should be treated as donated services with their imputed value reported as "In-Kind Contributions - Government" personnel and non-personnel on Organization Supplemental Information Schedule A. These imputed values should also be reported in the appropriate employee and occupancy expense categories in Supplemental Schedules B and C.

APPENDICES

UFR PROGRAM COMPONENT AND TITLE DESCRIPTIONS

FY'2013 MMARS PROGRAM CODES BY DEPARTMENT

INSTRUCTIONS FOR INTERNET SUBMISSION OF THE SCHEDULE D-1 SUPPLEMENTAL PROGRAM OUTCOME AND OUTPUT MEASURES

FY'2013 PERFORMANCE BASED-CONTRACTING/REQUIRED PROGRAM CODES

SURPLUS REVENUE RETENTION POLICY

BOARD OF DIRECTORS' ACKNOWLEDGMENT LETTER SAMPLE

DIVISION OF HEALTH CARE FINANCE AND POLICY CERTIFICATION OF OUTPATIENT MENTAL HEALTH CENTER SERVICES/RESULTS OF FINANCIAL OPERATIONS

AUDIT SERVICES CHECKLIST & CERTIFICATION

FY '12 Policy Guidance/Regulatory Interpretation of 808 CMR 1.05(24) Salaries of Officers And Managers

FY '13 Policy Guidance/Regulatory Interpretation of 808 CMR 1.05(24) Salaries of Officers And Managers

UFR

UFR PROGRAM COMPONENT AND TITLE DESCRIPTIONS

UNDER 808 CMR 1.00

Commonwealth of Massachusetts
Executive Office for Administration & Finance
Operational Services Division
Fiscal Year 2013

Rev. 2013

BASIC CONCEPTS

PROGRAM REQUIREMENTS

The terms of the contract program budget govern the selection of the proper program components and titles to be used in the UFR. For example, if the contract program budget indicates that the program is to employ a "Social Worker-LICSW," UFR Title number 124 in category number 1 Direct Care/Program Staff, this position must also be disclosed in the UFR using the same UFR component and title. The program specifications included in the proposal furnished in response to the Request for Proposal (RFP) that was negotiated and incorporated into the contract with the purchasing department must be consistent with the definitions and specifications contained in this document. The UFR title number for a LSW (UFR Title number 126) should be disclosed if a LSW is currently employed in the program rather than the LICSW that was included in the negotiated contract. In most cases it is expected that budgeted and negotiated position should be the same as those disclosed in the UFR.

CREDENTIALS

Direct care/program staff components are defined, in part, in terms of required credentials. It is not relevant to the proper classification of a position that a staff member who currently fills the position possesses a particular credential, unless the RFR or contract requires the credential for that position.

FUNCTION vs. TITLE

Direct care/program staff components are determined by their program function. For example, a licensed physician should be classified as a "Physician" only if the physician provides medical care as outlined in the component definition. If a physician performs the functions of a "Program Director", then that component should be used.

It is the functional definition, not the title, which governs the definition of a particular component and UFR Title. A program's "Residence Director", for example, may be classified as a Program Manager, Program Director, Assistant Program Director, or Supervisor, depending upon the actual functions performed and the scope of responsibility involved. Yet the fact that the titles used in this document coincide with titles customarily used by program staff does not settle the question of proper classification. Again, this document's definitions govern. A particular program position is classified as a "Case Worker/Manager", rather than as a "Counselor", if the required credentials and responsibilities coincide more closely with the definition of "Case Worker".

This document is formatted to establish a hierarchical schedule for the components, e.g. the Program Director would report to the Program Manager, and a Direct Care/ Program Staff I would report to a Direct Care/ Program Staff Supervisor. All direct care or program staff positions which are not specifically defined in this document, such as American Sign Language interpreter, phlebotomist, instructor, resource librarian, medical technician, health education specialist, work procurement specialist, certified occupational therapy assistant, etc., should be classified as "Direct Care/Program Staff I, II or III," as appropriate.

CATEGORY 1: DIRECT CARE / PROGRAM STAFF

Category 1 includes direct care staff/program staff required to provide direct care or deliver other primary program services. (Components 101-151)

101 Program Function Manager

An individual who has overall responsibility for the management, oversight and coordination of a programmatic functional area within or across programs as in the case of "Medical Director", "Residence Director", "Clinical Director", "Education Director", etc. (Compensation for individuals whose primary responsibilities are administrative and cut across several programs should be classified under 410 - "Agency and Program Administration and Support" component.)

102 Program Director

An individual who has overall responsibility for the daily operation of one or more individual programs.

103 Assistant Program Director

An individual, who reports directly to the Program Director, acts for the Program Director in his/her absence and functions as an advisor/assistant to the Program Director.

104 Supervising Professional

A credentialed professional (Physician, Psychiatrist, Social Worker, Nurse, etc.) whose primary responsibility is the supervision of fellow credentialed professionals in the daily performance of their programmatic functions. A professional whose duties chiefly entail supervision of nonprofessionals or paraprofessionals should be classified under 133 - Direct Care/ Program Staff Supervisor. Supervisors assigned to this component may also provide incidental direct client care.

105 Physician

A Board of Registration in Medicine-licensed or Board-eligible physician (including all medical specialties, e.g., dentist, podiatrist except psychiatry Component 121) with either a MD or DO degree whose primary responsibility is delivery or supervision of health/medical care to program participants.

106 Physician's Assistant

An individual registered as a physician's assistant by the Department of Public Health and functioning in that capacity.

107 Registered Nurse - Master's, Nurse Psychiatric Mental Health Specialist, Nurse Practitioner, and Nurse - Midwife.

An individual who possesses a Master's degree in nursing and/or is registered by the Board of Registration in Nursing as a registered nurse and is practicing in an expanded role and functioning in any of the above capacities.

108 Registered Nurse

An individual who is licensed as a registered nurse by the Board of Registration in Nursing (both BSNs and others), does not possess a Master’s degree and is engaged in nursing duties.

109 Licensed Practical Nurse

A person licensed as a practical nurse by the Board of Registration in Nursing and engaged in nursing duties.

110 Pharmacist

A person licensed by the Board of Registration in Pharmacy and functioning as a pharmacist.

111 Occupational Therapist

An individual registered as an occupational therapist by the Board of Registration in Allied Health Professionals and who provides occupational therapy.

112 Physical Therapist

A person registered as a physical therapist by the Board of Registration in Allied Health Professionals and who provides physical therapy.

113 Speech/Language Pathologist, Audiologist

An individual registered as a Speech/Language Pathologist or as an Audiologist by the Board of Registration in Speech/ Language Pathology and Audiology and who provides speech and hearing therapy.

114 Dietitian/Nutritionist

An individual registered as a dietitian by the Commission on Dietetic Registration of the American Dietetic Association and providing nutritional counseling, education, supervision of meal/menu preparation, or an individual with a Bachelor's or Master's degree in nutrition who provides nutritional counseling, education, supervision of meal/menu preparation.

115 Special Education Teacher

A teacher certified in special education by the Massachusetts Department of Education and working in that capacity.

116 Teacher

A teacher holding teacher certification by the Massachusetts Department of Education in an area other than special education and working in that capacity.

117 Day Care Director

An individual certified by the Office for Children as a Day Care Director and functioning in that capacity.

118 Day Care Lead Teacher

An individual certified by the Office for Children as a Day Care Lead Teacher and functioning in that capacity.

119 Day Care Teacher

An individual certified by the Office for Children as a Day Care Teacher and functioning in that capacity.

120 Day Care Assistant Teacher/Aide

An individual certified by the Office for Children as a Day Care Assistant Teacher/Aide and functioning in that capacity.

121 Psychiatrist

An individual licensed to practice medicine, certified or eligible for certification by the American Board of Psychiatry and primarily involved in rendering or directing psychiatric care.

122 Psychologist - Doctorate

An individual holding a doctoral degree in psychology (including behavioral psychologists and neuropsychologists), or a closely related field, registered as a psychologist by the Board of Registration of Psychologists and primarily engaged in providing diagnostic evaluations, psychological counseling/therapy or development and implementation of behavioral treatment plans.

123 Clinician (*formerly Psychologist - Master's*)

An individual holding a Master's degree in psychology (including behavioral psychologists) or a closely related field and primarily engaged in providing diagnostic evaluations, psychological counseling or development and implementation of behavioral treatment plans.

124 Social Worker - LICSW

An individual registered as a Licensed Independent Clinical Social Worker by the Board of Registration of Social Workers and primarily engaged in providing diagnostic evaluations, psychological counseling/therapy or development and implementation of behavioral treatment plans.

125 Social Worker - LCSW

An individual registered as a Licensed Certified Social Worker by the Board of Registration of Social Workers and providing social work services.

126 Social Worker - LSW

An individual registered as a Licensed Social Worker by the Board of Registration of Social Workers and providing social work services (including casework/counseling).

127 Licensed Counselor

An individual with at least a Master's degree in counseling, or a related discipline, who is licensed by the appropriate Board of Registration and who provides counseling services.

128 Certified Vocational Rehabilitation Counselor

An individual who is certified by the Committee on Accreditation of Rehabilitation Facilities and who provides vocational rehabilitation counseling.

129 Certified Alcoholism Counselor, Certified Drug Abuse Counselor, Certified Alcoholism/Drug Abuse Counselor

An individual who is registered as either an Alcoholism Counselor, a Drug Abuse Counselor or both by the Massachusetts Board of Substance Abuse Counselor Certification and who provides counseling services for substance abusers.

130 Counselor

An individual who provides therapeutic or instructive counseling to program clients/service recipients.

131 Case Worker/Manager - Master's

An individual possessing at least a Master's degree in counseling, or a closely related discipline, who provides casework/case management services including service eligibility determination, service plan development, service coordination, resource development, advocacy, etc.

132 Case Worker/Manager

An individual who provides casework/case management services, including service eligibility determination, service plan development, service coordination, resource development, advocacy, etc.

133 Direct Care/Program Staff Supervisor

A staff member whose primary responsibility is the supervision of nonprofessional or paraprofessional direct care/program staff in the performance of their programmatic functions or whose duties involve significant responsibility for program operations or logistics. A supervisor in this component may also perform direct client care.

134 Direct Care/Program Staff III

Staff, other than those defined above, requiring a doctoral or Master's degree, specific credentials or licensure, significant experience, or specialized skills, who are responsible for the general daily care of program clients/service recipients or for primary program service delivery. This category may also be used to reflect a bilingually (including American Sign Language) or specialized staff requirements necessary to serve the developmental needs of the client(s) for staff otherwise categorized as Direct Care/Program Staff II.

135 Direct Care/Program Staff II

Staff, other than those defined above, requiring a Bachelor's degree, experience or specific skills, which are responsible for the general daily care of program clients/service recipients or for primary program service delivery. This category may also be used to reflect a bilingually (including American Sign Language) or specialized staff requirements based on the developmental needs of the client(s) for staff otherwise categorized as Direct Care/Program Staff I.

136 Direct Care/Program Staff I

Staff, other than those defined above, who are responsible for the general daily care of program clients/service recipients or for primary program service delivery. This includes relief employees on payroll.

137 Program Secretarial, Clerical Staff

Program secretarial and clerical staff required carrying on direct program clerical activities such as program or client record keeping. Accounting/Billing Staff. Staff assigned not assigned to a program but to duties related to functions of administration and overall direction of the agency are included as part of the Agency and Program Administration & Support component (Component 410).

138 Program Support, Housekeeping, Maintenance, Janitorial, Groundskeeper, Driver, Cook

Program housekeeping, maintenance and janitorial staff, ground keepers, drivers or cooks and staff who carry out direct program activities for client health and safety. Staff assigned to administrative facilities and functions is included in the Agency and Program Administration & Support component (Component 410).

139 Direct Care Overtime Expense

Overtime payroll expense paid to exempt and nonexempt employees pursuant to discretionary overtime policies of the organizations, the U.S. Fair Labor Standards Act of 1938 and the Commonwealth's Minimum Fair Wage Law of MGL Chapter 151. Overtime payment represents the total amount of pay furnished for the time worked after the overtime threshold has been exceeded. Overtime pay is composed of strait time (regular fulltime pay for the time worked after the threshold has been exceeded) plus additional compensation furnished to an individual after the overtime time threshold has been exceeded (Time and ½ (or greater) for nonexempt employees working in excess of 40 hours per week). Discretionary overtime policies of the organizations may provide exempt employees with overtime using a threshold that may be greater or lesser than required for nonexempt employees.

140 Shift Differential Salary Expense

Salary expense incurred for providing on call services and working late night and early morning shifts. For instance, a nurse that is employed in a program who works full-time in the first shift may be paid less than the same type of nurse working full-time in the third shift. The nurse working in the second or third shift is paid the same full-time salary but receives an additional incentive payment or differential payment for working the third shift because working the third shift is a hardship. Similarly, the nurses noted above might receive payments in addition to their full-time salary and any overtime paid if the nurse agrees to be on call on days off in case the nurse's service is needed for an emergency.

141 Relief Staff Expense

Payments to an individual to provide direct care services to relieve regular employees of their direct care duties on a temporary basis. Individuals providing temporary direct care services may not be an employee of the Contractor employed to provide the same type of employment services as the relief staff services. This expense is related to individuals not considered to be independent Contractors and/or employees of the organization that are not entitled to receive overtime payments for furnishing direct care services to relieve regular employees of their duties on a temporary basis. Employees are generally entitled to receive overtime payments (not relief payments) if they occupy nonexempt positions and management permits them to work in excess of 40 hours a week to furnish employment services. Individuals not employed by the organization are considered independent Contractors if they were paid more than $600 during the year the services were furnished to the organization. The organization is required to furnish the independent Contractor noted above with an IRS form 1099MISC. See Title 202 for relief staff services furnished on a contracted basis.

150 Payroll Taxes

Employer's share of FICA, MUICA, Worker's Compensation Insurance, FUTA (in the case of For-Profit Providers) and other payroll taxes paid by the employer on the direct care/program staff listed in category 1 on the budget.

151 Fringe Benefits

Life, health and medical insurance, pension and annuity plan contributions, day care, tuition benefits and all other non-salary/wage benefits received by the direct care/program staff listed in category 1 on the budget as compensation for their personal services.

CATEGORY 2: OTHER DIRECT CARE/PROGRAM RESOURCES
(Components 201 - 216)

Category 2 includes resources, other than direct care staff/program staff, required to carry out direct client care or support the delivery of other primary program services.

201 Direct Care Program Consultants

Individuals possessing specialized experience or expertise in matters of individual service plan design, program design, program management or operation and who are engaged to provide technical assistance on matters of appropriate client care, program design, etc.

202 Temporary Help

Individuals, in some cases, possessing specialized skills or expertise in client care and treatment, engaged on an "as needed", "on call", "standby" or "specialist" basis, to provide client care or treatment. This component includes contracted relief staff services furnished by individuals or organizations.

203 Provider Reimbursement/Stipends

Per diem reimbursement to independent individual care givers (not provider agency employees), such as family day care providers, specialized home care providers or foster families, to compensate them for their personal services and/or to defray all or a portion of the costs associated with client care in their homes.

204 Staff Training

Formal instruction to meet professional continuing education requirements, to satisfy program licensure requirements or to enable direct care staff to acquire and maintain acceptable levels of knowledge, skill and proficiency for the routine performance of their assigned functions. (Note that the staff time devoted to training should be included in the calculation of required direct care staff FTEs. Staff tuition/educational benefits paid, as a condition of employment should be included in "Fringe Benefits" Component 151.)

205 Staff Mileage/Travel

Direct care staff travel within the normal scope of the staff members' assigned duties. This category includes use of a staff member's own vehicle, as well as public transportation.

206 Subcontracted Direct Care

Client care or other program services which are a primary and integral part of the total program but which are furnished to the program, under contract, by a separate program of another provider.

207 Meals

Food, cooking materials, and other resources (other than staff compensation) required for the planning, preparation and serving of meals and snacks to clients and, if programmatically necessary, to staff.

208 Client Transportation

The resources (other than staff compensation) associated with transportation of clients to, from or among program sites as a routine part of program participation. This component shall include Provider owned vehicles (depreciation and finance charges) or leased vehicles, all associated operating, maintenance, insurance and non-owned auto insurance costs, contracted transportation, etc.

209 Incidental Health/Medical Care

The resources (other than staff compensation) associated with providing health/medical care on an as needed or emergency basis (including ambulance services) to clients of a program, which is not primarily intended to address the on-going medical needs of program participants.

210 Medicine/Pharmacy

The resources (other than staff compensation) associated with on-site inventory and administration of medically necessary prescription pharmaceuticals, patent medicines and medical supplies.

211 Client Personal Allowances

Cash paid to program clients as an incentive to program participation, as part of instruction in money management, to give clients a measure of economic independence, to acquire personal items, or other program purpose. This category includes "indirect" client wages (i.e. "wages" which are not related to the economic value of the client's work product/productivity).

212 Provision of Material Goods, Services and Benefits

Resources, other than those defined above, associated with provision of material goods or services - such as prosthetic and adaptive devices, nutrition or day care vouchers - to eligible program clients/recipients.

213 Data Processing

Resources (other than staff compensation) associated with the collection, analysis and reporting of data as a program and agency administrative support function, including owned (depreciation and finance charges only) or leased computer hardware and software. These resources should be included in the agency and program administrative support component 410.

214 Commercial Income Resources

Resources, other than those defined above, such as consumer wages, benefits and taxes, raw materials, production equipment and consumables, freight and transportation, and marketing associated with the use of client labor in the production or assembly of a product or service as a part of the client's program of vocational training/rehabilitation or sheltered employment.

215 Program Supplies, Materials and Expendable Items of Equipment and Furnishings

Program residential, educational, vocational and recreational supplies and materials and expendable items of equipment and furnishings that are not required to be capitalized and are routinely needed for ongoing direct client care or program service delivery.

216 Program Support

This component is for direct administrative program support that is associated with a single program(s) and **NOT** allocated across programs as an indirect cost or identified in component title 410 as other professional fees, office equipment depreciation, professional insurance, and working capital interest or in title 390 as leased office equipment and office furnishing used in a program**.** This component **does not include personnel**; all program personnel must be included in components 101 - 138. Program support is for costs separately identified in a POS program contract budget of Attachment 3 on the line titled Program Support. These costs are intended to meet the specialized and/or non-recurring needs of the program, which may include maintenance, and accreditation fees. This component title may not include resources defined as Non-Reimbursable Costs by regulation 808 CMR 1.05 (Effective 2\1\97 808 CMR 1.05), e.g., certain consultant compensation, current expensing of capital budgets, fund-raising etc.

CATEGORY 3: OCCUPANCY

301 Program Facilities

Owned or leased program facilities and grounds (including rent or mortgage interest and building depreciation). This component may not include the costs of principal or amortization, which is non-reimbursable, costs under 808 CMR 1.00.

390 Facilities Operation, Maintenance, Equipment and Furnishing

This category includes all resources associated with occupancy; furnishing and maintenance of program facilities, including all utilities (other than telephone), contracted housekeeping, laundry, contracted grounds keeping, routine repair and maintenance, leased office equipment and office furnishings and equipment and routine replacement (depreciation and finance charges only) of capitalized program furnishings and equipment, property and general liability insurance, real estate taxes or payments in lieu of taxes, and all other such resources/expenses. This component does not include the cost of employees on the payroll (see 138 - Program Support Housekeeping, Maintenance, Groundskeeper, Janitorial, Driver, and Cook).

CATEGORY 4: ADMINISTRATIVE SUPPORT

410 Agency and Program Administration and Support

This component is for resources related to administration and support activities that are both directly related to a program (direct costs) and those that are related to the overall direction of the agency. Cost associated with the overall direction of the agency may cross all agency programs and are not directly associated with any one program or a combination of programs but provide indirect benefit to those programs (indirect administration).

Costs providing indirect benefit to programs include administrative costs, management and general costs and all resources reasonably necessary for the policy making, management, and administration related to the overall direction of the organization that are separately disclosed in the Statement of Functional Expenses Administration (MNGT. & GEN) column. Indirect administrative costs are also allocated to a program or programs as Admin (M&G) Reporting Center cost on 52E of the Admin (m&g) column of Organization Supplemental Information Schedule A to line 52E of the Program Supplemental Information Schedule B. These indirect Agency Administration costs indirectly benefiting a POS program are included in Attachment 3 of the POS contract budget on the line titled Agency Admin Support Allocation. In addition, this title includes administrative costs directly benefiting a program or programs that are charged to that program or programs as direct costs (ex. program other professional fees, program professional insurance, and program office equipment depreciation and working capital interest). Administrative costs that directly benefit programs are included in Attachment 3 of the POS contract budget on the line titled Other Direct Administrative Costs.

Leased office equipment and office furnishings that are used in a program are disclosed in title 390 Facilities Operation, Maintenance, Equipment and Furnishing and included in Attachment 3 of the POS contract budget on the line titled Other Direct Administrative Costs.

All other administrative costs that directly benefit a program and meet the specialized needs of the program are contained in title 216 Program Support. Title 216 Program Support costs are included in Attachment 3 of the POS contract budget on the line titled Program Support.

Administration and support costs include but are not limited to administrative, clerical and support personnel (use title 137 if clerical and support personnel are assigned to a program), office supplies and materials, leasing or routine replacement (depreciation and financing interest only) of office equipment, telephone, costs related to occupancy of administrative premises, advertising and recruitment, postage, printing and reproduction, administrative and support staff training and travel, officer/director/trustee compensation, parent organization costs, legal, auditing, management consultants and other professional fees, working capital interest, directors and officers insurance, and all other similar or related resources/expenses. The reimbursable price may not include resources defined as Non-Reimbursable Costs by regulation 808 CMR 1.05 (Effective 2\1\97 808 CMR 1.05), e.g., fund-raising or discriminatory benefits. See component title 216 Program Support for related activity.

III. INDEX

Alphabetical Listing of Expenses and Corresponding Components

Expense	Component
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Case Worker/Manager	Case Worker/Manager (132)
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Depreciation Building (programs)	Facilities Operation (390)
Depreciation Building - Agency Admin	Agency and Program Administration (410)
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Directors & Officers Insurance	Agency and Program Administration (410)

Expense	Component
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FICA (Direct Care)	Payroll Taxes (150)
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Finance Charges Motor Vehicles – Admin	Agency and Program Administration (410)
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Equipment Furnishings >Capitalization Threshold.	Separate Capital Budget or Depreciation
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Vehicle Insurance - Agency Administration	Agency and Program Administration (410)
Unemployment Ins. (Direct Care)	Payroll Taxes (150)
Workers Compensation (Direct Care)	Payroll Taxes (150)

FY 2013 MMARS ACTIVITY CODES
BY DEPARTMENT

DEPARTMENT	DEPARTMENT OF CHILDREN AND FAMILIES
AMSS	ADOPTION / ADOPTION MANAGEMENT
CSCS	CONTRACTED SUPPORT / CLINICAL CONSULTATION
CSSE	CONTRACTED SUPPORT / PROTECTIVE / COMPREHENSIVE EMERGENCY SERVICES
CSSH	CONTRACTED SUPPORT / PROTECTIVE / CHILD ABUSE HOTLINE
CSSI	CONTRACTED SUPPORT / PROTECTIVE / INVESTIGATIONS (CONFLICT OF INTEREST
CSSO	CONTRACTED SUPPORT / PROTECTIVE / OTHER
CSSS	CONTRACTED SUPPORT / SERVICE MANAGEMENT
CSSU	CONTRACTED SUPPORT / PROTECTIVE / UNACCOMPANIED MINORS
DVCB	DOMESTIC VIOLENCE SERVICES / COMMUNITY-BASED
DVRE	DOMESTIC VIOLENCE SERVICES / RESIDENTIAL
DVST	DOMESIC VIOLENCE SERVICES / STATEWIDE
FBSC	FAMILY BASED SERVICES / CLINICAL FAMILY BASED
FBSS	FAMILY BASED SERVICES / SUPPORTIVE PREVENTIVE PROGRAMS
FBSO	FAMILY BASED SERVICES
FBSA	FAMILY BASED SERVICES / ADOLESCENT DAY PROGRAM
FBSR	FAMILY BASED SERVICES / RECREATION
FOSC	FOSTER CARE / CONTRACTED FOSTER CARE
FOSM	FOSTER CARE/ MANAGEMENT & SUPPORTS
FNCO	CONGREGATE CARE
FNFO	FOSTER CARE
FNSO	SUPP & STAB
FNFR	FAMILY NETWORKS/ FAMILY RESIDENCE FOSTER CARE
FNGH	FAMILY NETWORKS / GROUP HOMES
FNIF	FAMILY NETWORKS / INTENSIVE FOSTER CARE
FNIN	FAMILY NETWORKS/ CASE SUPPORT/ DIRECT SERVICES
FNLA	FAMILY NETWORKS/ AREA LEAD AGENCY
FNRS	FAMILY NETWORKS / RESIDENTIAL SCHOOL
FNSS	FAMILY NETWORKS/ SUPPORT & STABILIZATION
FNST	FAMILY NETWORKS / STARR
FOSO	FOSTER CARE
RESA	TLP ASSESSORS
RESG	RESIDENTIAL / GROUP HOME
RESO	RES SERVICE
RESS	RESIDENTIAL/ GROUP HOME/ SHELTER/ ALTERNATIVE TO LOCK UP

DEPARTMENT	DEPARTMENT OF CORRECTION
7401	CORRECTIONAL CARE AND CUSTODY
7402b	CONTRACTED INMATE HOUSING
7404	EMPLOYMENT AND TRAINING
7405a	SUBSTANCE ABUSE
7405c	SUBSTANCE ABUSE FEMALE OFFENDER
7407	TREATMENT PROGRAM SEXUALLY DANGER
7408	COUNSELING / EDUCATION SPECIALIZED PROGRAM

DEPARTMENT	DEPARTMENT OF EARLY EDUCATION AND CARE
CCRR	ESP VOUCHER CHILD CARE
CCRR	EMPLOYMENT SERV. INFORMAL CHILD CARE
CCRR	INCOME ELIGIBLE VOUCHER CHILD
CCRR	TEEN VOUCHER CHILD CARE
CCRR	TEEN INFORMAL CHILD CARE
CCRR	DISABILITY
CCRR	CHILD CARE RESOUSE/REFERRAL CN
CCRR	CHILD ABUSE PREVENTION-POS
CCIE	INCOME ELIGIBLE
CCSP	SUPPORTIVE
CCTP	TEEN
CCHM	HOMELESS

DEPARTMENT	MASSACHUSETTS DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
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1200	FAMILY DIVERSION ARRA-HPRP–NOT USED IN FY 2013
1300	FAMILY RAPID REHOUSING ARRA-HPRP–NOT USED IN FY 2013
1400	INDIVIDUAL EVICTION PREVENTION ARRA-HPRP–NOT USED IN FY 2013
1500	INDIVIDUAL RAPID REHOUSING ARRA-HPRP–NOT USED IN FY 2013
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2928	ESP-YPP TRANSPORTATION
2950	LHA HOUSING MANAGEMENT

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3015	CLIENT AND COMMUNITY EMPOWERMENT
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3027	ADULT FORENSIC COURT SERVICES
3029	DISASTER CRISIS COUNSELING
3031	PROGRAM OF ASSERTIVE COMMUNITY TREATMENT (PACT)
3034	CLUBHOUSE SERVICES
3039	HOMELESS SUPPORT SERVICES
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3049	ADULT RESIDENTIAL SERVICES
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3079	CHILD/ADOLESCENT RESIDENTIAL SERVICES
3080	INTENSIVE RESIDENTIAL TREATMT (CH)
3081	CLINICALLY INTENSIVE RES. TREATMENT (CH)
3089	CHILD/ADOLESCENT CONTRACTED INPATIENT SERVICES
3090	ADULT CONTRACTED INPATIENT SERVICES
3104	CONTRACTED CLIENT TRANSPORT
3131	COMPREHENSIVE MEDICAL SERVICES
3132	COMPREHENSIVE PSYCH SERVICES - FACILITIES ONLY also COMPREHENSIVE PSYCHIATRIC SERV
3146	COMPREHENSIVE PSYCHIATRIC SERVICES - CLINIC also known as CMHC CONTINUING CARE SERVICES - NON-INPATIENT

DEPARTMENT	DEPARTMENT OF DEVELOPMENTAL SERVICES [FORMERLY DEPARTMENT OF MENTAL RETARDATION (DMR)]
3150	PLACEMENT SERVICES TIER 2
3153	RESIDENTIAL SERVICES
3161	RESIDENTIAL LUSA
3163	COMMUNITY BASED DAY SUPPORTS
3165	ADULT DAY HEALTH SERVICES
3166	DAY SERVICES LUSA
3168	INDIVIDUAL SUPPORTED EMPLOYMENT
3169	CENTER BASED WORK SERVICES
3170	CLINICAL TEAM
3174	SUPPORTIVE SERVICE LUSA
3180	COMPETITIVE INTEGRATED EMPLOYMENT SVCS (CIES)
3181	GROUP EMPLOYMENT
3182	EMERGENCY STABILIZATION RESIDENCE
3183	CENTRAL OFFICE EXECUTIVE
3191	F URNISHINGS AND EQUIPMENT
3196	TRANSPORTATION
3197	EMPLOYMENT SERVICES LUSA
3202	MEDICAL SERVICES
3208	PSYCHIATRIC SERVICES
3226	TRAINING & STAFF DEVELOPMENT
3228	RECRUITMENT SERVICES
3240	PHYSICAL THERAPY SERVICES
3243	OCCUPATIONAL THERAPY SERVICES
3245	SPEECH THERAPY SERVICES
3274	CORPORATE REPRESENTATIVE PAYEE SERVICES

DEPARTMENT	DEPARTMENT OF DEVELOPMENTAL SERVICES [FORMERLY DEPARTMENT OF MENTAL RETARDATION (DMR)] (cont.)
3279	GUARDIANSHIP SERVICES
3284	TRANSITIONAL SERVICES
3285	DAY HABILITATION SUPPLEMENT
3287	SUPPLEMENTAL ADULT SUPPORTS
3288	PLACEMENT SERVICES TIER 1
3664	DAY HABILITATION SERVICES
3700	FAMILY SUPPORT NAVIGATION
3701	RESPITE IN RECIPIENT'S HOME-DAY
3702	RESPITE IN CARE GIVER'S HOME – LEVEL 1
3703	INDIVIDUALIZED HOME SUPPORTS
3705	CHILDREN'S RESPITE IN CARE GIVER'S HOME-DAY
3707	ADULT COMPANION
3709	COMMUNITY FAMILY TRNG/RESIDENTIAL FAMILY TRNG
3710	BEHAVIORAL SUPPORTS AND CONSULTATION
3712	EMERGENCY STABILIZATION IN CAREGIVER'S HOME
3716	COMMUNITY PEER SUPPORT/RESIDENTIAL PEER SUPPORT
3722	HOMEMAKER SERVICES
3725	CHORE SERVICES
3731	RESPITE IN RECIPIENT'S HOME-HOURLY 1:1
3735	CHILDREN'TS RESPITE IN CARE GIVER'S HOME-HOURLY
3738	DDS/DESE DIRECT SUPPORT SERVICES
3749	INDIVIDUAL SUPPORT & COMMUNITY HABILITATION SERVICES
3759	SITE BASED RESPITE (PLANNED,FOR ADULTS)
3760	NON-WAIVER SERVICES
3764	FACILITY DAY HABILITATION
3770	FAMILY SUPPORT CENTERS
3771	CULTURAL LINQUISTIC FAMILY SUPPORT CENTERS
3772	AUTISM SUPPORT CENTERS
3773	INTENSIVE FLEXIBLE FAMILY SUPPORT SERVICES
3774	MEDICALLY COMPLEX PROGRAMS
3775	PLANNED FACILITY-BASED RESPITE PROGRAMS FOR CHILDREN
3776	FAMILY LEADERSHIP PROGRAM
3779	FAMILY SUPPORT CENTER STIPENDS
3780	FINANCIAL ASSISTANCE
3781	FINANCIAL ASSISTANCE ADMINISTRATION
3798	INDIVIDUAL/COMMUNITY SUPPORTS (TEMP CODE-OLD 3177 AND 3286)
3799	FISCAL INTERMEDIARY SERVICE-ISO
6700	FAMILY SUPPORT NAVIGATION AWC
6701	AWC – RESPITE IN RECIPIENT'S HOME
6703	AWC – INDIVIDUALIZED HOME SUPPORTS
6704	AWC – INDIVIDUALIZED DAY SUPPORTS
6707	AWC – ADULT COMPANION
6709	AWC-COMMUNITY FAMILY TRAINING SERVICES
6716	AWC-COMMUNIY PEER SUPPORT SERICES
6722	AWC-HOMEMAKER SERVICES
6725	AWC-CHORE SERVICES
6753	AGENCY W/ CHOICE ADMIN FEE
6780	AWC – FINANCIAL ASSISTANCE

DEPARTMENT	DEPARTMENT OF PUBLIC HEALTH
3315	FIRST OFFENDER DRIVER
3317	EARLY INTERVENTION - COMPREHENSIVE
3319	FAMILY PLANNING SERVICES
3321	GROWTH & NUTRITION PROGRMS
3329	TEWKSBURY STAB AND TRANS
3330	EI - SPEC TRAINING PROJECTS
3361	SEX ASSAULT.PREV.& SURV.
3375	WIC NUTRITION
3380	SPECIALIZED RESIDENT SERVICES
3382	YOUTH SEARCH
3385	AMBULATORY SERVICES
3386	RESIDENTIAL TREATMENT
3389	SASI - SA SHELTER FOR IND
3395	INPATIENT DETOXIFICATION
3397	NARCOTIC TREATMENT
3400	CRIM JUSTICE PROG
3401	2ND OFFENDER RESIDENTIAL
3412	SPECIALIZED DENTAL CARE
3422	SCHOOL BASED HEALTH CENTERS
3431	PEDIATRIC AIDS (MASS CARE)
3434	TRANSITIONAL SERVICES
3438	TEEN PREGNANCY PREVENTION
3455	SPEC. RESIDENT SERVICES WOMEN
3457	TB CLINICS
3467	REFUGEE HEALTH
3470	YOUTH RESIDENTIAL
3478	MASS START
3482	SPECIALIZED EARLY INTERVENTION
3486	BATTERER INTERVENTION PROGRAM
4701	COMPREHENSIVE STATEWIDE SIDS SERVICES
4704	GAY AND LESBIAN YOUTH PROGRAM
4734	CHILDHOOD OBESITY DEMONSTRATION GRANT
4749	REFUGEE & IMMIGRANT SAFETY (RISE)
4779	PEDIATRIC PALLIATIVE CARE
4785	LGBT DOMESTIC VIOLENCE RESPONSE
4787	INTEGRATE CHRONIC DISEASE MANAGEMENT
4828	ENVIRONMENTAL HEALTH ASSESSMENT
4912	SA EARMARKS
4915	HIV/AIDS CORRECTIONS TO COMMUNITY REINTERGRATION PROGRAM
4919	SPEC CASE MGMT FOR FAMILIES IN TSL
4921	STATEWIDE TREATMENT FOR CIVILLY COMMITTED PERSON
4927	RECOVERY HIGH SCHOOL
4928	YOUTH STABILIZATION
4929	OFFICE BASED OPIOID TREATMENT SERVICES
4930	RECOVERY SUPPORT SERVICES
4931	CLINICALLY MANAGED INPATIENT DETOXIFICATION
4935	FAMILY FOCUSED INTERVENTION & CARE COORDINATION
4936	YOUTH INTERVENTION PROGRAMS
4939	WOMENS HEALTH COMPREHENSIVE CARE COORDINATION

DEPARTMENT	DEPARTMENT OF PUBLIC HEALTH (cont.)
4940	MASS COLLABORATIVE FOR ACTION, LEADERSHIP & LEARNING2
4941	SUBSTANCE ABUSE PREVENTION PROGRAMS
4950	HIV/AIDS PREV, SCREENING & REFERRAL SVCS
4951	LATINA RESIDENTIAL RECOVERY WITH OR WITHOUT THEIR CHILDREN
4953	PREGNANT & PARENTING TEENS
4954	HOME VISITING MATERNAL & CHILD, EVIDENCE BASED
4955	HIV/AIDS CASE MANAGEMENT & HEALTH RELATED SUPPORT
4956	BSAS SUPPORTIVE CASE MANAGEMENT
4958	BSAS JAIL DIVERSION PROGRAM
4959	PERSONAL RESPONSIBILITY EDUCATIONAL PROGRAM
4963	CARE COORDINATION PROG: OUTREACH< EDUCATION & LINKAGES
4964	STRATEGIC PREV FRAMEWORK PARTNERSHIP FOR SUCCESS 2

DEPARTMENT	DEPARTMENT OF TRANSITIONAL ASSISTANCE
2833	YOUNG PARENTS PROGRAM (YPP)
2841	FOOD STAMP OUTREACH
2868	ESP - SERVICE DELIVERY AREA
2884	M1 EMPLOYMENT READY
2885	M2 EMPLOYMENT TRAINING AND ED
2886	M3 EMPLOYMENT SUPPORTS
2887	M4 ENHANCED EMPLOYMENT SUPPORTS
2915	UMMC DISABILITY DETERMINE
2916	UMM LEARNING DISABILITY ASSESSMENTS
2931	ESP – SERVICES
2933	FOOD STAMP EMPLOYMENT AND TRAINING

DEPARTMENT	DEPARTMENT OF YOUTH SERVICES
2500	SECURE TREATMENT
2501	SECURE DETENTION
2502	ASSESSMENT
2503	GROUP CARE
2505	REVOCATION
2506	RESIDENTIAL SERVICES M.S.A.
2507	ALTERNATIVE LOCK-UP
2508	EDUCATIONAL SERVICES
2509	SPECIALIZED FOSTER CARE
2512	LONG TERM TREATMENT (766)
2513	MEDICAL SERVICES
2514	DAY REPORTING
2515	DIAGNOSTIC
2516	INDEP. LIVING
2517	SUPPORT SERVICES

DEPARTMENT	EXECUTIVE OFFICE OF ELDER AFFAIRS
8002	GRANTS TO COUNCILS ON AGING
8003	SERVICE INCENTIVE GRANTS
8004	ELDERLY HOME CARE PROGRAMS
8005	MONEY MANAGEMENT ASSISTANCE
8006	HOME CARE/RESPITE CARE PURCHASED SEVICES
8007	ELDER ABUSE HOTLINE

DEPARTMENT	EXECUTIVE OFFICE OF ELDER AFFAIRS (cont.)
8008	ASSISTED LIVING CERTIFICATION
8010	GUARDIANSHIP
8011	ENHANCED COMMUNITY OPTIONS PROGRAM
8012	CHSB CORI ISA
8013	HOME CARE QUALITY ASSURANCE
8014	HOME CARE/RESPITE CARE CASE MGMT & ADM
8015	SUPPORTIVE SENIOR HOUSING
8016	COORDINATION OF CARE
8017	CONGREGATE HOUSING SERVICES COORDINATION
8018	ASSISTED LIVING OMBUDSMAN
8019	ELDER HOMELESSNESS ASSISTANCE
8020	ELDERLY HOUSING PROGRAMS
8021	PRESCRIPTION ADVANTAGE
8024	TITLE III PROGRAM PLANING
8025	TITLE VII ELDER ABUSE PREVENTION
8026	TITLE III AREA PLAN ADMINISTRATION
8027	TITLE III-D MEDICATION MANAGEMENT SERVICES
8028	TITLE III-D HEALTH PROMOTION SERVICES
8029	TITLE III-B LONG TERM CARE OMBUDSMAN
8030	TITLE III-B SUPPORTIVE SERVICES
8031	ELDERLY NUTRITION PROGRAM
8032	TITLE III-E NATIONAL FAMILY CAREGIVER SUPPORT PROGRAM
8033	COMMUNITY CARE OMBUDSMAN
8034	SENIOR COMMUNITY SERVICE EMPLOYMENT
8036	SHINE PROGRAM
8037	ELDER SERVICE CORP
8038	COMING HOME: AFFORDABLE ASSISTED LIVING
8039	AGING AND DISABILITY RESOURCE CENTER
8041	CARING HOMES PILOT
8042	PROTECTIVE SERVICE CASEWORK
8043	ELDER PROTECTIVE PROGRAMS
8044	COMMUNITY CHOICES PROGRAM
8047	RESOURCE CENTER FOR DEAF-LATE DEAFFENED ELDERS
8048	ASAP PHYSICIAN PARTNERSHIP
8052	LGBT
8055	GERIATRIC MENTAL EALTH PROGRAM
8056	FARMER’S MARKET
8057	EMPOWERING OLDER PEOPLE TO TAKE CONTROL OF THEIR HEALTH
8058	LTC OPTIONS COUNSELING
8059	COMMUNITY BASED ALZHEIMER CARE PROJECT
8060	ENHANCED COMMUNITY OPTIONS PROGRAM CASE MANAGEMENT
8061	ENHANCED COMMUNITY OPTIONS PROGRAM PURCHASED SERVICE
8062	LONG TERM CARE OPTIONS COUNSELING
8063	CHRONIC DISEASE SELF MANAGEMENT PROGRAM
8064	CHOICES FOR SUCCESSFUL TRANSITIONS
8065	STANDARDS OF CARE FOR PEOPLE WITH ALZHEIMER’S
8066	VETERANS PROGRAM

DEPARTMENT	CENTER FOR HEALTH INFORMATION AND ANALYSIS Formerly Known As HEALTH CARE FINANCE AND POLICY
2050	HEALTH SAFETY NET DEMOS

DEPARTMENT	HOLYOKE SOLDIER'S HOME
1800	ACUTE CARE-HOLYOKE
1801	DOMICILLIARY CARE-HOLYOKE
1802	LONG TERM CARE-HOLYOKE
1803	OUTPATIENT SERVICES-HOLYOKE

DEPARTMENT	MASS. COMMISSION FOR THE DEAF AND HARD OF HEARING
2451	INDEPENDENT LIVING (DHILS)

DEPARTMENT	MASSACHUSETTS COMMISSION FOR THE BLIND
2100	MEDICAL EVALUATION – NON-MEDICAID
2101	MEDICAL EVALUATION - MEDICAID
2103	DIAGNOSTIC & EVAL- MEDICAID
2105	HOME HEALTH AIDE - MEDICAID
2106	PHYSICAL & MENTAL REST
2109	PERSONAL VOC ADJUSTMENT– NON-MEDICAID
2110	PERSONAL VOC ADJUSTMENT- MEDICAID
2115	SUPPORTED EMPLOYMENT SERVICES
2119	HOMEMAKER
2121	ORIENTATION & MOBILITY– NON-MEDICAID
2122	MOBILITY& MOBILITY –MEDICAID
2124	RESPITE CARE
2131	CLIENT INTERPRETER – NON MEDICAID
2142	SHARED LIVING SERVICES
2143	ADULT LONG TERM CARE
2144	COMMUNITY BASED DAY SUPPORT SERVICES
2151	RADIO READING
2156	ENGINEER GRP. CONSULT.
2184	COMPETITIVE INTEGRATED EMPLOYMENT SERVICES
2401	ELDER PEER SUPPORT
2402	RESIDENTIAL SUPPORTS
2403	FLEXIBLE FAMILY SUPPORTS
2404	SOCIAL SUPPORT AND NETWORKING
2405	DEAF BLIND COMMUNITY ACCESS NETWORK
2406	MOBILE EYE CLINIC SERVICES

DEPARTMENT	MASSACHUSETTS REHABILITATION COMMISSION
2200	VOCATIONAL REHABILITATION
2201	VOCATIONAL SERVICES
2205	EXTENDED EMPLOYMENT PROGRAM
2206	S.E.S. ANCILLARY SERVICES
2208	VR INDEPENDENT LIVING
2213	ARRA VR BASIC SUPPORT
2214	ARRA INDEPENDENT LIVING (PART B)
2215	INDEPENDENT LIVING CENTERS
2216	INDEPEND. LIVING –SUPPORTED LIVING
2217	LONG-TERM DEVICE LOAN PROGRAM
2218	ASSISTIVE TECHNOLOGY INDEPENDENT LIVING
2219	ADAPTIVE DRIVING EVALUATION AND TRAINING
2220	HOME CARE ASSISTANCE
2221	PROTECTIVE SERVICES
2222	TRANSITION TO ADULTHOOD
2223	ASSISTIVE TECHNOLOGY REGIONAL CENTERS
2224	ADAPTIVE HOUSING
2226	MRC RESIDENTIAL
2227	COMMUNITY SUPPORTS
2228	MFP PAYROLL
2229	TRANSPORTATION
2231	ADAPTIVE ASSISTANCE
2232	MFP NON-RESIDENTIAL
2233	ABI WAIVER RESIDENTIAL
2234	TAC ASSIGNED CHAPTER 688 VR & CL
2235	INFORMATION & REFERRAL/EDU
2236	CLINICAL AND MEDICAL DIAGNOSTICS
2237	SUBSTANCE ABUSE SERVICES
2238	RECREATIONAL SERVICES
2239	SHIP RESPITE
2241	MFP RESIDENTIAL
2242	TBI WAIVER RESIDENTIAL
2243	TBI WAIVER NON-RESIDENTIAL
2244	ABI TRANSITIONAL ASSISTANCE
2245	ROLLAND WAIVER RESIDENTIAL
2246	ROLLAND WAIVER NON-RESIDENTIAL
2247	ROLLAND RESIDENTIAL
2248	ROLLAND NON-RESIDENTIAL
5100	VR CIES COMPONENTS
5200	CIES COMPONENT PROCUREMENT
5300	PATERNERSHIP PLUS

DEPRTMENT	MASSACHUSETTS TRIAL COURT (TRC)
N/A	CLINCAL DRUG TREATMENT
N/A	MONITORING SERVICES

DEPARTMENT	OFFICE FOR REFUGEES & IMMIGRANTS
2020	REFUGEE CASE MANAGEMENT
2021	EMPLOYMENT SERVICES
2022	SOCIAL ADJUSTMENT SERVICES
2023	CITIZENSHIP FOR NEW AMERICANS PROGRAM (CNAP)
2024	REFUGEE SCHOOL IMPACT
2025	PREVENTIVE HEALTH PROGRAM (PHP)
2026	REFUGEE AGRICULTURE PROGRAM

DEPARTMENT	OFFICE OF VETERAN'S SERVICES
1131	OUTREACH/COUNSEL
1133	HOMELESSNESS SERVICES

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SURPLUS REVENUE RETENTION POLICY

DPS Policy Memorandum

(DPS-P038A-93)

TO: Interested Parties

FROM: Michael Kan, Assistant Commissioner
Division of Purchased Services

DATE August 31, 1994

RE: Revised Policy: *"Not-for-Profit Provider Surplus Revenue Retention Pursuant to 808 CMR 1.19(3)"* (Supersedes Policy issued January 20, 1994)
DPS Publication Number: DPS-P038A-93

As a result of public comment, recent amendments to 808 CMR 1.19(3), and further analysis and review of the implementation process, the Division of Purchased Services has made a number of changes to its "Not-for-Profit Provider Surplus Revenue Retention Policy". Surplus revenue retention calculations for FY'93 will be based on the revised policy contained in this memorandum and attached questions and answers document.

Changes from the policy issued 1/20/94 are as follows:

1) Regulation Language: Effective July 1, 1994, minor amendments were made to 808 CMR 1.19(3) to assist in implementation without changing the intent of the policy. The new language reads as follows:

> Not-for-Profit Provider Surplus Revenue Retention. If, through cost savings initiatives implemented consistent with programmatic and contractual obligations, a non-profit provider accrues an annual net surplus from the revenues and expenses associated with services provided to purchasing agencies which are subject to 808 CMR 1.00, the provider may retain, for future use, a portion of that surplus not to exceed 5% of said revenues. The cumulative amount of a provider's surplus account may not exceed 20% of the prior year's revenues from purchasing agencies. Surpluses may be used by the provider for any of its established charitable purposes, provided that no portion of the surplus may be used for any non-reimbursable cost set forth in 808 CMR 1.05, the free care prohibition excepted. The Division shall be responsible for determining the amount of surplus that may be retained by each provider in any given year and may determine whether any excess surplus shall be used to reduce future prices or be recouped.

2) Unrestricted Funds: The prior policy included unrestricted funds in the calculation of surplus attributed to the Commonwealth. In order to encourage provider revenue raising activities, the policy has been revised to exclude unrestricted revenue from the calculation of surplus/deficit. Details of the revised formula are contained in the attached Questions & Answers document. The following lines in the UFR are classified as unrestricted:

> Gifts, Contributions, Legacies, Bequests - Unrestricted, Special Events & Activities - Unrestricted, Private Grant - Unrestricted, Federated Fundraising - Unrestricted, Investment Revenue - Unrestricted, Realized Gain/Loss - Unrestricted or Gain/ Loss on Sale of Assets - Unrestricted.

3) Non-Reimbursable Expenses: Accounting for non-reimbursable expenses is an audit issue and therefore non-reimbursable expenses will now be excluded from the formula. Such expenses will not be added to the surplus/(deficit) as reported on line 47 of the Uniform Financial Statements and Independent Auditor's Report, Program Supplemental Information Schedule B.

4) Sources of Revenue: Public/Private Partnership Program, EOHHS Sponsored Client Fees and Other Ma. Government Sponsored Client Fees Revenue Sources will not be considered as revenue attributable to or generated by Commonwealth agreements.

5) Fund Balance Entry: In response to comments from the accounting community, DPS has adjusted the year end entry requirement for the surplus revenue retention. It should be a segregated entry in the unrestricted fund balance or in the unrestricted fund balance with a note made in the notes to the financial statements, NOT in a restricted fund balance as previously stated.

The remainder of this document contains a list of common questions and answers on the DPS Surplus Revenue Retention Policy. Questions, concerns or comments about the surplus revenue retention policy or its implementation may be directed to Ron Ardine, Director of the Pricing Bureau, at (617) 727-7500 x277.

Surplus Revenue Retention Questions

CAUTION THE UFR LINE NUMBERS USED IN THIS DOCUMENT ARE NO LONGER APPLICABLE

GENERAL POLICY

1. Why did DPS adopt the Surplus Revenue Retention policy?

DPS adopted the policy because the House & Senate Committees on Ways and Means in 1988 signed an agreement with the Executive Office of Human Services requiring implementation of a surplus revenue retention policy, known as "Reuse and Recovery" at the time. The agreement had two main provisions: *(1)* to allow social service providers to retain a surplus up to five percent of total revenues attributable to or generated by Commonwealth agreements for the provision of social services, (2) to restrict the cumulative amount of surplus which can be retained over time to a maximum of 20% of the provider's prior year's gross revenues derived from Commonwealth Purchasing Agencies.

The original "Reuse and Recovery" plan stated that the Executive Office for Administration and Finance and the Rate Setting Commission would promulgate regulations to implement a process for managing accumulated surpluses. Inasmuch as these regulations were never fully or adequately implemented in the past years, DPS has taken steps to promulgate the Reuse and Recovery Plan in its regulations. 808 CMR 1.19 (3) supersedes regulations promulgated by the Rate Setting Commission regarding the implementation of the Reuse and Recovery Plan of 1987 for purchase-of-service providers.

2. What organizations will this policy apply to?

The policy applies to all social service providers subject to the Division of Purchased Services' (DPS) authority, including purchase-of-service and special education providers, as more fully set forth in St. 1993, c.110, s. 274. It does not apply to transportation providers or providers of services outside the scope of DPS's jurisdiction, including programs or services reimbursed under Title XIX of the Social Security Act.

3. What is the intent of the surplus revenue retention policy?

The intent of the policy is twofold: (1) to encourage providers to expend surplus funds, attributable to Commonwealth agreements, on services to consumers; (2) to allow providers reasonable and acceptable possibilities for increased capitalization. This does not mean that surpluses should be built into program budgets during contract negotiations. Rather, providers now have incentives to pursue cost savings initiatives in their government contracting operations.

4. Are there instances in which surpluses are not subject to 808 CMR 1.19 (3)?

Programs that accumulate surpluses which are not generated from revenue from social service programs subject to the authority of the Division of Purchased Services by virtue of St. 1992, c. 133, s. 113, or any successor provision thereto will not be subject to 808 CMR 1.19 (3). Surpluses cannot be generated in cost-reimbursement contracts as stated in questions 8 and 16.

SURPLUS DETERMINATION

5. Who will determine whether a surplus exists?

The Division of Purchased Services will have the ultimate responsibility to determine whether a surplus exists through analysis of provider submitted financial schedules. **Beginning with the FY'93** Uniform Financial Statements and Independent Auditor's Report (UFR) filings, providers should make an entry in a segregated unrestricted fund balance account or in the unrestricted fund balance with a note in the notes to the financial statements of what they have determined to be the amount of revenue to be retained. If the amount entered by the provider varies from the DPS calculation then the provider will have to make a prior period adjustment in the next fiscal year's financial statements. DPS may find the UFR deficient if the amount recorded is significantly different from the DPS calculation.

6. Will the surplus revenue be program specific?

No, the surplus revenue and the "surplus revenue retention" fund pool will be based on a total single corporate entity**.** The surpluses and deficits of all the provider's social service programs will be summed to determine the total corporate surplus.

7. Will surpluses generated from fund-raising and other sources of income be included? **(REVISED FROM ORIGINAL POLICY)**

No, only Commonwealth revenue as defined by lines 7, 8, 11, 16-20 (a & b), 22-31 (a &b) and 34, on Schedule A: Supplemental Revenue Schedule including revenue from special education programs funded by the cities and towns will be included. As a result, commercial, Medicaid or Medicare revenue will also not be included. DPS will subtract any funds reported in unrestricted revenue from the program's excess/deficit support over expenses to create an adjusted surplus/deficit.

8. What formula will DPS use to determine a surplus? **(REVISED FROM ORIGINAL POLICY)**

For purposes of implementing 808 CMR 1.19(3), the annual surplus under review will be limited to Commonwealth funds including funds from cities and towns for special education programs, as defined below. DPS will use the financial information documented in the UFR as reported on Supplemental Schedules A and B. DPS will determine the amount of Commonwealth revenue supporting the provider on a program by program basis (Total of lines 7,8,11, 16-20 (a&b), 22-31 (a&b) and 34 on Schedule A: Supplemental Revenue Schedule).

Next, an Adjusted Total Revenue will be calculated by subtracting the sum of Unrestricted Revenue funds (lines 1, 4, 13, 42, 45, 48 and 51 on Schedule A: Supplemental Revenue) from Total Revenue, (line 58 Schedule A: Supplemental Revenue Schedule) for each program. Then the percentage of Commonwealth Revenue will be determined by dividing the Total Commonwealth Revenue by the Total Adjusted Revenue, for each program.

Total Unrestricted Revenue Funds will then be subtracted from Line 47, Excess/Deficit Support Over Expense, Program Supplemental Information Schedule B. This will yield an adjusted surplus/deficit.

The adjusted surplus/deficit is then divided by the percentage of revenue attributable to the Commonwealth. This will yield the total surplus/deficit attributable to the Commonwealth for the program. DPS will then calculate a grand total for the Commonwealth revenue and a grand total for the allocation of Commonwealth surplus and deficit from the sum of all of the programs. The percentage of the surplus/deficit allocated to the Commonwealth is calculated by dividing the grand total of the Commonwealth surplus/deficit by the grand total of the Commonwealth revenue. If this percentage is less than or equal to five percent then the provider may retain the funds pursuant to 808 CMR 1.19 (3).

Although cost reimbursement funds are included in the formula for the determination of total funds, it is a violation of state finance law for Commonwealth cost reimbursement agreements to accumulate surpluses. Any surplus attributable to or generated by Commonwealth related income and expenses in cost reimbursement contracts will be subject to recoupment.

Steps:

1. For each program, sum lines 7, 8, 11, 16-20 (a & b), 22-31 (a &b) and 34, on Schedule A: Supplemental Revenue Schedule by program to determine the revenue attributable to Commonwealth programs.
2. For each program, sum the Unrestricted Revenue Funds, lines 1, 4, 13, 42, 45, 48 and 51, on Schedule A: Supplemental Revenue Schedule by Program.
3. For each program, subtract the sum of the unrestricted revenue calculated in Step 2 from line 58, (Total Revenue) on Schedule A: Supplemental Revenue Schedule. This will yield an Adjusted Total Revenue.
4. For each program, divide the total from Step 1 (Total Commonwealth Revenue) by the amount from Step 3 (Adjusted Total Revenue). Decimal places should be carried to two places. This determines the percent of total revenue which is attributable to Commonwealth sources.
5. For each program, subtract the total calculated in Step 2 from Line 47, Excess/ Deficit Support over expense, Program Supplemental Information Schedule B by program to determine the adjusted surplus/deficit.
6. Multiply results from Step 4 by Step 5, for each program.
7. Calculate a grand total surplus attributable to Commonwealth sources for the provider agency by adding the results from Step 6 for all programs.

8. Sum the results of Step 1 for all of the Provider's programs to determine the total Commonwealth revenues for the agency.

9. Divide the sum in Step 7 by the sum obtained in Step 8 to determine the percentage of the provider's agency annual "surplus" attributable to the Commonwealth.

9. When will DPS start to calculate surplus revenue retention?

DPS will start to calculate surplus revenue retention using the Fiscal Year 1993 non-deficient Uniform Financial Statements and Independent Auditor's Report (UFR).

Providers that have a deficient UFR will not be able to retain any surplus from Commonwealth revenue. Such surpluses would be subject to recovery by any of the methods described in the answer to question 17. If the Provider resolves the deficiency with DPS, then the provider will be able to retain its calculated surplus.

The following is a listing of the common reasons why a UFR may be deficient.

* The UFR Cover Page was not filed.
* The alternative report does not meet the exemption category (no. 2-14 in the UFR Audit and Preparation Manual) filing requirements.
* The Auditor's Reports were not filed.
* The Balance Sheet was not filed.
* The Statement of Activities was not filed.
* The Statement of Functional Expenses was not filed.
* The Notes to the Financial Statements were not filed.
* The Schedule of Federal Financial Assistance or UFR Supplemental Schedules A,B,C,D have not been filed.
* The Board of Directors' Acknowledgment Letter was not filed.
* The provider failed to have an OMB Circular A-133 audit conducted.
* The OMB Circular A-133, Internal Control report was not filed or was inadequate.
* The OMB Circular -133 Compliance reports were not filed or were inadequate.
* There was no Auditor's report or opinion regarding the Schedule of Federal Financial Assistance.
* The Audit submitted was not in accordance with Generally Accepted Government Auditing Standards (GAGAS).
* The supplemental information paragraph was not included in the Independent Auditor's Report on the financial statements or in a separate report as required by auditing standards SAS 29 and 52.
* The Independent Auditor's Reports did not meet the requirements of Generally Accepted Auditing Standards (GAAS).
* The information in the supplemental schedules does not reconcile and agree with the basic financial statements.
* The Independent Auditor did not render an opinion on the Statement of Functional Expenses.
* The financial statements were not prepared in accordance with Generally Accepted Accounting Principles (GAAP) as required by the American Institute of Certified Public Accountants (AICPA), Industry Audit Guide, "Audits of Voluntary Health and Welfare Organizations."
* Administrative costs were not reported in the administration column in the UFR but were reported as direct program costs.
* Full-Time Equivalents (FTEs) were not reported as required

SURPLUS REPORTING

10. How will the provider track the accumulated "surplus revenue retention" fund pool? Is there a formula that adjusts a provider's fund balance? (REVISED FROM ORIGINAL POLICY)

In order to properly track retained revenue surplus amounts, a provider should create a new account and fund in its chart of accounts to delineate the amount of funds in the "surplus revenue retention" fund pool. This pool should represent the cumulative amount of funds determined over time as a result of the aggregate surpluses and deficits generated in provider programs receiving Commonwealth funds. The provider must document the financial transactions which occur within this account.

The "surplus revenue retention" fund pool is a portion of the provider's unrestricted fund balance. In essence, a provider may have a fund balance of $50,000, of which $40,000 is the "surplus revenue retention" fund pool. The surplus revenue retention account is an account that may increase or decrease over time. The surplus revenue accumulation account should be less than the previous year if the provider incurred a deficit attributable to state funds as calculated by DPS.

The provider must make a year end entry in a segregated unrestricted fund balance account or in the unrestricted fund balance with a note in the notes to the financial statements to record the activity in the surplus revenue retention fund pool. This activity will occur after the calculation is made by DPS or estimated by the provider. Please note that the segregated unrestricted fund balance account may at times have a fund deficit.

11. If a provider accumulates a surplus in excess of the 5% threshold, what should the entry be on the balance sheet?

The provider must make an entry for the 5% amount in the segregated unrestricted fund balance or a note in the notes to the financial statements and the balance should be booked as an unrestricted other liability.

12. Given that 1993 has already passed, how should the surplus be recorded by the provider and CPA?

The surplus should be recorded as a prior period adjustment.

13. Will the recording of surplus revenue change with FASB 117?

The treatment of all revenues from the Commonwealth may change because of FASB 117. FASB 117 further defines the concept of restricted funds. DPS will be working with authoritative sources and FASB to determine the impact of this issue in the near future, and will issue further guidance as necessary.

USES OF SURPLUS

14. How can provider's surplus funds be spent?

Monies from the surplus revenue retention fund may be expended for activities and programs which are in accordance with the charitable purposes of the provider organization. They may not be spent on items that are non-reimbursable under 808 CMR 1.05 (except to provide free care) or under other state or federal laws or regulations.

15. Does that include the purchase of capital items?

Yes, a provider can use funds to purchase capital items, but the expensing of these items must still be consistent with AICPA accounting principles and DPS depreciation schedules.

16. Does this provision include cost reimbursement contracts?

A cost reimbursement contract cannot, by definition, generate a surplus. Surpluses from cost reimbursement contracts are subject to recoupment by the Purchasing Agency. If a cost reimbursement contract accrues a surplus from funds attributable to Commonwealth revenue and expenses, it will be considered a non-reimbursable cost and will be subject to recoupment.

17. What action will DPS take if the accumulated "surplus revenue retention" fund pool exceeds 20% of a provider's prior year's gross revenue from Purchasing Agencies?

DPS may address the excess in any of the following ways: (1) The Purchasing Agencies may enter into an agreement with the provider which would stipulate the use of the excess funds. (2) DPS or a Purchasing Agency may request that the excess funds be returned to the Commonwealth. (3) A surplus greater than 5% may yield reductions in future prices set by DPS or negotiated by Purchasing Agencies. It is anticipated that additional means of addressing excess surpluses may be developed in the future. Any agreements pertaining to excess surpluses will be administered in the same manner as DPS and the purchasing agencies are required to follow in implementing the DPS audit resolution policy.

18. If a provider anticipates a surplus from state funds during a year can its board restrict the surplus funds so that they will not be subject to this policy?

No, this would be inconsistent with the terms of the contract or agreement with the Commonwealth which requires the use of GAAP. The policy only recognizes externally donor restricted revenues as defined by GAAP for exclusion in the calculation of the surplus.

OTHER ISSUES

19. The definition of "not-for-profit provider surplus revenue retention" includes the phrase: "cost savings initiatives." What is a "cost savings initiative" and how will DPS determine whether a surplus is the result of such a cost savings initiative?

If the provider adhered to all applicable regulations and contractual requirements including those set forth in contracts or Individual Education Plans (IEP), did not engage in fraudulent billing, and showed no evidence of undocumented reimbursements, non-reimbursable expenses, billing errors or significantly underutilized staff resources required and/or budgeted by the Purchasing Agency, then accrued surpluses will generally be considered to be obtained through cost savings initiatives.

20. If providers have surpluses in excess of 5% due to an increase in enrollment or capacity, will the surplus be subject to the five (5%) percent annual cap?

Yes, the provider would still be subject to the five percent annual cap. The intent of this regulation is to identify any surplus greater than 5% that has been generated with or is attributable to Commonwealth funds, regardless of the reason. The "test" for determining the amount of accumulated surplus is not based strictly on the cause of the surplus. Rather, the primary "trigger mechanism" for the DPS surplus accumulation provision is the source of income which generated the surplus.

21. Will any consideration be given to cash flow surplus or deficit regardless of the income statement results? For example, a provider could generate a surplus for the income statement but actually have less cash than at the beginning of the year because of an asset purchase, increased accounts receivable, pay down of debt, etc.

No, DPS will calculate the surplus revenue retention on the schedules as detailed in the response to question 8. The consideration of the cash position of the provider would require an analysis of the balance sheet which includes balances brought forward from previous years, whereas the revenue and expense supplemental schedules depict activities for the specific year. The surplus revenue retention policy is designed to address the issue of provider surpluses or deficits, not the availability of cash. A provider may in fact have a very poor cash position, but exhibit a very healthy surplus for a given year or over a period of years.

IMPLEMENTATION

22. How will DPS determine which Purchasing Agencies should be involved in the negotiations involving any excess surplus funds?

DPS will notify each Purchasing Agency as to the amount of a particular provider's surplus which is attributable to that Purchasing Agency. For example, if a provider generated a total surplus of 6.00%, DPS will determine which Purchasing Agencies' funds accounted for the surplus and will apportion the 1% excess by using the following formula:

Formula:
Step

1. Subtract 5% from the calculation obtained in Step 9 of the formula in question 8 to determine the percentage of surplus funds which is subject to recoupment, negotiations or price adjustment.

2. Multiply the percentage in Step 1, Question 22 by the total Commonwealth revenue to determine the amount of excess surplus funds to be reported to the Purchasing Agencies for resolution.

3. For each program, divide the amount of revenue from each Purchasing Agency, by the total of Commonwealth funds (Step 1 question 8). This will yield the percentage of the total Commonwealth revenue each Purchasing Agency committed to the program.

4. Return to Step 6 from question 8 to determine the amount of surplus/deficit that can be allocated to the Commonwealth for each program.

5. For each program, multiply Step 4 by the results of Step 3 for each Purchasing Agency.

6. Calculate a grand total for each Purchasing Agency for all applicable programs of Step 5 .

7. Enter the total for each Purchasing Agency that's grand total is greater than 0, if a Purchasing Agency's grand total for Step 6 is a deficit then enter 0, not the deficit total. Sum the total of Step 6 for all Purchasing Agencies, not including deficits.

8. For each Purchasing Agency that had a surplus calculated in Step 7, divide the Purchasing Agency's allocation by the total for all Purchasing Agencies calculated in Step 7.

9. Multiply Step 8 by Step 2 for each Purchasing Agency, this will yield the amount of funds subject to negotiations, recoupment or adjusted prices. DPS will then notify the provider of the amount of calculated excess surplus revenue as well as the amount allocated to each Purchasing Agency for resolution. The provider and each Purchasing Agency should enter into a resolution stipulating the use of the excess surplus funds.

23. Can purchasing agencies require different uses for the excess (greater than 5%) funds?

Yes, that is the reason each purchasing agency is recognized in the allocation of the funds rather than one agency as the primary purchasing agency. The funds were generated by the specific purchasing agencies and they can designate a specific use for their allocation.

24. If providers do not agree with the DPS calculation, how should they appeal it?

The provider should write to DPS and explain its position. If DPS needs further information, we will schedule a meeting. DPS recognizes that there may be some issues concerning the electronic calculation of the surplus as well as the definition of some of the sources of revenue that may affect the calculation of surplus funds.

Please Note: The above questions and answer (Q&A) sections relative to the Revised Policy: *"Not-for-Profit Provider Surplus Revenue Retention Pursuant to 808 CMR 1.19(3)"* guidance in DPS Policy Memorandum (DPS-P038A-93) issued on August 31, 1994, references 808 CMR 1.19(3). That regulation cite has subsequently been revised to 808 CMR 1.03(7) *Not-For-Profit Contractor Surplus Revenue Retention*. While the Not-For-Profit Contractor Surplus Revenue Retention (SRR) policy guidance provided in that memorandum is still applicable, certain terms and UFR line references included in Q&A sections are no longer applicable. For instances, any references to Fund Balance(s) should be replaced with Net Assets and UFR line references should reflect the current lines in the redesigned (*FY 2002)* UFR statements and schedules. For transparency and preparer's convenience OSD has included the applicable SRR formula on the upper right-hand side of the Supplemental Schedule A_OSI and Supplemental Schedule B_PSI that OSD has imbedded in the UFR template for calculating SRR as follows:

From the Supplemental Schedule A_OSI for calculating organization-wide SRR liability (if any)

I. Commonwealth Surplus Revenue Retention information for financial statement note

Calculation of SRR 5% Annual Limit:

A	_____	Total Surplus Attributable to Commonwealth (Schedule B_PSI Amounts)
B	_____	Total Commonwealth Revenue Schedule B Program Amounts
C	#DIV/0!	SRR Percentage(A/B)
D	#DIV/0!	Allowed SRR Amount for Current Year (5% limit)
E	#DIV/0!	Liability on Annual SRR (annual amount exceeding 5% limit)

Calculation of SRR 20% Accumulated Limit:

F	_____	Starting SRR Balance from cell I72 *
G	_____	Authorized Expenditures of SRR Balance (F) *
H	_____	Accumulated SRR balance adjusted for audit period expenditures(F-G) *
I	#DIV/0!	Allowed SRR Accrual Amount for Current Year (D) *

J	#DIV/0!	Accumulated SRR balance (H+I) *
K		Prior Year's Comm. of Mass. Revenue
L		SRR Policy 20% Accumulated balance limit (20% of K)
M	#DIV/0!	Liability based SRR Policy 20% rule on accumulated SRR balance (J-L)**

From the Supplemental Schedule B_PSI for calculating program SRR liability (if any)

I. COMMONWEALTH SURPLUS REVENUE RETENTION INFORMATION

Note: For Program Type 27 (Cost Reimbursement) programs, the calculated Commonwealth Revenue is factored in to the agency-wide SRR calculation; however the program surplus deficit amount is excluded from the calculation as required by the OSD SRR policy. "N/A" will appear in item H below in lieu of the calculated values.

A		Total Program Commonwealth Revenue (Sum lines 5R,8R through 29R, 31R & 37R)
B		Total Program Revenue (Line 53R)
C		Adjusting Entries (Sum(lines 1R,3R, 6R, 44R through 52R))
D		Adjusted Program Revenue (B minus C)
E		Program Operating Results (Line 58E) *
F		Adjusted Program Operating Results (E minus C)
G	#DIV/0!	Commonwealth Share Percentage (100*(A/D))
H	#DIV/0!	59E Commonwealth Revenue Retention Share ((F*G)/100)

* Surplus operating results in cost reimbursement programs often, but not always, indicate contract overbillings. State finance law requires that contract overbillings be returned to the Commonwealth's General Fund. Any identified overbillings must be reported as findings in the auditor's report. A final determination regarding overbillings and recovery arrangements will be made by OSD and the purchasing agency.

BOARD OF DIRECTORS' ACKNOWLEDGEMENT LETTER SAMPLE

We, the Board of Directors* of XYZ Provider Organization**, met on** *Month, Day, Year* **and have voted to recognize and accept the representations of management and the expression of opinions by** *Name of Independent Auditor* **as embodied in the Basic Financial Statements, Supplementary and Subsidiary Financial Statements and Schedules and Independent Auditor's Reports contained in the Uniform Financial Statements and Independent Auditor's Report (UFR) for the period ended** *Month, Day, Year***.**

In addition, we, the Board of Directors* of *XYZ Contractor Organization***, hereby certify under penalty of perjury that to the best of the members of the board of directors' knowledge, all material related party relationships and transactions, as defined by 808 CMR 1.02 and generally accepted government auditing standards, and other representations made by management are accurate and have been correctly and completely disclosed as required in the notes to the financial statements and schedules of the UFR for the period ended** *Month, Day, Year***.**

Signatory for Board of Directors:

Title:

Date:

* The board of directors may vote to authorize a subcommittee of the board of directors such as the audit or the finance committee to perform the above noted acknowledgments and oversight responsibilities on its behalf. Members of management may not participate in any of the above noted board of director's acknowledgments and oversight responsibilities.

Only For Outpatient Mental Health Clinics That Do Not Furnish Non-Medicaid Reimbursable Social Services To Purchasing Agencies of The Commonwealth Pursuant to Regulation 808 CMR 1.00

DIVISION OF HEALTH CARE FINANCE AND POLICY CERTIFICATION OF OUTPATIENT MENTAL HEALTH CENTER SERVICES/RESULTS OF FINANCIAL OPERATIONS

Misrepresentation or falsification of any information contained in this report may be punishable by fine and/or imprisonment under state and federal law

Certification by Owner, Partner or Officer

I Hereby Certify that I have read the above statement and that I have examined the accompanying supplemental schedules and cover page of the Uniform Financial Statement's and Independent Auditor's Report (UFR), and the financial statements that have been audited in accordance with Generally Accepted Auditing Standards and, prepared in accordance with Generally Accepted Accounting Principles by:

_____

Provider Name (s) Federal I.D. #

for the fiscal year beginning _____ and ending _____and that to the best of my knowledge and belief, the financial statements, and supplemental schedules and cover page of the (UFR) are true, accurate and complete and have been prepared in accordance with applicable regulations and instructions. The financial statements, and accompanying supplemental schedules and cover page of the UFR are prepared from the books and records of the provider (s) except as noted. If prepared by a person other than the owner, partner, or officer, her or his declaration is based upon all information of which she or he has any knowledge.

This certification is signed under pains and penalties of perjury.

Name of Owner, Partner, or Officer

_____

Last First M.I.

_____

Signature

_____

Title

_____

Date

UFR - FY '2013

AUDIT SERVICES CHECKLIST & MANAGEMENT CERTIFICATION

(To Be Completed by Contractor)

	YES	NO
I. Federal Funds:		
a. Is this provider subject to OMB Circular A-110?	____	____
b. If yes, were audit services acquired through solicitation of bids or competitively procured, as required under A-110?	____	____
c. Was the independent auditor selected and engaged by the provider's audit committee Board of Directors, Board of Trustees or owner?	____	____
II. Training Requirements:		
Has the person responsible for directing your audit submitted a letter representing completion of the following :		
a. Completion of the continuing education and training requirements for performing government audits?	____	____
1. 80 hours of training in last two years?	____	____
2. 24 hours of the 80 hours were in government auditing, non-profit accounting or other related activity?	____	____
b. Being in the process of completing training requirements:		
1. 20 hours completed in last year?	____	____
2. Intent to complete 80 hours within two years?	____	____

III. Experience/Qualifications:

a. The person responsible for directing your audit has provided a letter representing the completion of the following number of government audits:

_____ 0-1 _____ 2-5 _____ 6-10 _____ 11+

b. The Board of Public Accountancy has the following information about the audit firm:

____ no history of sanctions ____ current sanctions _____ sanctions older than 3 years

c. The Operational Services Division has taken the following action against the audit firm:

____ no history of disqualification ____ current disqualification _____ disqualification older than 3 years

d. The external quality control review of the audit firm indicates:

_____ no problems _____ qualification _____ adverse report

IV. Audit Services:

The contract with the audit firm for UFR audit is for a term of _____ years

IV. Certification

All the management representations made in the financial statements and schedules of the UFR and the statements
made in answering the above questions are, to the best of my knowledge, true and accurate.

Signed:_____

Under pains and penalties of perjury
Chief Executive Officer or Chief Financial Officer

To my knowledge, no person associated with my provider organization has threatened, pressured or otherwise
suggested that the audit firm's services would be terminated if audit findings were written and included in the auditor's final report.

_____ Signed:_____

Name of Contractor

Under pains and penalties of perjury
Chief Executive Officer or Chief Financial Officer

FY '12 ***Policy Guidance/Regulatory Interpretation of 808 CMR 1.05 (24) Salaries of Officers and Managers***

MEMORANDUM

TO: Interested Parties

FROM: Terrence McCarthy, Director of Audit and Compliance
Operational Services Division (OSD)

DATE: July 25, 2012

RE: Policy Guidance/Regulatory Interpretation of 808 CMR 1.05 (24)
Salaries of Officers and Managers

Please Note: OSD is providing this FY '12 guidance for those contractors with fiscal years that do not coincide with the Commonwealth's Fiscal Year Ending 6/30/2013.

Effective July 1, 1998, the salaries of officers and managers as defined by OSD shall be non-reimbursable under Operational Services Division regulation 808 CMR 1.05 (24) as amended to the extent that they exceed an annual rate of $153,496.51. Contractors must maintain documentation and justification for the selection of a salary reimbursement rate up to $153,496.51. Where officers and managers devote less than full time to state programs, the level of reimbursement should be prorated accordingly. See 808 CMR 1.05 (24).

Officers and Managers are defined as: Persons who are responsible for achieving the objectives of the enterprise and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Officers and Managers normally includes members of the board of directors, the chief executive officer, chief operating officer, vice presidents in charge of principal business functions (such as sales, administration, or finance), and other persons who perform similar policymaking functions. Persons without formal titles also may be members of management. *In most instances, management of a social service program will include program directors and program managers*

ufr2011audit&prep

OPERATIONAL SERVICES DIVISION
OFFICE OF OPERATIONS, TRAINING & AUDIT
Patricia Wynn
Deputy State Purchasing Agent

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Timothy P. Murray
Lieutenant Governor
Jay Gonzalez
Secretary
Gary J. Lambert
Assistant Secretary for
Operational Services

***FY '13* Policy Guidance/Regulatory Interpretation of 808 CMR 1.05 (24) Salaries of Officers and Managers**

MEMORANDUM

TO: Interested Parties

FROM: Joanne Bouzerdan, Acting Director of Audit and Quality Assurance
Operational Services Division (OSD)

DATE: June 20, 2013

RE: Policy Guidance/Regulatory Interpretation of 808 CMR 1.05 (24)
Salaries of Officers and Managers

Effective July 1, 1998, the salaries of officers and managers as defined by OSD shall be non-reimbursable under Operational Services Division regulation 808 CMR 1.05 (24) as amended to the extent that they exceed an annual rate of $158,101.40. Contractors must maintain documentation and justification for the selection of a salary reimbursement rate up to $158,101.40. Where officers and managers devote less than full time to state programs, the level of reimbursement should be prorated accordingly. See 808 CMR 1.05 (24).

Officers and Managers are defined as: Persons who are responsible for achieving the objectives of the enterprise and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Officers and Managers normally includes members of the board of directors, the chief executive officer, chief operating officer, vice presidents in charge of principal business functions (such as sales, administration, or finance), and other persons who perform similar policymaking functions. Persons without formal titles also may be members of management. *In most instances, management of a social service program will include program directors and program managers.*

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