



Forward Thinking

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Navigating the Home Care Financial Maze

Midwest Care Alliance Annual Conference
November 1, 2011
Dave Macke, FHFMA, MBA



Objectives



- Identify key elements of financial statement process and better understand and interpret financial statements
- Identify importance of Medicare Cost Report as a management tool
- Discuss how to plan HHRG management

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Quotes



If you think health care is expensive now, wait until you see what it costs when it's free.

– P.J. O'Rourke

A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be.

– Wayne Gretzky

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Financial Reporting – Key Elements and Process



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Financial Reporting



- Why is financial reporting important?
 - Plan or roadmap for achieving goals
 - Past success will NOT guarantee future success
 - Business as usual will NOT guarantee success
 - NO quick fix, NO “magic bullet” exists
 - Ability to respond to internal and external changes
 - Need system for regular month end close process

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Financial Reporting



- Balance Sheet
 - Measure of financial health of the organization

- Income Statement
 - Scorecard to measure the results of operations
 - Revenues, expenses, and net income
 - Contribution margin

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Financial Reporting



- Income Statement
 - Does it fit management's needs for information
 - How is revenue recorded?
 - Gross versus net
 - Service line / payor
 - How is Medicare revenue recognized?

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Financial Reporting



- Are revenues and expenses properly matched by service period and product line? HHA and non HHA activities?
- Non routine medical supplies? Are cost and charges separately reported?
- Are expenses separately reported as direct and indirect to allow for computation of contribution margin? (i.e. payroll, benefits / taxes, mileage)

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Financial Reporting



- Are expenses reported in sufficient detail to allow for management to analyze, monitor and make behavioral changes?
- Are gross profits by service line / payor able to be computed?
- Are actual revenues and expenses compared to budgeted amounts and variances analyzed?
- Is the financial budget a month-by-month budget or annual budget?

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Financial Reporting



- The financial statements should provide a good tool and sufficient detail for management analysis and decision making
- The financial statements should provide for easy analysis of direct cost per unit of service
- The financial statements should provide for easy analysis of indirect costs in relation to the volume of services (% of expense / revenue)

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Financial Reporting



- The financial statements should provide management with the ability to look at profitability by service / payor
- Determine the feasibility of new products or services

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Financial Reporting



- Many agencies do not accurately report receivables and revenues
- This makes it increasingly more difficult to make good management decisions

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Financial Reporting



- Tracking revenues
 - Ability to identify what is driving income / loss on operating activities
 - Revenue by payor source: Medicare, Medicaid, Third Party insurance, Private Pay and Other
 - Many HHA's do not track revenue in sufficient detail to provide for quality financial management
 - Should not be grouped in one account - Sales
 - Is revenue recorded at "gross" or "net"?

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Financial Reporting



- Revenue adjustments
 - Contractual adjustments – difference between standard charges and amount accepted based upon existing agreement or contract
 - Charity care – charges not billed based on financial indigency
 - Bad Debts – amounts not collected due to lack of payment from payor source due to refusal to pay
 - Measure of collection effort

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Financial Reporting



- Revenue Recognition Method
 - 60 day
 - Average length of stay
 - RAP / Final claim billing
 - Others
 - Payment adjustments
 - Timing

 - See Attachment 1

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Financial Reporting



- Software Systems
 - How is your billing / receivable software capturing billings and receivables?
 - How is your billing / receivable software capturing and reporting deferred revenue (unearned revenue)?
 - Timing – Day 1 or date of claim
 - Must confirm how your system operates
 - Determine desired methodology
 - Establish procedures to ensure accurate reporting

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Financial Reporting



- Payment adjustments
 - Monitor variances with expected and actual episode and claim payments
 - Proper AR Management – Did Payor pay the correct amount?
 - When to when recognize the adjustment

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Financial Reporting



- Identification of Expenses
 - Direct – cost of goods sold (e.g. field staff salaries & benefits, contract services, mileage, medical supplies)
 - All wages should not be grouped into one account called “Salaries”
 - Direct expenses by discipline
 - Indirect – Overhead (e.g. office salaries & benefits, office supplies, rent, etc)

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Financial Reporting



- Identification of Expenses
 - Fixed – do not change with volume
 - Variable – changes with volume changes
 - Incremental – additional cost per unit of service
 - Fully absorbed – all expenses included in operations

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Financial Reporting



- Hospital Based Agencies
 - Need to measure profitability before hospital overhead cost shift
 - Determine which hospital overhead costs are real home health expenses (employee benefits)
 - PPS versus Critical Access Hospitals
 - Most hospital based agencies do not record expenses in sufficient detail to make critical analysis (based on cost report after stepdown)

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Financial Reporting



- Cash basis reporting is not really accurate is not acceptable for management information
- Quality of all reporting should have top priority (internal, external, cost reporting, tax)
- Opportunities for growth and survival for well managed providers

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Financial Reporting



- Management Reporting
 - Revenue per episode type
 - Estimated expense per episode type
 - Reimbursement per episode type
 - Margin per episode type
 - Revenue per visit
 - Expense per visit (average and by length of time)
 - Days in accounts receivable – gross and net

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Financial Reporting



- Sample Financial Statements
 - Attachment 2 – Balance Sheet
 - Attachment 3 – Income Statement

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Medicare Cost Report – Importance as a Management Tool



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Medicare Cost Report



- Compliance Issue
- False Claims Act provisions
- PPS rebasing for Home Health rates in 2014
- Cost reporting is sloppy – HHFMA Task Force
- Reimbursement rules have not changed, only the payment methodology
- Access adequacy of payment rates
- MedPAC – profit margins

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Medicare Cost Report

**TABLE
8-6**

Medicare margins for freestanding home health agencies, 2008 and 2009

	2008	2009	Percent of agencies, 2009	Percent of episodes, 2009
All	17.0%	17.7%	100%	100%
Geography				
Majority urban	17.3	17.9	83	84
Majority rural	16.0	16.6	17	16
Type of control				
For profit	18.6	18.7	84	82
Nonprofit	12.3	14.4	11	16
Government*	N/A	N/A	N/A	N/A
Volume quintile				
First	9.0	8.9	20	0.8
Second	9.3	8.7	20	3.8
Third	13.3	12.6	20	7.7
Fourth	16.0	16.5	20	15.0
Fifth	18.9	20.1	20	72.7

Note: N/A (not available).

*Government-owned providers operate in a different context from other providers, so their margins are not necessarily comparable.

Source: MedPAC analysis of home health Cost Report files from CMS.

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Medicare Cost Report

- Are Medicare payments adequate in 2011?
 - Overall access to care is reasonable
 - Medicare margins should NOT subsidize low rates for other payers
 - System is inappropriate and inefficient
 - Projected margin in 2011 is 14.5%

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Medicare Cost Report - Myths

- I followed the prior year's cost report – it must be right
- The figures look reasonable and consistent to prior year
- Total revenues and expenses agree to my financial statements
- The cost report shows I made a “profit of Medicare” - I must be doing good
- The Medicare FI / MAC did not make any adjustments

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Management Use of Cost Report

- The MCR is NOT just a “compliance” requirement that must be filed with CMS but can be a valuable tool to assist in budgeting, pricing and strategic analysis
- Direct and indirect costs by discipline (per hour and per visit)
- Fixed and variable costs
- Non-routine medical supplies

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Management Use of Cost Report

- When looking at total cost, you should add back non allowable expenses (marketing, donations, etc)
- Cost per episode / Medicare margin
- Cost, revenue and margin by payer
- Service utilization per episode

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Medicare Cost Report - Indicators

- Average visits per episode, by discipline
- Percent of episodes by type – Full, Outliers, LUPA, PEP
- Computation of cost per visit – direct and indirect
- Medicare profit margin – total and by episode type
- Cost analysis
 - Direct and overhead – percent to total
 - Percent to revenue

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Medicare Cost Report



- Common Cost Report Problems
 - Inaccurate visit statistics – date of service / visits vs. units
 - Cost and visit counts for "Like-kind" and "non like-kind" services not segregated – What are non like-kind services?" (HCFA PM 97-11.60)
 - Costs and utilization statistics not properly matched
 - Inaccurate FTE calculations – what is an FTE?

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Medicare Cost Report



- Common Cost Report Problems
 - Improper accounting method – cash vs. accrual
 - Improper classification of direct and indirect expenses
 - Double allocation to NRCC
 - Costs not properly segregated on the trial balance
 - By discipline, by program
 - Like kind / non like kind
 - Costs not in the correct cost centers
 - Salaries, transportation, etc.

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Medicare Cost Report



- Common Cost Report Problems
 - Improper reporting of non-routine medical supply costs and charges
 - Improper reporting of flu vaccine costs, charges and Medicare settlement data
 - Separate billing for administration and vaccine supply
 - Telemedicine costs not properly reported
 - Prior year adjustments made after cost report is filed (i.e. tax return extended)

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Medicare Cost Report



- Common Cost Report Problems
 - Incorrect adjustments to adjust costs on W/S A-5
 - Failure to identify all related party transactions
 - section 1010 exception
 - Cost per visit by discipline is unreasonable
 - Improper use of the PS&R report

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Medicare Cost Report



- Common Cost Report Problems
 - Worksheet F series not reconciled (Balance Sheet, Income Statement and Statement of Changes in Fund Balance)
 - Hospital-based agencies – failure to charge all direct and indirect costs to HHA (using step-down) (e.g space costs)
 - Hospital-based agencies – failure to properly report medical supply costs and charges
 - Allocation of overhead from Hospital to HHA that do not relate to HHA

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Medicare Cost Report – PS&R



- PS&R Issues
 - CMS migration – not all information moved over
 - Need to check status of your registrations NOW
 - Backup Security Official (BSO) – highly recommend
 - User Group Administrator – eliminated
 - Security Officials can now access the PS&R reports – need to update registration

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Medicare Cost Report – PS&R



- Passwords must be changed every 60 days
 - If password expires, user will be redirected to change the password screen
- Account Inactivity
 - Disabled if not “active” within 180 days – login
 - Email from IACS
 - After 180 days will require answers to security questions to renew password

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Medicare Cost Report – PS&R



- Annual Recertification
 - Required to verify account information for each user
 - IACS will send reminder email 60 days prior to recert date
 - Must verify before one year due date or account will be archived

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Medicare Cost Report – PS&R



- Passwords
 - Passwords must be changed every 60 days
 - Must be 8 characters long
 - At least 2 letters and 1 number
 - Letters must be mixed case – upper / lower
 - Must not contain your user ID
 - Must not contain 4 consecutive characters from any of your previous 6 passwords
 - Must be significantly different from your previous 6 passwords

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Medicare Cost Report – PS&R TIPS



- Don't forget to change passwords TIMELY
- Don't share user ID and password information
- Establish a Back Up Security Official ASAP
- Make sure that users know who their first approver is (i.e. SO, BSO)
- Review all your users frequently – delete former employees

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Medicare Cost Report – PS&R TIPS

- Maintain current your contact information
- New registration requests expire after 60 days
- Remember FI / MAC have no access to IACS to troubleshoot or investigate issues
- Set reminders on calendars for deadlines for on going maintenance

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Medicare Cost Report – PS&R

- Home Health Reports – needed for cost report
 - 329 HH PPS Part B Episodes
 - 339 HH PPS Part A Episodes
 - 399 HH PPS Part A & B Episodes
 - 342 HH PPS Part B Vaccine (Flu Vaccine Supply)

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Medicare Cost Report – PS&R



- Helpful Links
- PSRR Overview
 - <http://www.cms.gov/PSRR>
- IACS User Guides
 - http://www.cms.gov/MAPDHelpDesk/07_IACS.asp#TopOfPage
- PSRR Login
 - <http://psr-ui.cms.hhs.gov/psr-ui>

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Medicare Cost Report – PS&R



- IACS Support
 - External User Services
 - San Antonio, Texas
 - 1-866-484-8049
 - EUSupport@cgi.com
 - www.EUShelpdesk.com

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HHRG Management



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HHRG Management



- HHRG Management
 - Good financial management and recordkeeping is a must
 - You must know what your true direct costs are
 - Salaries, benefits / taxes, mileage, outside contract
 - How do you pay your field staff?
 - Hourly, salary or per visit
 - Not all visits cost the same
 - Amount of time per visit varies
 - Geographic distance
 - Zone scheduling

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HHRG Management



- HHRG Management
 - Establish Plan of Care
 - Number of visits by discipline
 - Non routine medical supplies
 - Will Telemedicine be used?
 - Compute “direct” and “total” cost for the episode
 - Base cost computation on total costs, not Medicare operating costs
 - Medicare non allowable costs including marketing, bad debts, contributions, bad debts, telemedicine, etc

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HHRG Management



- HHRG Management
 - Compute “contribution margin”
 - Contribution Margin - gross profit before allocation of overhead costs
 - Total revenue less direct costs of services
 - What about outliers, LUPA's and PEP's?.
 - Reimbursement should always follow patient service needs, not services following reimbursement

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HHRG Management



- Do I want to accept the following patient?
 - Total revenue \$2,500
 - Direct expense \$2,000
 - Total expense (w/ overhead) \$2,800

 - What is the contribution margin ?????

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HHRG Management



- HHRG Management – proposed changes for 2012
 - Annual updates for wage index and standard rates
 - Elimination of hypertension codes 401.1 and 401.9 from case mix scoring
 - Minor changes in OASIS points
 - All case weights have been adjusted

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HHRG Management



- HHRG Management – proposed changes for 2012
 - General trends
 - low therapy are increasing and high therapy are decreasing
 - Early episodes are increasing and late episodes are decreasing

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Questions



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Attachment 1



Medicare Accounts Receivable & Deferred Revenue

**Home Health Agency
Medicare Revenue Recognition**

Assumptions

Start of Episode	4/21/2010
End of Episode	6/9/2010
Actual length of episode (days)	50
HIPPS Payment Amount (inc NRS add-on)	\$ 3,000.00
Date RAP billed	5/1/2010
Date RAP paid	5/10/2010
Amount RAP paid	\$ 1,800.00
Date Final billed	7/10/2010
Date Final Paid	8/5/2010
Amount Final Paid	\$ 1,200.00
Charge per Visit	\$ 100.00
Number of Visits	
	April 5
	May 12
	June 3

Revenue Recognition

<u>Method</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>Total</u>
60 days	\$500	\$1,550	\$950	\$0	\$0	\$3,000
Length of Stay	\$600	\$1,860	\$540	\$0	\$0	\$3,000
Per Visit	\$750	\$1,800	\$450	\$0	\$0	\$3,000
Start / End of Episode Date	\$1,800	\$0	\$1,200	\$0	\$0	\$3,000
Bill Date	\$0	\$1,800	\$0	\$1,200	\$0	\$3,000
Paid Date (Cash Basis)	\$0	\$1,800	\$0	\$0	\$1,200	\$3,000

Accounts Receivable Balance at End of Month

<u>Method</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>
60 days	\$500	\$250	\$1,200	\$1,200	\$0
Length of Stay	\$600	\$660	\$1,200	\$1,200	\$0
Per Visit	\$750	\$750	\$1,200	\$1,200	\$0
Start / End of Episode Date	\$1,800	\$0	\$1,200	\$1,200	\$0
Bill Date	\$0	\$0	\$0	\$1,200	\$0
Paid Date (Cash Basis)	\$0	\$0	\$0	\$0	\$0

Attachment 2



Balance Sheet

ANY HOME HEALTHCARE
STATEMENT OF ASSETS, LIABILITIES, AND SHAREHOLDER'S EQUITY
3/31/2011

ASSETS

		<u>Amount</u>
Current Assets		
Cash	\$	42,000
Accounts Receivable		315,480
Prepaid Expenses		2,500
		<hr/>
Total Current Assets		359,980
		<hr/>
Fixed Assets		
Leasehold Improvements		30,000
Office Equipment & Furniture		120,000
Computer Software		15,000
Computer		35,000
Machinery & Equipment		33,000
Accumulated Depreciation		(195,000)
		<hr/>
Total Fixed Assets		38,000
		<hr/>
Other Assets		
Rent Deposit		4,400
Workers Compensation Deposit		500
Organization Expense		1,500
Accumulated Amortization		(775)
		<hr/>
Total Other Assets		5,625
		<hr/>
Total Assets	\$	403,605
		<hr/> <hr/>

ANY HOME HEALTHCARE
STATEMENT OF ASSETS, LIABILITIES, AND SHAREHOLDER'S EQUITY
3/31/2011

LIABILITIES

	<u>Amount</u>
Current Liabilities	
Accounts Payable	\$ 20,000
Accrued Expense	15,000
Accrued Salaries	40,000
Accrued Payroll Taxes	
Credit Card Payable	-
Line of Credit	35,000
Current Portion of Long Term Debt	25,000
	<hr/>
Total Other Current Liabilities	<u>135,000</u>
Long Term Liabilities	
Term Loan	90,000
Current Portion of Long Term Debt	<u>(25,000)</u>
Total Long Term Liabilities	65,000
	<hr/>
Total Liabilities	<u>200,000</u>

SHAREHOLDER'S EQUITY

Shareholder's Equity	
Capital Stock	5,000
Retained Earnings	142,000
Net Income	<u>56,605</u>
Total Shareholder's Equity	<u>203,605</u>
	<hr/>
Total Liabilities and Shareholders Equity	<u>\$ 403,605</u>

Attachment 3



Income Statement

ANY HOME HEALTHCARE
STATEMENTS OF REVENUE AND EXPENSES
3/31/2011

	<u>Amount</u>	<u>Percent</u>
Revenue		
Medicare Revenue	\$ 400,000	60.61%
Medicaid Revenue	150,000	22.73%
Private Insurance	100,000	15.15%
Private Pay	10,000	1.52%
	<hr/>	<hr/>
Total Revenue	<u>660,000</u>	<u>100.00%</u>
Cost of Sales		
Direct Care Expenses		
Nursing Wages	255,000	38.64%
Aide Wages	120,000	18.18%
Payroll Taxes	32,000	4.85%
Workers Compensation	12,000	1.82%
Employee Benefits	10,000	1.52%
Medical Supplies	2,000	0.30%
Contract Labor	15,000	2.27%
	<hr/>	<hr/>
Total Direct Care Expenses	<u>446,000</u>	<u>67.58%</u>
Gross Profit Margin	<u>214,000</u>	<u>32.42%</u>
Expenses		
Occupancy Expenses		
Rent	12,000	1.82%
Depreciation Expense	2,000	0.30%
Building Repairs	1,250	0.19%
Office Cleaning	1,850	0.28%
Telephone	3,900	0.59%
Utilities	2,500	0.38%
	<hr/>	<hr/>
Total Occupancy Expense	<u>23,500</u>	<u>3.56%</u>

ANY HOME HEALTHCARE
STATEMENTS OF REVENUE AND EXPENSES
3/31/2011

	<u>Amount</u>	<u>Percent</u>
Overhead Expenses		
Admin. Salaries and Wages	\$ 65,000	9.85%
Admin. Payroll Taxes	5,900	0.89%
Admin. Workers Compensation	3,400	0.52%
Admin. Employee Benefits	2,250	0.34%
Advertising & Promotion	7,800	1.18%
Bank Service Charges	200	0.03%
Billing Expense	1,500	0.23%
Computer Rental Expense	6,750	1.02%
Copier Maintenance	2,150	0.33%
Dues and Subscriptions	3,170	0.48%
Equipment Rental	250	0.04%
Hiring Expenses	325	0.05%
Commercial Insurance	1,500	0.23%
Malpractice Insurance	4,500	0.68%
Interest Expense	1,600	0.24%
Miscellaneous	450	0.07%
Office Supplies & Expense	8,100	1.23%
Other Taxes and Licenses	850	0.13%
Postage and Delivery	1,025	0.16%
Printing and Reproduction	1,100	0.17%
Professional Fees	4,500	0.68%
Payroll Processing Fees	3,900	0.59%
Property Expenses	5,200	0.79%
Computer Repairs	1,800	0.27%
Equipment Repairs	450	0.07%
Meals	375	0.06%
Staff Meetings	975	0.15%
Travel, Lodging & Airfare	1,150	0.17%
Parking	125	0.02%
Penalties	100	0.02%
Total Overhead Expense	<u>136,395</u>	<u>20.67%</u>
 Total Expenses	 <u>159,895</u>	 <u>24.23%</u>
 Net Operating Income	 <u>54,105</u>	 <u>8.20%</u>
 Other Income and (Expenses)		
Other Income	<u>2,500</u>	<u>0.38%</u>
Total Other Income and (Expenses)	<u>2,500</u>	<u>0.38%</u>
 Net Income	 <u><u>\$ 56,605</u></u>	 <u><u>8.58%</u></u>

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Length of Stay	\$600	\$660	\$1,200	\$1,200	\$0
Per Visit	\$750	\$750	\$1,200	\$1,200	\$0
Start / End of Episode Date	\$1,800	\$0	\$1,200	\$1,200	\$0
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Total Long Term Liabilities		65,000
Total Liabilities		200,000

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Shareholder's Equity		
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Retained Earnings		142,000
Net Income		56,605
Total Shareholder's Equity		203,605
Total Liabilities and Shareholders Equity	\$	403,605

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Overhead Expenses		
Admin. Salaries and Wages	\$ 65,000	9.85%
Admin. Payroll Taxes	5,900	0.89%
Admin. Workers Compensation	3,400	0.52%
Admin. Employee Benefits	2,250	0.34%
Advertising & Promotion	7,800	1.18%
Bank Service Charges	200	0.03%
Billing Expense	1,500	0.23%
Computer Rental Expense	6,750	1.02%
Copier Maintenance	2,150	0.33%
Dues and Subscriptions	3,170	0.48%
Equipment Rental	250	0.04%
Hiring Expenses	325	0.05%
Commercial Insurance	1,500	0.23%
Malpractice Insurance	4,500	0.68%
Interest Expense	1,600	0.24%
Miscellaneous	450	0.07%
Office Supplies & Expense	8,100	1.23%
Other Taxes and Licenses	850	0.13%
Postage and Delivery	1,025	0.16%
Printing and Reproduction	1,100	0.17%
Professional Fees	4,500	0.68%
Payroll Processing Fees	3,900	0.59%
Property Expenses	5,200	0.79%
Computer Repairs	1,800	0.27%
Equipment Repairs	450	0.07%
Meals	375	0.06%
Staff Meetings	975	0.15%
Travel, Lodging & Airfare	1,150	0.17%
Parking	125	0.02%
Penalties	100	0.02%
Total Overhead Expense	<u>136,395</u>	<u>20.67%</u>
Total Expenses	<u>159,895</u>	<u>24.23%</u>
Net Operating Income	<u>54,105</u>	<u>8.20%</u>
Other Income and (Expenses)		
Other Income	<u>2,500</u>	<u>0.38%</u>
Total Other Income and (Expenses)	<u>2,500</u>	<u>0.38%</u>
Net Income	<u><u>\$ 56,605</u></u>	<u><u>8.58%</u></u>