

**State of Wyoming Departments of Family Services, Education and Health (Medicaid)
Psychiatric Residential Treatment Facility, Residential Treatment Center, Group Home and
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Appendix A – Allowable Cost Guidelines**

Overview

The Wyoming Department of Family Services (DFS), Department of Education (WDE) and Department of Health (Medicaid), collectively referred to as the Departments, require that Psychiatric Residential Treatment Facilities (PRTFs), Residential Treatment Centers (RTCs), Group Homes and Boards of Cooperative Educational Services (BOCES) facilities that treat Medicaid, DFS or WDE clients file cost reports annually. The Departments use this cost report to gather uniform financial data on the operations of PRTF, RTC, Group Home and BOCES services.

For the cost report process, the Departments have used the terms “allowable” and “non-allowable” to distinguish between costs that will be and will not be considered when evaluating the reasonableness of rates. **The term “allowable costs” does not represent the amount of costs that will be reimbursed to an individual provider, i.e., the total of the allowable costs reported on a cost report will not necessarily equal the amount that the Departments reimburse to providers. Rather, “allowable costs” will be just one of the components that the Departments will consider when determining future reimbursement rates.** The Departments require providers to submit cost reports on an annual basis so as to collect consistent and comparable data among the PRTF, RTC, group home and BOCES providers. Navigant Consulting oversees this cost report submission and data collection process on behalf of the Departments. The Departments consider reimbursement rates as part of a separate process based on statutory obligations, federal regulations (e.g., Centers for Medicare and Medicaid Services), provider cost data and legislative direction, among other factors.

For the state fiscal year (SFY) 2005 and 2006 cost reports, the Departments referred providers to federal allowable cost guidelines found in the Medicare Provider Reimbursement Manual Volume 15 (PRM-15), Office of Management and Budget Circular and the Code of Federal Regulations. For the SFY 2009 cost survey, however, the Departments have established specific allowable cost rules for the PRTF, RTC, Group Home and BOCES cost reports. In establishing these allowable cost rules, the Departments considered existing State rules for other provider types, federal guidelines and Generally Accepted Accounting Principles (GAAP).

When a provider is making allowable cost determinations for cost reporting purposes, Wyoming PRTF, RTC, Group Home and BOCES allowable cost guidelines must be consulted first. For any cost items not addressed by these guidelines, GAAP should be consulted.

Note that the guiding concept of “reasonable and necessary” must be applied in all instances. As such, for any cost to be reported as an allowable cost, it must be both reasonable and necessary. This concept is discussed further in the following section.

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Reasonable and Necessary Costs

The Departments have defined allowable costs as the reasonable costs necessary to provide covered services to persons in PRTFs, RTCs, Group Homes and BOCES. Federal guidance on reasonable costs can be found in PRM-15, Section 2103, which states the following:

“The prudent and cost conscious buyer not only refuses to pay more than the going price for an item or service, he/she also seeks to economize by minimizing cost. This is especially so when the buyer is an institution or organization which makes bulk purchases and can, therefore, often gain discounts because of the size of its purchases. In addition, bulk purchase of items or services often gives the buyer leverage in bargaining with suppliers for other items or services. Another way to minimize cost is to obtain free replacements or reduced charges under warranties for medical devices. Any alert and cost conscious buyer seeks such advantages, and it is expected that Medicare providers of services will also seek them.”

While this federal guidance does not apply specifically to PRTFs, RTCs, Group Home and BOCES services, it has been adopted in principal by the Departments.

- The term “reasonable” relates to the prudent and cost conscious buyer concept that purchasers of services will seek to economize and minimize costs whenever possible.
- The term “necessary” relates to the necessity of the service. To be “necessary,” it must be a required element for providing covered services to PRTF, RTC, Group Home and BOCES clients as specified by the Departments.

PRM-15 also explicitly disallows the cost of luxury items or services, which it defines as follows in section 2104.3:

“Luxury items or services are those that are substantially in excess of or more expensive than the usual items or services rendered within a provider's operation to the majority of patients.”

The Social Security Act section 1861(v)(1)(A) provides additional guidance, stating that reasonable costs must be the following:

- Cost actually incurred
- Necessary in the efficient delivery of needed health services

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- Determined in accordance with regulations establishing the methods to be used and the items to be included

Related Party Transactions

Costs related to goods or services furnished to a provider by related parties are allowable costs to the extent they are consistent with the concept of prudent purchasing as previously discussed. Related parties are defined as organizations that furnish services, facilities, or supplies to a provider in which the provider has an extensive association with, has significant control of, or is significantly controlled by the organization.¹

This principle serves the following purposes:

- To avoid the consideration of costs from transactions that are designed to contribute to the profit of related parties.
- To avoid the consideration of artificially inflated costs that exceed the price of comparable services, facilities, or supplies that could be purchased elsewhere.

Non-Related Costs

The costs of services paid for by entities other than Medicaid, DFS or WDE are allowable to the extent they relate to services covered by at least one of the Departments. Generally, the client services that PRTF, RTC, Group Home and BOCES can bill the Departments include the following:

- Room and Board
- Non-licensed Observation and Support
- Licensed Therapies
- Education

¹ Based in principle on PRM-15 section 1000.

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Costs incurred by PRTF, RTC, Group Home and BOCES providers for services not related to these general service areas are not covered by the Departments, and are therefore not allowable costs. Examples of such costs include (but are not limited to):

- Costs of hospital services to Medicaid recipients reimbursed under the Wyoming or out-of-state Medicaid inpatient or outpatient payment systems.
- Costs of foster care
- Costs associated with operations of other businesses and programs that are not necessary to provide client care

Allowable Cost Rules

Any costs that are either not reasonable or are not necessary for providing care to PRTF, RTC, Group Home and BOCES clients are “non-allowable costs.” The following are specific examples of non-allowable costs, organized by the account title section from the SFY 2009 PRTF, RTC, Group Home and BOCES Facility Cost Report.

Please note that any costs that are not adequately documented are considered non-allowable. Adequate documentation consists of written documentation, date of purchase, vendor name, listing of items or services purchased, cost of items purchased, account number to which the cost is posted and a detail of any allocation of costs between accounts or centers.

A. Direct Care Employee Salaries

1. Salaries and wages of employees who provide direct care to residents/clients are allowable costs to the extent they relate to services covered by the Departments and are reasonable and necessary.

B. Education Employee Salaries

1. Teacher, Teacher Aide and other education employee salaries and wages are allowable costs to the extent they are related to providing client care services covered by the Departments and are reasonable and necessary.

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C. Administration Employee Salaries

1. Administration employee salaries and wages are allowable costs to the extent they relate to the direct care, support or administration of client care services covered by the Departments and are reasonable and necessary.
2. Salaries, wages and fees paid to owners, partners, stockholders and board members are not allowable costs, except for costs related to the direct care, support or administration of client services covered by the Departments.

D. Occupancy and Food Service Employee Salaries

1. Occupancy, maintenance and food service employee salaries and wages are allowable costs to the extent they relate to the direct care, support or administration of client care services covered by the Departments and are reasonable and necessary.

E. Employee Payroll Taxes

1. Employee payroll taxes are allowable costs to the extent that they are:
 - a) The employer's portion of the employee payroll taxes.
 - b) Related to allowable salaries and wages costs.

F. Employee Insurance

1. Insurance benefits for employees are allowable costs to the extent that related salaries and wages are allowable costs.
 - a) Benefits that discriminate in favor of certain employees, excluding any portion that relates to costs that benefit all employees, are not allowable costs.
 - b) For example, if Administrators receive dental benefits, but Non-Licensed Line Technicians do not, the employer's portion of the dental insurance costs are not allowable costs.
2. Life insurance:²
 - a) Provider is not beneficiary (allowable costs): Premiums related to insurance on the lives of owners or employees where the individual's relatives or estate

² Based in principle on PRM-15 section 2130.

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is the beneficiary are considered to be compensation to the individual and are allowable costs to the extent such total compensation is reasonable and necessary.

- b) Provider is beneficiary (non-allowable costs): Premiums related to insurance on the lives of owners and employees where the provider is a direct or indirect beneficiary are not allowable costs.
 - 1) A provider is a direct beneficiary where, upon the death of the insured individual, the insurance proceeds are payable directly to the provider.
 - 2) A provider is an indirect beneficiary when another party receives the proceeds of a policy through an assignment by the provider to the party or other legal mechanism but the provider benefits from the payment of the proceeds to the third party.
- c) Provider is beneficiary – exception (allowable costs): Premiums are allowable costs when the provider is beneficiary if:
 - 1) A provider as a requirement of a lending institution must purchase insurance on the life of owners or employee to guarantee the outstanding loan balance.
 - 2) The lending institution must be designated as the beneficiary of the insurance policy.
 - 3) Upon the death of the insured, the proceeds will be used to pay off the balance of the loan.
 - 4) The insurance premiums allowable costs are limited to premiums equivalent to that of a decreasing term life insurance policy needed to pay off an outstanding loan balance related to client care. Where other than decreasing term policies are purchased (e.g., whole life, or convertible term), only that portion of the premium which can be equated to the premium for a similar face amount of a decreasing term life policy may be included in allowable costs.

G. Employee Other Benefits

- 1. Other employee benefits for employees are allowable costs to the extent that related salaries and wages are allowable costs.

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- a) Benefits that discriminate in favor of certain employees, excluding any portion that relates to costs that benefit all employees, are not allowable costs.
- b) For example, if Administrators receive a pension, but Non-Licensed Line Technicians do not, the employer's portion of the pension-related costs are not allowable costs.

H. Contracted Direct Care Services

1. Fees related to contracted direct resident/client services are allowable costs to the extent they relate to the client care services covered by the Departments.
 - a) Fees related to contracted services by related parties are allowable costs to the extent they are consistent with the concept of prudent purchasing and are reasonable and necessary.
 - b) Amounts equivalent to the salary and other costs that would have been incurred by the provider if the services had been performed in an employment relationship are allowable costs. If a provider is unable to hire an employee to perform certain services, and must therefore contract for those services at a premium, the contracted services fees are allowable costs to the extent they are reasonable and necessary.
 - c) An allowance to compensate for other costs an individual not working as an employee might incur in furnishing services is an allowable cost.
 - d) Allowable costs cannot exceed the amount actually paid the outside contractor for services rendered.
 - e) Reasonable and necessary cost may be determined on the basis of a reasonable rate per unit of service, where aggregate reimbursement on this per unit of service basis is less than what the provider would have paid a salaried employee on a full-time or regular part-time basis.

I. Contracted Education Services

1. Fees related to contracted education services are allowable costs to the extent they relate to the client care services covered by the Departments. For more detail see contracted direct resident/client services.

J. Contracted Administration Office Services

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1. Professional service fees, such as management, accounting, auditing and consulting services, are allowable costs to the extent they are essential for provider operations and for providing client care. For more detail see contracted direct resident/client services.
2. Contracted real estate transactions: Legal fees, accounting and administration costs, travel costs, and the costs of feasibility studies that are attributable to the negotiation or settlement of the sale or purchase of any capital asset by acquisition or merger should not be expensed and reported as costs. Instead, such costs should be included in the asset and depreciated over time. See the section on depreciation below.
3. Legal expenses: Attorney fees and other costs associated with negotiations, administrative proceedings or litigation involving the State of Wyoming, except as specified in settlement, are not allowable costs.

K. Contracted Occupancy and Food Services

1. Fees related to contracted occupancy, maintenance and food services are allowable costs to the extent they relate to the direct care, support or administration of client care services covered by the Departments. For more detail, see contracted direct care services.

L. Administration Expenses

1. Administration office supplies, postage, printing and copying are allowable costs to the extent they relate to the direct care, support or administration of client care services covered by the Departments and are reasonable and necessary.
2. Dues, memberships and subscriptions to social, fraternal, and other organizations not directly related to client care are not allowable costs.³
3. Staff training, recruiting and background checks are allowable costs to the extent that they relate to employees who provide or support client care services covered by the Departments and are reasonable and necessary.

³ Based in principle on PRM-15 section 2138.3.

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4. Advertising:⁴

a) Non-allowable advertising costs:

- 1) Costs of fund-raising, including advertising, promotional, or publicity costs incurred for such a purpose, are not allowable costs.
- 2) Costs of advertising incurred in connection with the issuance of a provider's own stock, or the sale of stock held by the provider in another corporation, are considered as reductions in the proceeds from the sale and, therefore, are not allowable costs.
- 3) Costs of advertising to the general public which seeks to increase client utilization of the provider's services are not allowable costs. Situations may occur where advertising which appears to be in the nature of the provider's public relations activity is, in fact, an effort to attract more clients. General advertising to promote an increase in the client utilization of services is not properly related to the care of clients.

b) Allowable advertising costs:

- 1) Advertising costs incurred in connection with the provider's public relations activities are allowable costs if the advertising is primarily concerned with the presentation of a good public image and directly or indirectly related to client care. Examples are visiting hours information, conduct of management-employee relations, etc. Costs connected with fund-raising are not included in this category.
- 2) Costs of advertising for the purpose of recruiting allowable direct care, administrative and clerical personnel are allowable costs if salaries and wages of the personnel would be allowable costs.
- 3) Costs of advertising incurred in connection with obtaining bids for construction or renovation of the provider's facilities should be included in the capitalized cost of the asset.
- 4) Costs of advertising incurred in connection with bond issues for which the proceeds are designated for purposes related to client care, i.e., construction of new facilities or improvements to existing facilities, should be included in "bond expenses" and prorated over the life of the bonds.
- 5) Costs of informational listings of providers in a telephone directory, including the "yellow pages," or in a directory of similar facilities in a

⁴ Based in principle on PRM-15 section 2136.

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given area are allowable costs if the listings are consistent with practices that are common and accepted in the industry.

5. Facility certification costs are allowable to the extent that the certification is required to provide client care services covered by the Departments.
6. Interest expense:⁵
 - a) General: Interest is the cost incurred for the use of borrowed funds, generally paid at fixed intervals by the user. Interest on current indebtedness is the cost incurred for funds borrowed for a relatively short term, usually for 1 year or less. Current borrowing is usually for purposes such as working capital for normal operating expenses. Interest on capital indebtedness is the cost incurred for funds borrowed for capital purposes, such as the acquisition of facilities, equipment, and capital improvements. Generally, loans for capital purposes are long-term loans.
 - b) Allowable interest expenses:
 - 1) Allowable interest expenses must be:
 - i. Supported by evidence of an agreement that funds were borrowed and that payment of interest and repayment of the funds are required;
 - ii. Identifiable and recorded in the provider's accounting records;
 - iii. Related to the reporting period in which the costs are incurred; and
 - iv. Necessary and proper for the operation, maintenance, or acquisition of facilities.
 - 2) Interest expense should be offset by interest income earned.
 - c) Loan evidence: To support the existence of a loan, have available a signed copy of the loan contract which contains the pertinent terms of the loan such as amount, rate of interest, method of payment, due date, etc. Where the lender does not customarily furnish a copy of the loan contract, correspondence from the lender stating the pertinent terms of the loan such as amount, rate of interest, method of payment, due date, etc., is acceptable.
 - d) Loan necessity: Only necessary interest expenses are allowable costs. To be considered necessary, the interest must be:
 - 1) Incurred on a loan that is made to satisfy a financial need; and
 - 2) For a purpose related to client care.

⁵ Based in principle on PRM-15 section 202.

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- e) Non-allowable costs: If a borrowing or a portion of a borrowing is considered unnecessary, the interest expense on the borrowing, or the unnecessary portion of the borrowing, is not an allowable cost.
7. Taxes assessed against the provider, in accordance with the levying enactments of states and lower levels of government and for which the provider is liable for payment, are allowable costs. Taxes reported as costs should not include fines and penalties. Whenever exemptions to taxes are legally available, the provider is expected to take advantage of them. If the provider does not take advantage of available exemptions, the costs incurred for such taxes are not allowable.⁶
- a) Special assessments on land which represent capital improvements such as sewers, water, and pavements should be capitalized and depreciated over their estimated useful lives.
 - b) Non-allowable taxes levied on providers are as follows:
 - 1) Federal income and excess profit taxes, including any interest or penalties paid thereon.
 - 2) State or local income and excess profit taxes.
 - 3) Taxes in connection with financing, refinancing, or refunding operations, such as taxes on the issuance of bonds, property transfers, issuance or transfer of stocks, etc. Generally, these costs are either amortized over the life of the securities or depreciated over the life of the asset. They are not, however, recognized as tax costs.
 - 4) Taxes from which exemptions are available to the provider.
 - 5) Special assessments on land which represent capital improvements such as sewers, water, and pavements should be capitalized and depreciated over their estimated useful lives.
 - 6) Taxes on property which is not used in the rendition of services covered by the Departments.
 - 7) Taxes, such as sales taxes, levied against the client and collected and remitted by the provider.
 - 8) Self-employment (FICA) taxes applicable to individual proprietors, partners, members of a joint venture, etc.
8. Costs arising from joint use of resources (including central office and pooled cost) not reasonably related to client care are not allowable costs.

⁶ Based in principle on PRM-15 Chapter 21.

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9. Costs associated with regular board meetings are allowable costs to the extent they are reasonable and necessary.
10. The following types of costs related to the proprietary and equity interests of the stockholders are not allowable costs:
 - a) The costs of stockholders' annual reports and newsletters
 - b) Annual meetings
 - c) Mailing of proxies
 - d) Stock transfer agent fees
 - e) Stock exchange registration fees
 - f) Stockbroker and investment analysis
 - g) Accounting and legal fees for consolidating statements for SEC purposes
11. Entertainment costs incurred by providers for entertainment not related to client services, including tickets to sporting or other events, alcoholic beverages, golf outings, ski trips, cruises, or professional musicians or other entertainers are not allowable. Costs incurred by providers for purposes of employee morale, specifically, for an annual employee picnic, an annual Christmas or holiday party, an annual employee award ceremony or for sponsorship of employee athletic programs (bowling, softball, basketball teams, etc.), are allowable to the extent that they are reasonable.⁷
12. Lobbying costs, or any activity whereby a directed effort is made to influence legislation, are not allowable.⁸
13. Costs associated with fund-raising activities are not allowable costs.
14. Fines or penalties:⁹

⁷ Based in principle on PRM-15 section 2105.8.

⁸ Based in principle on PRM-15 section 2139.2.

⁹ Based in principle on PRM-15 section 2105.10.

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- a) Costs incurred by providers for fines or monetary penalties imposed for violations of Federal, state, or local laws are not allowable costs. Examples of non-allowable fines or penalties include:
 - 1) Costs incurred as a result of enforcement actions taken by the State and/or the Centers for Medicare and Medicaid Services (CMS) in response to provider deficiencies
 - 2) Directed in-service training,
 - 3) Suspended or denied reimbursement,
 - 4) Costs relating to state monitoring and/or
 - 5) The appointment of a temporary manager.
 - b) Bank services fees or penalties resulting from provider error are not allowable costs.
15. Judgments/settlements: Judgments entered against a provider or settlements entered into by a provider arising out of actions or inactions of the provider's agents or employees are not allowable costs. These include judgments entered against a provider's agent or employee that a provider pays, or settlements involving the provider's agent or employee that the provider pays.

M. Liability and Other Insurance

- 1. Liability and Other insurance expenses are allowable costs to the extent they relate to client care services covered by the Departments and are reasonable and necessary.

N. Program Support Supplies

- 1. Room and board, education and medical supplies are allowable costs to the extent they:

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- a) Relate to the direct care of client care services covered by the Departments and are reasonable and necessary.
 - b) Represent the amount which would be paid by a prudent and cost-conscious buyer and are the same and usual items for all clients and employees.
2. Luxury Food Costs – Luxury foods are not allowable costs. Foods are considered luxury to the extent the provider maintains a separate kitchen for the preparation of special foods and selected employees/clients may order from a separate menu for non-dietary reasons. Special diets ordered by a client's physician or that permit clients to continue with their required dietary habits are not considered luxury food items.¹⁰
 3. Luxury Room Accommodations – Costs related to luxury rooms are not allowable. Luxury room accommodations include rooms where the size per bed is significantly larger than the usual room size per bed in the provider's operation and the room charges are higher than the rates charged by the provider for its usual rooms. Other indications which may distinguish the luxury rooms from the usual rooms are the presence of special appliances, electronics, beds, and lavish bathing accommodations that are not medically needed and are not provided to all clients.¹¹
 4. Employee Meals - Costs incurred by providers for meals served to resident employees in excess of the costs of meals served to clients are not allowable. Excessive costs of employees' meals are attributable to the use of separate dining facilities, duplicative or additional food service staff, and/or upgraded or gourmet menus. Conversely, the costs related to meals served to employees from common menus in common employee dining facilities are allowable to the extent that they are otherwise reasonable.¹²
 5. The following room and board supplies are not allowable costs:

¹⁰ Based in principle on PRM-15 section 2119.A

¹¹ Based in principle on PRM-15 section 2104.3.

¹² Based in principle on PRM-15 section 2105.2

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- a) Cigarettes, cigars, pipes and tobacco
 - b) Cosmetics
 - c) Vending machine expenditures
 - d) Other personal items, such as personal entertainment items.
6. Rewards or prizes given to clients for good behavior are allowable costs. If rewards or prizes are given as part of vocational programs, such costs must be offset by any proceeds from the sale of goods and services produced or provided by clients.
 7. Education supplies and equipment are allowable to the extent they relate to instructional equipment, supplies and publications necessary to aid the student in accomplishing the goals and objectives of the client's education program as covered by the Departments.
 8. Prescription Drugs and Medical Supplies: Prescription drugs and medical supplies costs are allowable to the extent they represent the amount which would be paid by a prudent and cost-conscious buyer for an item if obtained from the lowest-priced source that is widely and consistently available within a provider's service area, whether sold by generic or brand name.¹³

O. Transportation

1. Travel costs incurred in conjunction with non-client care related employee travel are not allowable costs.
 - a) Travel for board members and executives for recreational purposes not related to client care are not allowable costs.
 - b) Costs related to the personal use of provider vehicles are not allowable.¹⁴
2. Travel costs relating to client services covered by the Departments that are reasonable and necessary are allowable costs.¹⁵

¹³ Based in principle on PRM-15 section 2105.2

¹⁴ Based in principle on PRM-15 section 2105.9.

¹⁵ Based in principle on PRM-15 section 2105.6.

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- a) A client does not have to be inside of the airplane or vehicle for the transportation to be service related (i.e., a resident/client services employee traveling to meet a client).
- b) Transportation of a family-member or friend to visit a client or consult with the client's physician, direct care worker or other provider of care is not an allowable cost, unless they are accompanying a client in route to services covered by the Departments.
- c) The costs of travel to foreign countries are not allowable costs.

P. Rentals/Mortgage

1. Mortgage and Installment interest and property rent/lease are allowable costs to the extent they relate to the facilities used for the direct care, support or administration of client care services covered by the Departments and are reasonable and necessary.
2. Vehicle expenses are allowable to the extent that they are related to client services covered by the Departments and are reasonable and necessary. If a provider furnishes client transportation with its own equipment and staff, the expense it incurs (depreciable cost of equipment, supplies, employee compensation, overhead, etc.) is an allowable cost. If it furnishes the service by purchasing services from outside transportation vendors, the charge to the provider by the transportation company becomes the provider's direct cost of furnishing the service.¹⁶

Q. Maintenance and Repairs

1. Building and equipment maintenance costs are allowable to the extent they are reasonable and necessary and relate to the direct care, support or administration of clients and do not relate to luxury room accommodations.

R. Depreciation and Amortization

1. Building Depreciation and Amortization:¹⁷

¹⁶ Based in principle on PRM-15 section 2104.1.

¹⁷ Based in principle on PRM-15 Chapter 1.

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- a) Principles: An appropriate allowance for depreciation on allowable buildings and equipment is an allowable cost. Allowable depreciation expenses must be:
 - 1) Identifiable and recorded in the provider's accounting records
 - 2) Based on the historical cost of the asset or, in the case of donated assets the lesser of the fair market value or the net book value at the time of donation
 - 3) Prorated over the estimated useful life of the asset using the straight-line method of depreciation
 - 4) Not related to luxury room accommodations
- b) Depreciable assets: Assets that a provider has an economic interest in through ownership (regardless of the manner in which they were acquired) are subject to depreciation. Generally, depreciation is an allowable cost on the assets when required in the regular course of providing client care. Assets which a provider is using under an operating lease arrangement would not be subject to depreciation by the provider.
- c) Historical cost: Historical cost is the cost incurred by the present owner in acquiring the asset and preparing it for use. Generally such cost includes costs that are capitalized under generally accepted accounting principles. For example, in addition to the purchase price, historical cost includes architectural fees, consulting fees, and related legal fees.
- d) Depreciation methods: The straight-line method of computing depreciation must be used for all depreciable assets.
- e) Depreciable life: The depreciable life used for determining straight-line depreciation must reasonably reflect the useful life of the asset. An asset should not be depreciated below its salvage value.
- f) Capitalization Threshold: A capitalization threshold is a cost under which an asset should not be depreciated. Assets under the set threshold amount should be expensed in the year acquired. If an asset has a useful life of at least two years and a historical cost of at least \$5,000, its cost must be capitalized.¹⁸ A provider may set a lower capitalization threshold if it does not materially affect reported costs.

S. Utilities

¹⁸ Based in principle on PRM-15, Chapter 1-4.1, §108.1

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1. Costs related to telephone, television, and radio communication devices are allowable costs to the extent they are reasonable and necessary.
 - a) Surveillance: Cost of closed circuit television monitoring systems used by providers for surveillance of clients or for security, teaching, or demonstration programs which serve purposes of client care are allowable costs to the extent they are reasonable and necessary.
2. Utilities costs, such as electricity, gas, water, heating oil, etc., are generally allowable costs to the extent such costs are reasonable and necessary.

T. Other Non-allowable Costs

1. Bad debt expenses represent revenues that will not be collected by the provider, and do not represent expenditures made by the provider. Therefore, bad debt expenses are not allowable costs.