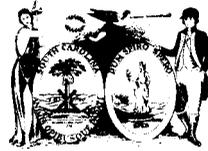


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

May 13, 2005

Mr. Craig G. DeKany, Reimbursement Manager
HCR – Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

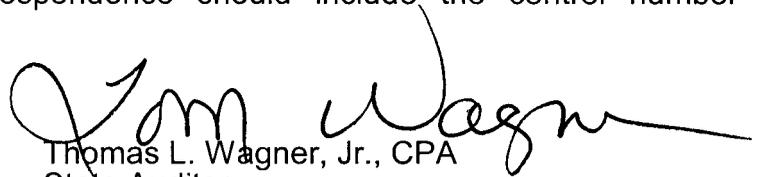
Re: AC# 3-MAN-J2 – Manor Care of Lexington, Inc. d/b/a Heartland of Lexington
Rehabilitation and Nursing Center

Dear Mr. DeKany:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2001 through September 30, 2002. That report was used to set the rate covering the contract period beginning October 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**MANOR CARE OF LEXINGTON, INC.
D/B/A HEARTLAND OF LEXINGTON
REHABILITATION AND NURSING CENTER
WEST COLUMBIA, SOUTH CAROLINA**

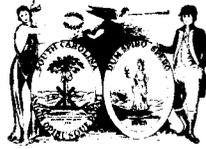
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2003
AC# 3-MAN-J2**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 14, 2005

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Manor Care of Lexington, Inc. d/b/a Heartland of Lexington Rehabilitation and Nursing Center, for the contract period beginning October 1, 2003, and for the twelve month cost report period ended September 30, 2002, as set forth in the accompanying schedules. The management of Manor Care of Lexington, Inc. d/b/a Heartland of Lexington Rehabilitation and Nursing Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

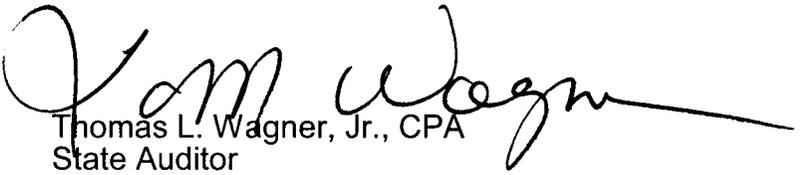
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Manor Care of Lexington, Inc. d/b/a Heartland of Lexington Rehabilitation and Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report .
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Manor Care of Lexington, Inc. d/b/a Heartland of Lexington Rehabilitation and Nursing Center dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
April 14, 2005

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
Computation of Rate Change
For the Contract Period
Beginning October 1, 2003
AC# 3-MAN-J2

	<u>10/01/03-</u> <u>12/31/03</u>	<u>01/01/04-</u> <u>09/30/04</u>
Interim Reimbursement Rate (1)	\$120.67	\$120.67
Adjusted Reimbursement Rate (2)	<u>112.21</u>	<u>118.68</u>
Decrease in Reimbursement Rate	\$ <u>8.46</u>	\$ <u>1.99</u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 6, 2004

- (2) As provided under Article IV, Section E of the Provider's contract dated as of October 1, 2001 as amended, "...Any and all amounts received by the Provider from SCDHHS for services under this contract in excess of those rates charged to private pay patients for similar services for the contract period shall be subject to recoupment by SCDHHS..." Accordingly, the reimbursement rate is limited to the customary charges to private pay clients.

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2003 Through September 30, 2004
AC# 3-MAN-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 52.07	\$ 66.44	
Dietary		9.25	11.55	
Laundry/Housekeeping/Maintenance		<u>6.94</u>	<u>9.83</u>	
Subtotal	<u>\$6.15</u>	68.26	87.82	\$ 68.26
Administration & Medical Records	<u>\$ -</u>	<u>15.63</u>	<u>13.46</u>	<u>13.46</u>
Subtotal		83.89	<u>\$101.28</u>	81.72
<u>Costs Not Subject to Standards:</u>				
Utilities		2.79		2.79
Special Services		.09		.09
Medical Supplies & Oxygen		3.57		3.57
Taxes and Insurance		14.37		14.37
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		<u>\$104.72</u>		102.55
Inflation Factor (4.70%)				4.82
Cost of Capital				9.94
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				6.15
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.40)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$119.06</u>

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2002
 AC# 3-MAN-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,502,673	\$ 585 (7)	\$ 74,879 (6) 3,636 (6) 4,264 (7)	\$2,420,479
Dietary	441,226	246 (7)	3,397 (5) 7,936 (6)	430,139
Laundry	67,473	-	1,794 (6)	65,679
Housekeeping	188,012	975 (9)	5,529 (6) 947 (10)	182,511
Maintenance	75,308	98 (5) 370 (9)	736 (6) 59 (7) 368 (10)	74,613
Administration & Medical Records	772,817	54 (4) 2,570 (4) 3,064 (9)	89 (5) 8,137 (6) 764 (6) 39,750 (7) 2,931 (10) 444 (11)	726,390
Utilities	129,592	636 (9)	6 (7) 636 (10)	129,586
Special Services	4,084	8,625 (11)	8,709 (6)	4,000
Medical Supplies & Oxygen	181,368	5 (7)	4,305 (4) 1,129 (5) 614 (6) 658 (8) 8,800 (11)	165,867

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2002
 AC# 3-MAN-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes and Insurance	566,834	98,088 (3) 3,469 (7) 2,739 (9)	3,232 (10)	667,898
Legal Fees	4,975	22 (9)	4,517 (7) 2 (10)	478
Cost of Capital	491,234	5,890 (1) 1,407 (9) 65,964 (12)	78,118 (2) 8,730 (7) 16,927 (8) <u>1,040 (10)</u>	459,680
Subtotal	5,425,596	194,807	293,083	5,327,320
Ancillary	172,432	887 (4)	-	173,319
Nonallowable	176,558	78,118 (2) 794 (4) 112,734 (6) 53,021 (7) 9,156 (10) <u>619 (11)</u>	5,890 (1) 98,088 (3) 9,213 (9) 65,964 (12)	251,845
Total Operating Expenses	<u>\$5,774,586</u>	<u>\$450,136</u>	<u>\$472,238</u>	<u>\$5,752,484</u>
Total Patient Days	<u>46,253</u>	<u>233 (13)</u>	<u>-</u>	<u>46,486</u>
Total Beds	<u>132</u>	Cost of Capital Patient Days		<u>46,253</u>

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
 Adjustment Report
 Cost Report Period Ended September 30, 2002
 AC# 3-MAN-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$251,035	
	Other Equity	295,970	
	Cost of Capital	5,890	
	Accumulated Depreciation		\$547,005
	Nonallowable		5,890
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	78,118	
	Cost of Capital		78,118
	To adjust depreciation expense to comply with capital cost policy		
	State Plan, Attachment 4.19D		
3	Taxes and Insurance	98,088	
	Nonallowable		98,088
	To adjust liability insurance expense		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
4	Administration	54	
	Medical Records	2,570	
	Ancillary	887	
	Nonallowable	794	
	Medical Supplies		4,305
	To reclassify expense to the proper cost center and disallow expense due to lack of documentation		
	HIM-15-1, Section 2304		
	DH&HS Expense Crosswalk		
5	Retained Earnings	4,517	
	Maintenance	98	
	Dietary		3,397
	Medical Records		89
	Medical Supplies		1,129
	To properly charge expense applicable to the prior period		
	HIM-15-1, Section 2302.1		

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTERAdjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-MAN-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable	112,734	
	Nursing		74,879
	Restorative		3,636
	Dietary		7,936
	Laundry		1,794
	Housekeeping		5,529
	Maintenance		736
	Administration		8,137
	Medical Records		764
	Medical Supplies		614
	Special Services		8,709
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Restorative	585	
	Dietary	246	
	Taxes and Insurance	3,469	
	Medical Supplies	5	
	Nonallowable	53,021	
	Nursing		4,264
	Maintenance		59
	Administration		39,750
	Legal		4,517
	Utilities		6
	Cost of Capital		8,730
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Intercompany	658	
	Miscellaneous Income	16,927	
	Medical Supplies		658
	Cost of Capital		16,927
	To properly offset income against related expense HIM-15-1, Sections 202.2 and 2304		

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-MAN-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Housekeeping	975	
	Maintenance	370	
	Administration	3,064	
	Legal	22	
	Utilities	636	
	Taxes and Insurance	2,739	
	Cost of Capital	1,407	
	Nonallowable		9,213
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
10	Nonallowable	9,156	
	Housekeeping		947
	Maintenance		368
	Administration		2,931
	Legal		2
	Utilities		636
	Taxes and Insurance		3,232
	Cost of Capital		1,040
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
11	Special Services	8,625	
	Nonallowable	619	
	Administration		444
	Medical Supplies		8,800
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
12	Cost of Capital	65,964	
	Nonallowable		65,964
	To adjust capital return State Plan, Attachment 4.19D		

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-MAN-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
13	<u>Memo Adjustment:</u> To increase total patient days by 233 to 46,486		
		_____	_____
	TOTAL ADJUSTMENTS	<u>\$1,019,243</u>	<u>\$1,019,243</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2002
 AC# 3-MAN-J2

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.55013</u>	<u>2.55013</u>	
Deemed Asset Value (Per Bed)	39,828	39,828	
Number of Beds	<u>120</u>	<u>12</u>	
Deemed Asset Value	4,779,360	477,936	
Improvements Since 1981	2,387,212	13,029	
Accumulated Depreciation at 9/30/02	<u>(2,367,629)</u>	<u>(97,359)</u>	
Deemed Depreciated Value	4,798,943	393,606	
Market Rate of Return	<u>.0561</u>	<u>.0561</u>	
Total Annual Return	269,221	22,081	
Return Applicable to Non-Reimbursable Cost Centers	(1,296)	(106)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>199</u>	<u>20</u>	
Allowable Annual Return	268,124	21,995	
Depreciation Expense	170,544	20,888	
Amortization Expense	-	-	
Capital Related Income Offsets	(18,937)	(1,894)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(929)</u>	<u>(111)</u>	<u>Total</u>
Allowable Cost of Capital Expense	418,802	40,878	\$459,680
Total Patient Days (Minimum 96% Occupancy)	<u>42,048</u>	<u>4,205</u>	<u>46,253</u>
Cost of Capital Per Diem	\$ <u>9.96</u>	\$ <u>9.72</u>	\$ <u>9.94</u>

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2002
AC# 3-MAN-J2

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 6.93	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$10.92</u>	<u>\$9.72</u>
Reimbursable Cost of Capital Per Diem		\$9.94
Cost of Capital Per Diem		<u>9.94</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>

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