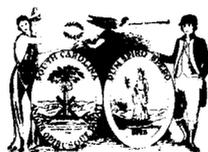


State of South Carolina



Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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February 3, 2005

Ms. Martha Hughey, Assistant Vice President of Reimbursement
National Healthcare Corporation
100 Vine Street
Murfreesboro, Tennessee 37130

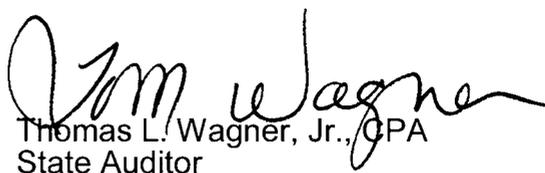
Re: AC# 3-NHS-J0 – NHC Healthcare - Sumter

Dear Ms. Hughey:

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, 1999 through September 30, 2000. That report was used to set the rate covering the contract period beginning October 1, 2001.

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/cwc

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

**NHC HEALTHCARE - SUMTER
SUMTER, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2001
AC# 3-NHS-J0**

**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

September 9, 2004

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 NHC Healthcare - Sumter, for the contract period beginning October 1, 2001, and for the twelve month cost report period ended September 30, 2000, as set forth in the accompanying schedules. The management of NHC Healthcare - Sumter 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 NHC Healthcare - Sumter, 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 NHC Healthcare - Sumter 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
September 9, 2004

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

NHC HEALTHCARE - SUMTER
Computation of Rate Change
For the Contract Period
Beginning October 1, 2001
AC# 3-NHS-J0

	<u>10/01/01-</u> <u>12/31/02</u>
Interim Reimbursement Rate (1)	\$91.69
Adjusted Reimbursement Rate	<u>89.71</u>
Decrease in Reimbursement Rate	\$ <u>1.98</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 8, 2003

NHC HEALTHCARE - SUMTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2001 Through December 31, 2002
 AC# 3-NHS-J0

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$41.94	\$58.02	
Dietary		9.13	10.74	
Laundry/Housekeeping/Maintenance		<u>7.34</u>	<u>9.23</u>	
Subtotal	\$ <u>5.46</u>	58.41	77.99	\$58.41
Administration & Medical Records	\$ <u>1.68</u>	<u>9.79</u>	<u>11.47</u>	<u>9.79</u>
Subtotal		68.20	\$ <u>89.46</u>	68.20
<u>Costs Not Subject to Standards:</u>				
Utilities		2.43		2.43
Special Services		.19		.19
Medical Supplies & Oxygen		2.51		2.51
Taxes and Insurance		3.38		3.38
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		\$ <u>76.71</u>		76.71
Inflation Factor (3.80%)				2.91
Cost of Capital				8.01
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				1.68
Cost Incentive				5.46
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.39)
Nurse Aide Staffing Add-On 10/01/00				<u>.33</u>
ADJUSTED REIMBURSEMENT RATE				\$ <u>89.71</u>

NHC HEALTHCARE - SUMTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2000
 AC# 3-NHS-J0

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,921,372	\$ -	\$ 169 (2)	\$1,921,203
Dietary	418,382	-	23 (2)	418,359
Laundry	72,993	-	-	72,993
Housekeeping	165,175	-	-	165,175
Maintenance	98,099	-	24 (2)	98,075
Administration & Medical Records	504,206	-	55,558 (2)	448,648
Utilities	111,273	-	-	111,273
Special Services	8,793	-	-	8,793
Medical Supplies & Oxygen	114,952	-	-	114,952
Taxes and Insurance	155,395	-	727 (2)	154,668
Legal Fees	-	-	-	-
Cost of Capital	398,996	36,527 (4)	43,409 (1) 2,470 (2) <u>17,615 (3)</u>	372,029
Subtotal	3,969,636	36,527	119,995	3,886,168

NHC HEALTHCARE - SUMTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2000
 AC# 3-NHS-J0

<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>	
Ancillary	10,504	-	-	10,504
Nonallowable	505,991	43,409 (1)	36,527 (4)	589,459
		58,971 (2)		
	<u> </u>	<u>17,615 (3)</u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$4,486,131</u>	<u>\$156,522</u>	<u>\$156,522</u>	<u>\$4,486,131</u>
Total Patient Days	<u>45,809</u>	<u> </u>	<u> </u>	<u>45,809</u>
			Cost Of Capital Patient Days	<u>46,443</u>
Total Beds	<u>138</u>			

NHC HEALTHCARE - SUMTER
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-NHS-J0

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$2,003,980	
	Other Equity	230,289	
	Nonallowable	43,409	
	Fixed Assets		\$2,234,269
	Cost of Capital		43,409
	To adjust fixed assets and related depreciation HIM-15-1, Section 100 State Plan, Attachment 4.19D		
2	Nonallowable	58,971	
	Administration		55,558
	Cost of Capital		2,470
	Dietary		23
	Taxes and Insurance		727
	Maintenance		24
	Restorative		169
	To adjust home office cost HIM-15-1, Section 2150		
3	Nonallowable	17,615	
	Cost of Capital		17,615
	To adjust deemed asset value State Plan, Attachment 4.19D		
4	Cost of Capital	36,527	
	Nonallowable		36,527
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$2,390,791</u>	<u>\$2,390,791</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.

NHC HEALTHCARE - SUMTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2000
 AC# 3-NHS-J0

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.3848</u>	<u>2.3848</u>	<u>2.3848</u>	
Deemed Asset Value (Per Bed)	37,246	37,246	37,246	
Number of Beds	<u>100</u>	<u>23</u>	<u>15</u>	
Deemed Asset Value	3,724,600	856,658	558,690	
Improvements	1,047,989	28,138	1,193	
Accumulated Depreciation at 9/30/00	<u>(1,329,410)</u>	<u>(166,343)</u>	<u>(11,724)</u>	
Deemed Depreciated Value	3,443,179	718,453	548,159	
Market Rate of Return	<u>.058</u>	<u>.058</u>	<u>.058</u>	
Total Annual Return	199,704	41,670	31,793	
Number of Days in Period	<u>366/366</u>	<u>366/366</u>	<u>180/366</u>	
Adjusted Annual Return	199,704	41,670	15,636	
Return Applicable to Non-Reimbursable Cost Centers	(899)	(188)	(70)	
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>533</u>	<u>94</u>	<u>-</u>	
Allowable Annual Return	199,338	41,576	15,566	
Depreciation Expense	103,223	22,373	12,098	
Amortization Expense	2,842	-	-	
Capital Related Income Offsets	(14,378)	(7,653)	(1,160)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(1,302)</u>	<u>(299)</u>	<u>(195)</u>	<u>Total</u>
Allowable Cost of Capital Expense	289,723	55,997	26,309	\$372,029
Total Patient Days (Minimum 96% Occupancy)	<u>35,519</u>	<u>8,332</u>	<u>2,592</u>	<u>46,443</u>
Cost of Capital Per Diem	<u>\$ 8.16</u>	<u>\$ 6.72</u>	<u>\$ 10.15</u>	<u>\$ 8.01</u>

NHC HEALTHCARE - SUMTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2000
 AC# 3-NHS-J0

6/30/89 Cost of Capital and Return on Equity			
Capital Per Diem Reimbursement	\$4.92	\$ N/A	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$8.91</u>	<u>\$6.72</u>	<u>\$10.15</u>
Reimbursable Cost of Capital Per Diem		\$8.01	
Cost of Capital Per Diem		<u>8.01</u>	
Cost of Capital Per Diem Limitation		<u>\$ -</u>	

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