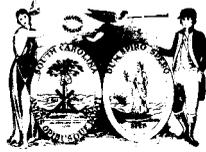


State of South Carolina



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

July 1, 2005

Mr. David Selander, CPA
Connelly Management, Inc.
410 Mill Street, Suite 201
Mount Pleasant, South Carolina 29464

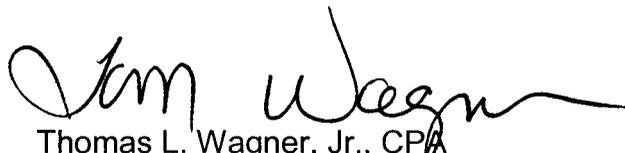
Re: AC# 3-CON-J2 – Conway Nursing Center, Inc.

Dear Mr. Selander:

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/ksg

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

CONWAY NURSING CENTER, INC.

CONWAY, SOUTH CAROLINA

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

AGREED-UPON PROCEDURES REPORT

ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

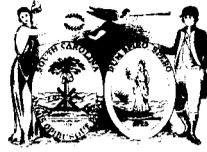
STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 28, 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 Conway Nursing Center, Inc., 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 Conway Nursing Center, Inc. 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 Conway Nursing Center, Inc., 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 Conway Nursing Center, Inc. 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
February 28, 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

CONWAY NURSING CENTER, INC.
Computation of Rate Change
For the Contract Period
Beginning October 1, 2003
AC# 3-CON-J2

10/01/03-
09/30/04

Interim Reimbursement Rate (1)	\$96.14
Adjusted Reimbursement Rate	<u>94.33</u>
Decrease in Reimbursement Rate	\$ <u><u>1.81</u></u>

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

CONWAY NURSING CENTER, INC.
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2003 Through September 30, 2004
 AC# 3-CON-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$46.78	\$ 66.44	
Dietary		9.88	11.55	
Laundry/Housekeeping/Maintenance		<u>8.78</u>	<u>9.83</u>	
Subtotal	\$ <u>6.15</u>	65.44	87.82	\$65.44
Administration & Medical Records	\$ <u>7.00</u>	<u>6.46</u>	<u>13.46</u>	<u>6.46</u>
Subtotal		71.90	<u>\$101.28</u>	71.90
<u>Costs Not Subject to Standards:</u>				
Utilities		2.08		2.08
Special Services		.07		.07
Medical Supplies & Oxygen		3.81		3.81
Taxes and Insurance		4.17		4.17
Legal Fees		<u>.03</u>		<u>.03</u>
TOTAL		<u>\$82.06</u>		82.06
Inflation Factor (4.70%)				3.86
Cost of Capital				6.66
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.87
Cost Incentive				6.15
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(7.27)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$94.33</u>

CONWAY NURSING CENTER, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2002
 AC# 3-CON-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	\$3,134,600	\$ -	\$ 4,270 (3) 11,502 (8) 4,373 (8)	\$3,114,455
Dietary	659,383	-	1,367 (8)	658,016
Laundry	66,362	43,730 (6)	346 (8)	109,746
Housekeeping	303,830	-	1,407 (8)	302,423
Maintenance	173,102	-	464 (8)	172,638
Administration & Medical Records	430,859	-	857 (8)	430,002
Utilities	138,601	-	-	138,601
Special Services	113,732	-	109,252 (3)	4,480
Medical Supplies & Oxygen	256,601	9,987 (6)	12,649 (3)	253,939
Taxes and Insurance	290,132	-	9,567 (1) 2,665 (4)	277,900
Legal Fees	1,681	-	-	1,681
Cost of Capital	454,044	-	3,725 (2) 6,463 (5) 234 (7)	443,622
	<hr/>	<hr/>	<hr/>	<hr/>
Subtotal	6,022,927	53,717	169,141	5,907,503

CONWAY NURSING CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2002
AC# 3-CON-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>	
Ancillary	112,259	-	-	112,259
Nonallowable	558,823	9,567 (1) 3,725 (2) 126,171 (3) 2,665 (4) 234 (7) <u>20,316 (8)</u>	-	721,501
Total Operating Expenses	<u>\$6,694,009</u>	<u>\$216,395</u>	<u>\$169,141</u>	<u>\$6,741,263</u>
Total Patient Days	<u>66,576</u>	<u>-</u>	<u>-</u>	<u>66,576</u>
Total Beds	<u>190</u>			

CONWAY NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-CON-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable Taxes and Insurance	\$ 9,567	\$ 9,567
	To adjust mortgage insurance expense HIM-15-1, Sections 202.2 and 2304 State Plan, Attachment 4.19D		
2	Nonallowable Cost of Capital	3,725	3,725
	To adjust loan cost amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Nonallowable Nursing Special Services Medical Supplies	126,171	4,270 109,252 12,649
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
4	Nonallowable Taxes and Insurance	2,665	2,665
	To adjust insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Fixed Assets Other Equity Accumulated Depreciation Cost of Capital	291,265 187,205	472,007 6,463
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Laundry Medical Supplies Other Equity	43,730 9,987	53,717
	To correct cost report income offset adjustment State Plan, Attachment 4.19D		

CONWAY NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-CON-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable Cost of Capital	234	234
	To adjust capital return State Plan, Attachment 4.19D		
8	Nonallowable	20,316	
	Nursing		11,502
	Restorative		4,373
	Dietary		1,367
	Laundry		346
	Housekeeping		1,407
	Maintenance		464
	Administration		857
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$694,865	\$694,865

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.

CONWAY NURSING CENTER, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2002
 AC# 3-CON-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>130</u>	<u>60</u>	
Deemed Asset Value	5,177,640	2,389,680	
Improvements Since 1981	1,048,075	-	
Accumulated Depreciation at 9/30/02	<u>(1,876,316)</u>	<u>(994,790)</u>	
Deemed Depreciated Value	4,349,399	1,394,890	
Market Rate of Return	<u>.0561</u>	<u>.0561</u>	
Total Annual Return	244,001	78,253	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	244,001	78,253	
Depreciation Expense	64,844	58,538	
Amortization Expense	1,511	698	
Capital Related Income Offsets	(2,889)	(1,334)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	307,467	136,155	\$443,622
Total Patient Days (Minimum 96% Occupancy)	<u>45,552</u>	<u>21,024</u>	<u>66,576</u>
Cost of Capital Per Diem	\$ <u>6.75</u>	\$ <u>6.48</u>	\$ <u>6.66</u>

CONWAY NURSING CENTER, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2002
 AC# 3-CON-J2

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.78 *	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$7.77</u>	<u>\$6.48</u>
Reimbursable Cost of Capital Per Diem	\$6.66	
Cost of Capital Per Diem	<u>6.66</u>	
Cost of Capital Per Diem Limitation	<u>\$ -</u>	

* - Cost of Capital and ROE Capital per diem as recalculated by DH&HS as a result of settlement agreement and communicated to the provider by letter dated January 6, 1995.

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