

State of South Carolina



Office of the State Auditor

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

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
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July 28, 2009

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

Re: AC# 3-LEX-J5 – NHC Healthcare - Lexington

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, 2004 through September 30, 2005. That report was used to set the rate covering the contract period beginning October 1, 2006.

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.

Yours very truly,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

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

**NHC HEALTHCARE - LEXINGTON
WEST COLUMBIA, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2006
AC# 3-LEX-J5**

**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

August 19, 2008

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 - Lexington, for the contract period beginning October 1, 2006, and for the twelve month cost report period ended September 30, 2005, as set forth in the accompanying schedules. The management of NHC Healthcare - Lexington 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 - Lexington, 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 Summary of Costs and Total Patient Days, Adjustment Report, 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 - Lexington dated as of October 1, 2006, 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
August 19, 2008

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.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

NHC HEALTHCARE - LEXINGTON
Computation of Rate Change
For the Contract Period
Beginning October 1, 2006
AC# 3-LEX-J5

	10/01/06- <u>09/30/07</u>
Interim Reimbursement Rate (1)	\$151.88
Adjusted Reimbursement Rate	<u>150.87</u>
Decrease in Reimbursement Rate	\$ <u><u>1.01</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 17, 2007.

NHC HEALTHCARE - LEXINGTON
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2006 Through September 30, 2007
 AC# 3-LEX-J5

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 82.03	\$ 74.20	
Dietary		15.35	13.46	
Laundry/Housekeeping/Maintenance		<u>13.29</u>	<u>12.03</u>	
Subtotal	\$ <u>-</u>	110.67	99.69	\$ 99.69
Administration & Medical Records	\$ <u>-</u>	<u>27.22</u>	<u>16.87</u>	<u>16.87</u>
Subtotal		137.89	<u>\$116.56</u>	116.56
<u>Costs Not Subject to Standards:</u>				
Utilities		4.64		4.64
Special Services		-		-
Medical Supplies & Oxygen		6.54		6.54
Taxes and Insurance		8.41		8.41
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$157.48</u>		136.15
Inflation Factor (4.60%)				6.26
Cost of Capital				8.46
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>-</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$150.87</u>

NHC HEALTHCARE - LEXINGTON
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2005
 AC# 3-LEX-J5

<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	\$3,452,988	\$ -	\$ -	\$3,452,988
Dietary	645,962	-	-	645,962
Laundry	132,051	-	-	132,051
Housekeeping	243,463	-	-	243,463
Maintenance	43,050	140,829 (3)	-	183,879
Administration & Medical Records	1,286,418	-	140,829 (3)	1,145,589
Utilities	198,889	-	3,701 (4)	195,188
Special Services	82	-	-	82
Medical Supplies & Oxygen	275,188	-	-	275,188
Taxes and Insurance	361,512	-	7,690 (2)	353,822
Legal Fees	-	-	-	-
Cost of Capital	387,355	9,654 (1)	45,300 (6)	355,917
	<u> </u>	<u>4,208 (5)</u>	<u> </u>	<u> </u>
Subtotal	7,026,958	154,691	197,520	6,984,129

NHC HEALTHCARE - LEXINGTON
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2005
AC# 3-LEX-J5

<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	-	-	-	-
Nonallowable	1,175,340	7,690 (2) 3,701 (4) 45,300 (6)	9,654 (1) 4,208 (5)	1,218,169
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$8,202,298</u>	<u>\$211,382</u>	<u>\$211,382</u>	<u>\$8,202,298</u>
Total Patient Days	<u>42,094</u>	<u>-</u>	<u>-</u>	<u>42,094</u>
Total Beds	<u>120</u>			

NHC HEALTHCARE – LEXINGTON
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-LEX-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Cost of Capital	\$ 9,654	
	Other Equity	771,567	
	Fixed Assets		\$643,201
	Accumulated Depreciation		128,366
	Nonallowable		9,654
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2400		
	State Plan, Attachment 4.19D		
2	Nonallowable	7,690	
	Taxes and Insurance		7,690
	To adjust property tax expense		
	HIM-15-1, Section 2304		
3	Maintenance - Home Office Allocation	140,829	
	Administration - Home Office Allocation		140,829
	To revise D.A. Adjustment #28		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
4	Nonallowable - Beauty/Barber	3,701	
	Utilities		3,701
	To offset to proper account		
	HIM-15-1, Section 2102.3		
	State Plan, Attachment 4.19D		
5	Cost of Capital - Depreciation	4,208	
	Nonallowable		4,208
	To adjust deemed asset value limitation		
	State Plan, Attachment 4.19D		

NHC HEALTHCARE - LEXINGTON
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-LEX-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Cost of Capital	45,300	45,300
	To adjust capital return State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	\$ <u>982,949</u>	\$ <u>982,949</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 - LEXINGTON
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2005
 AC# 3-LEX-J5

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.77878</u>	<u>2.77878</u>	
Deemed Asset Value (Per Bed)	43,399	43,399	
Number of Beds	<u>88</u>	<u>32</u>	
Deemed Asset Value	3,819,112	1,388,768	
Improvements Since 1981	369,563	123,410	
Accumulated Depreciation at 9/30/05	<u>(1,325,896)</u>	<u>(475,125)</u>	
Deemed Depreciated Value	2,862,779	1,037,053	
Market Rate of Return	<u>.049</u>	<u>.049</u>	
Total Annual Return	140,276	50,816	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	140,276	50,816	
Depreciation Expense	116,325	57,887	
Amortization Expense	-	-	
Capital Related Income Offsets	(6,884)	(2,503)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	249,717	106,200	\$355,917
Total Patient Days (Actual)	<u>30,881</u>	<u>11,213</u>	<u>42,094</u>
Cost of Capital Per Diem	\$ <u>8.09</u>	\$ <u>9.47</u>	\$ <u>8.46</u>

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