

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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June 14, 2011

Mr. John Twitty, Controller
HMR Advantage Health Systems, Inc.
101 Grace Drive
Easley, South Carolina 29640

Re: AC# 3-STD-L6 – Falls Creek Living Center, LLC

Dear Mr. Twitty:

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 June 1, 2006 through November 30, 2006. That report was used to set the rate covering the contract periods beginning June 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.

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

**FALLS CREEK LIVING CENTER, LLC
MARIETTA, SOUTH CAROLINA**

**CONTRACT PERIODS
BEGINNING JUNE 1, 2006
AC# 3-STD-L6**

**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 2, 2010

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 Falls Creek Living Center, LLC, for the contract periods beginning June 1, 2006, and for the six month cost report period ended November 30, 2006, as set forth in the accompanying schedules. The management of Falls Creek Living Center, LLC 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 Falls Creek Living Center, LLC, 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 Summaries of Costs and Total Patient Days, Adjustment Report, and Cost of Capital Reimbursement Analyses 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 contracts between the South Carolina Department of Health and Human Services and Falls Creek Living Center, LLC dated as of October 1, 2001 and April 1, 2007, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
September 2, 2010

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

FALLS CREEK LIVING CENTER, LLC
 Computation of Rate Change
 For the Contract Periods
 Beginning June 1, 2006
 AC# 3-STD-L6

	06/01/06- <u>09/30/06</u>	10/01/06- <u>11/30/06</u>	12/01/06- <u>09/30/07</u>	10/01/07- <u>09/30/08</u>
Interim Reimbursement Rate (1)	\$145.41	\$151.96	\$158.70	\$164.21
Adjusted Reimbursement Rate	<u>143.45</u>	<u>148.37</u>	<u>154.87</u>	<u>155.98</u>
Decrease in Reimbursement Rate	\$ <u>1.96</u>	\$ <u>3.59</u>	\$ <u>3.83</u>	\$ <u>8.23</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated June 8, 2009.

FALLS CREEK LIVING CENTER, LLC
 Computation of Adjusted Reimbursement Rate
 For the Contract Period June 1, 2006 Through September 30, 2006
 AC# 3-STD-L6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 75.02	\$ 83.17	
Dietary		19.31	14.25	
Laundry/Housekeeping/Maintenance		<u>17.62</u>	<u>11.97</u>	
Subtotal	\$ <u>-</u>	111.95	109.39	\$109.39
Administration & Medical Records	\$ <u>-</u>	<u>18.80</u>	<u>18.19</u>	<u>18.19</u>
Subtotal		130.75	<u>\$127.58</u>	127.58
<u>Costs Not Subject to Standards:</u>				
Utilities		3.27		3.27
Special Services		-		-
Medical Supplies & Oxygen		4.37		4.37
Taxes and Insurance		2.71		2.71
Legal Fees		<u>.19</u>		<u>.19</u>
TOTAL		<u>\$141.29</u>		138.12
Inflation Factor (N/A)				-
Cost of Capital				6.69
Cost of Capital Limitation				(1.36)
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>\$143.45</u>

FALLS CREEK LIVING CENTER, LLC
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2006 Through November 30, 2006
 AC# 3-STD-L6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 75.02	\$ 85.39	
Dietary		19.31	15.72	
Laundry/Housekeeping/Maintenance		<u>17.62</u>	<u>13.37</u>	
Subtotal	\$ <u>2.53</u>	111.95	114.48	\$111.95
Administration & Medical Records	\$ <u>.85</u>	<u>18.80</u>	<u>19.65</u>	<u>18.80</u>
Subtotal		130.75	<u>\$134.13</u>	130.75
<u>Costs Not Subject to Standards:</u>				
Utilities		3.27		3.27
Special Services		-		-
Medical Supplies & Oxygen		4.37		4.37
Taxes and Insurance		2.71		2.71
Legal Fees		<u>.19</u>		<u>.19</u>
TOTAL		<u>\$141.29</u>		141.29
Inflation Factor (N/A)				-
Cost of Capital				6.57
Cost of Capital Limitation				(1.24)
Profit Incentive (Maximum 3.5% of Allowable Cost)				.85
Cost Incentive				2.53
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(1.63)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$148.37</u>

FALLS CREEK LIVING CENTER, LLC
 Computation of Adjusted Reimbursement Rate
 For the Contract Period December 1, 2006 Through September 30, 2007
 AC# 3-STD-L6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 75.02	\$ 85.39	
Dietary		19.31	15.72	
Laundry/Housekeeping/Maintenance		<u>17.62</u>	<u>13.37</u>	
Subtotal	\$ <u>2.53</u>	111.95	114.48	\$111.95
Administration & Medical Records	\$ <u>.85</u>	<u>18.80</u>	<u>19.65</u>	<u>18.80</u>
Subtotal		130.75	<u>\$134.13</u>	130.75
<u>Costs Not Subject to Standards:</u>				
Utilities		3.27		3.27
Special Services		-		-
Medical Supplies & Oxygen		4.37		4.37
Taxes and Insurance		2.71		2.71
Legal Fees		<u>.19</u>		<u>.19</u>
TOTAL		<u>\$141.29</u>		141.29
Inflation Factor (4.60%)				6.50
Cost of Capital				6.57
Cost of Capital Limitation				(1.24)
Profit Incentive (Maximum 3.5% of Allowable Cost)				.85
Cost Incentive				2.53
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(1.63)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$154.87</u>

FALLS CREEK LIVING CENTER, LLC
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2007 Through September 30, 2008
 AC# 3-STD-L6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 75.02	\$ 91.13	
Dietary		19.31	16.36	
Laundry/Housekeeping/Maintenance		<u>17.62</u>	<u>13.89</u>	
Subtotal	<u>\$8.50</u>	111.95	121.38	\$111.95
Administration & Medical Records	<u>\$2.61</u>	<u>18.80</u>	<u>21.41</u>	<u>18.80</u>
Subtotal		130.75	<u>\$142.79</u>	130.75
<u>Costs Not Subject to Standards:</u>				
Utilities		3.27		3.27
Special Services		-		-
Medical Supplies & Oxygen		4.37		4.37
Taxes and Insurance		2.71		2.71
Legal Fees		<u>.19</u>		<u>.19</u>
TOTAL		<u>\$141.29</u>		141.29
Inflation Factor (4.60%)				6.50
Cost of Capital				6.72
Cost of Capital Limitation				(1.39)
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.61
Cost Incentive				8.50
Effect of \$1.75 Cap on Cost/Profit Incentives				(9.36)
Transportation Escort Add-On				<u>1.11</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$155.98</u>

FALLS CREEK LIVING CENTER, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended November 30, 2006
 For the Contract Period June 1, 2006 Through September 30, 2006
 AC# 3-STD-L6

<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	\$588,878	\$ -	\$ 7,958 (8) 806 (8) 242 (10)	\$579,872
Dietary	152,244	-	3,011 (3) 4 (10)	149,229
Laundry	42,697	-	1 (10)	42,696
Housekeeping	42,640	-	5 (10)	42,635
Maintenance	68,987	-	3,027 (4) 630 (8) 14,447 (9) 37 (10)	50,846
Administration & Medical Records	160,909	1 (10)	9,028 (5) 1,299 (8) 186 (8) 2,824 (9) 2,283 (10)	145,290
Utilities	25,959	-	697 (2) 7 (10)	25,255
Special Services	-	-	-	-
Medical Supplies & Oxygen	39,406	-	5,563 (7) 34 (8)	33,809
Taxes and Insurance	29,737	-	3,105 (6) 5,662 (9) 8 (10)	20,962

FALLS CREEK LIVING CENTER, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended November 30, 2006
 For the Contract Period June 1, 2006 Through September 30, 2006
 AC# 3-STD-L6

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Legal Fees	1,497	-	34 (9) 17 (10)	1,446
Cost of Capital	41,201	697 (2) 217 (10) <u>13,550 (11)</u>	3,876 (1) 49 (9)	51,740
Subtotal	1,194,155	14,465	64,840	1,143,780
Ancillary	21,759	-	-	21,759
Nonallowable	45,443	3,876 (1) 3,011 (3) 3,105 (6) 5,563 (7) 10,913 (8) 23,016 (9) 2,386 (10)	13,550 (11)	83,763
CNA Training and Testing	<u>1,369</u>	<u>-</u>	<u>-</u>	<u>1,369</u>
Total Operating Expenses	<u>\$1,262,726</u>	<u>\$66,335</u>	<u>\$78,390</u>	<u>\$1,250,671</u>
Total Patient Days	<u>7,730</u>	<u>-</u>	<u>-</u>	<u>7,730</u>
Total Beds	<u>44</u>			

FALLS CREEK LIVING CENTER, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended November 30, 2006
 For the Contract Periods October 1, 2006 Through September 30, 2007
 AC# 3-STD-L6

<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	\$588,878	\$ -	\$ 7,958 (8) 806 (8) 242 (10)	\$579,872
Dietary	152,244	-	3,011 (3) 4 (10)	149,229
Laundry	42,697	-	1 (10)	42,696
Housekeeping	42,640	-	5 (10)	42,635
Maintenance	68,987	-	3,027 (4) 630 (8) 14,447 (9) 37 (10)	50,846
Administration & Medical Records	160,909	1 (10)	9,028 (5) 1,299 (8) 186 (8) 2,824 (9) 2,283 (10)	145,290
Utilities	25,959	-	697 (2) 7 (10)	25,255
Special Services	-	-	-	-
Medical Supplies & Oxygen	39,406	-	5,563 (7) 34 (8)	33,809
Taxes and Insurance	29,737	-	3,105 (6) 5,662 (9) 8 (10)	20,962

FALLS CREEK LIVING CENTER, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended November 30, 2006
 For the Contract Periods October 1, 2006 Through September 30, 2007
 AC# 3-STD-L6

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Legal Fees	1,497	-	34 (9) 17 (10)	1,446
Cost of Capital	41,201	697 (2) 217 (10) <u>12,588 (12)</u>	3,876 (1) 49 (9)	50,778
Subtotal	1,194,155	13,503	64,840	1,142,818
Ancillary	21,759	-	-	21,759
Nonallowable	45,443	3,876 (1) 3,011 (3) 3,105 (6) 5,563 (7) 10,913 (8) 23,016 (9) 2,386 (10)	12,588 (12)	84,725
CNA Training and Testing	<u>1,369</u>	<u>-</u>	<u>-</u>	<u>1,369</u>
Total Operating Expenses	<u>\$1,262,726</u>	<u>\$65,373</u>	<u>\$77,428</u>	<u>\$1,250,671</u>
Total Patient Days	<u>7,730</u>	<u>-</u>	<u>-</u>	<u>7,730</u>
Total Beds	<u>44</u>			

FALLS CREEK LIVING CENTER, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended November 30, 2006
 For the Contract Period October 1, 2007 Through September 30, 2008
 AC# 3-STD-L6

<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	\$588,878	\$ -	\$ 7,958 (8) 806 (8) 242 (10)	\$579,872
Dietary	152,244	-	3,011 (3) 4 (10)	149,229
Laundry	42,697	-	1 (10)	42,696
Housekeeping	42,640	-	5 (10)	42,635
Maintenance	68,987	-	3,027 (4) 630 (8) 14,447 (9) 37 (10)	50,846
Administration & Medical Records	160,909	1 (10)	9,028 (5) 1,299 (8) 186 (8) 2,824 (9) 2,283 (10)	145,290
Utilities	25,959	-	697 (2) 7 (10)	25,255
Special Services	-	-	-	-
Medical Supplies & Oxygen	39,406	-	5,563 (7) 34 (8)	33,809
Taxes and Insurance	29,737	-	3,105 (6) 5,662 (9) 8 (10)	20,962

FALLS CREEK LIVING CENTER, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended November 30, 2006
 For the Contract Period October 1, 2007 Through September 30, 2008
 AC# 3-STD-L6

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Legal Fees	1,497	-	34 (9) 17 (10)	1,446
Cost of Capital	41,201	697 (2) 217 (10) <u>13,766 (13)</u>	3,876 (1) 49 (9)	51,956
Subtotal	1,194,155	14,681	64,840	1,143,996
Ancillary	21,759	-	-	21,759
Nonallowable	45,443	3,876 (1) 3,011 (3) 3,105 (6) 5,563 (7) 10,913 (8) 23,016 (9) 2,386 (10)	13,766 (13)	83,547
CNA Training and Testing	<u>1,369</u>	<u>-</u>	<u>-</u>	<u>1,369</u>
Total Operating Expenses	<u>\$1,262,726</u>	<u>\$66,551</u>	<u>\$78,606</u>	<u>\$1,250,671</u>
Total Patient Days	<u>7,730</u>	<u>-</u>	<u>-</u>	<u>7,730</u>
Total Beds	<u>44</u>			

FALLS CREEK LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended November 30, 2006
AC# 3-STD-L6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$173,764	
	Other Equity	33,233	
	Nonallowable	3,876	
	Fixed Assets		\$206,997
	Cost of Capital		3,876
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Fixed Assets	50,548	
	Cost of Capital	697	
	Accumulated Depreciation		43,512
	Other Equity		7,036
	Utilities		697
	To record assets related to patient care and remove utility cost applicable to a non-reimbursable cost center HIM-15-1, Sections 2102.3 and 2304		
3	Nonallowable	3,011	
	Dietary		3,011
	To adjust dietary purchased service expense HIM-15-1, Section 2304		
4	Prepaid Expense	3,027	
	Maintenance		3,027
	To remove expense applicable to the subsequent period HIM-15-1, Section 2302.1		
5	Accrued Expense	9,028	
	Administration		9,028
	To adjust accounting fees HIM-15-1, Section 2304		
6	Nonallowable	3,105	
	Taxes and Insurance		3,105
	To adjust liability insurance expense HIM-15-1, Section 2162.2 State Plan, Attachment 4.19D		

FALLS CREEK LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended November 30, 2006
AC# 3-STD-L6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable Medical Supplies	5,563	5,563
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
8	Nonallowable Nursing Restorative Maintenance Administration Medical Records Medical Supplies	10,913	7,958 806 630 1,299 186 34
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
9	Nonallowable Maintenance Administration Legal Taxes and Insurance Cost of Capital	23,016	14,447 2,824 34 5,662 49
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
10	Medical Records Cost of Capital Nonallowable Nursing Dietary Laundry Housekeeping Maintenance Administration Legal Utilities Taxes and Insurance	1 217 2,386	242 4 1 5 37 2,283 17 7 8
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

FALLS CREEK LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended November 30, 2006
AC# 3-STD-L6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Cost of Capital Nonallowable To adjust capital return State Plan, Attachment 4.19D (This adjustment applies only to the contract period 6/01/06 - 9/30/06)	13,550	13,550
12	Cost of Capital Nonallowable To adjust capital return State Plan, Attachment 4.19D (This adjustment applies only to the contract periods 10/01/06 - 9/30/07)	12,588	12,588
13	Cost of Capital Nonallowable To adjust capital return State Plan, Attachment 4.19D (This adjustment applies only to the contract period 10/01/07 - 9/30/08)	13,766	13,766
TOTAL ADJUSTMENTS		\$362,289	\$362,289

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.

FALLS CREEK LIVING CENTER, LLC
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended November 30, 2006
For the Contract Period June 1, 2006 Through September 30, 2006
AC# 3-STD-L6

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.71494</u>
Deemed Asset Value (Per Bed)	42,402
Number of Beds	<u>44</u>
Deemed Asset Value	1,865,688
Improvements Since 1981	493,256
Accumulated Depreciation at 11/30/06	<u>(791,038)</u>
Deemed Depreciated Value	1,567,906
Market Rate of Return	<u>.0516</u>
Total Annual Return	80,904
Number of Days in Period	<u>183/365</u>
Adjusted Annual Return	40,563
Return Applicable to Non-Reimbursable Cost Centers	(174)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	40,389
Depreciation Expense	11,400
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(49)</u>
Allowable Cost of Capital Expense	51,740
Total Patient Days (Minimum 96% Occupancy)	<u>7,730</u>
Cost of Capital Per Diem	<u>\$ 6.69</u>

FALLS CREEK LIVING CENTER, LLC
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended November 30, 2006
For the Contract Period June 1, 2006 Through September 30, 2006
AC# 3-STD-L6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 1.34
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$ 5.33</u>
Reimbursable Cost of Capital Per Diem	\$ 5.33
Cost of Capital Per Diem	<u>6.69</u>
Cost of Capital Per Diem Limitation	<u>\$(1.36)</u>

FALLS CREEK LIVING CENTER, LLC
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended November 30, 2006
 For the Contract Periods October 1, 2006 Through September 30, 2007
 AC# 3-STD-L6

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.77878</u>
Deemed Asset Value (Per Bed)	43,399
Number of Beds	<u>44</u>
Deemed Asset Value	1,909,556
Improvements Since 1981	493,256
Accumulated Depreciation at 11/30/06	<u>(791,038)</u>
Deemed Depreciated Value	1,611,774
Market Rate of Return	<u>.0490</u>
Total Annual Return	78,977
Number of Days in Period	<u>183/365</u>
Adjusted Annual Return	39,597
Return Applicable to Non-Reimbursable Cost Centers	(170)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	39,427
Depreciation Expense	11,400
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(49)</u>
Allowable Cost of Capital Expense	50,778
Total Patient Days (Minimum 96% Occupancy)	<u>7,730</u>
Cost of Capital Per Diem	<u>\$ 6.57</u>

FALLS CREEK LIVING CENTER, LLC
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended November 30, 2006
For the Contract Periods October 1, 2006 Through September 30, 2007
AC# 3-STD-L6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 1.34
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$ 5.33</u>
Reimbursable Cost of Capital Per Diem	\$ 5.33
Cost of Capital Per Diem	<u>6.57</u>
Cost of Capital Per Diem Limitation	<u>\$(1.24)</u>

FALLS CREEK LIVING CENTER, LLC
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended November 30, 2006
For the Contract Period October 1, 2007 Through September 30, 2008
AC# 3-STD-L6

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.85382</u>
Deemed Asset Value (Per Bed)	44,571
Number of Beds	<u>44</u>
Deemed Asset Value	1,961,124
Improvements Since 1981	493,256
Accumulated Depreciation at 11/30/06	<u>(791,038)</u>
Deemed Depreciated Value	1,663,342
Market Rate of Return	<u>.0489</u>
Total Annual Return	81,337
Number of Days in Period	<u>183/365</u>
Adjusted Annual Return	40,780
Return Applicable to Non-Reimbursable Cost Centers	(175)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	40,605
Depreciation Expense	11,400
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(49)</u>
Allowable Cost of Capital Expense	51,956
Total Patient Days (Minimum 96% Occupancy)	<u>7,730</u>
Cost of Capital Per Diem	<u>\$ 6.72</u>

FALLS CREEK LIVING CENTER, LLC
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended November 30, 2006
For the Contract Period October 1, 2007 Through September 30, 2008
AC# 3-STD-L6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 1.34
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$ 5.33</u>
Reimbursable Cost of Capital Per Diem	\$ 5.33
Cost of Capital Per Diem	<u>6.72</u>
Cost of Capital Per Diem Limitation	<u>\$(1.39)</u>

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