

*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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September 28, 2011

Mr. Fred Fauth, Controller  
Millennium Management, LLC  
10800 Biscayne Boulevard, Suite 600  
Miami, Florida 33161

Re: AC# 3-LCS-C7 – Palmetto Lake City Operating, LLC d/b/a  
Lake City Scranton Healthcare Center

Dear Mr. Fauth:

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 September 29, 2006 through March 31, 2007. That report was used to set the rate covering the contract periods beginning September 29, 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  
Mr. Terry K. Schmoyer, Jr.

**PALMETTO LAKE CITY OPERATING, LLC D/B/A  
LAKE CITY SCRANTON HEALTHCARE CENTER**

**SCRANTON, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING SEPTEMBER 29, 2006  
AC# 3-LCS-C7**

**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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# State of South Carolina



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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 22, 2011

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 Palmetto Lake City Operating, LLC d/b/a Lake City Scranton Healthcare Center, for the contract periods beginning September 29, 2006, and for the six month cost report period ended March 31, 2007, as set forth in the accompanying schedules. The management of Palmetto Lake City Operating, LLC d/b/a Lake City Scranton Healthcare 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 Palmetto Lake City Operating, LLC d/b/a Lake City Scranton Healthcare 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 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 Palmetto Lake City Operating, LLC d/b/a Lake City Scranton Healthcare Center 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  
February 22, 2011

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

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
 Computation of Rate Change  
 For the Contract Periods  
 Beginning September 29, 2006  
 AC# 3-LCS-C7

	<u>09/29/06-</u> <u>09/30/06</u>	<u>10/01/06-</u> <u>03/31/07</u>	<u>04/01/07-</u> <u>09/30/07</u>	<u>10/01/07-</u> <u>09/30/08</u>
Interim Reimbursement Rate (1)	\$146.73	\$146.73	\$153.10	\$154.70
Adjusted Reimbursement Rate	<u>126.69</u>	<u>126.58</u>	<u>132.02</u>	<u>133.63</u>
Decrease in Reimbursement Rate	\$ <u>20.04</u>	\$ <u>20.15</u>	\$ <u>21.08</u>	\$ <u>21.07</u>

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

**LAKE CITY SCRANTON HEALTHCARE CENTER**

Computation of Adjusted Reimbursement Rate

For the Contract Period September 29, 2006 Through September 30, 2006  
AC# 3-LCS-C7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 69.70	\$ 74.64	
Dietary		13.28	13.22	
Laundry/Housekeeping/Maintenance		<u>11.42</u>	<u>11.64</u>	
Subtotal	\$ <u>5.10</u>	94.40	99.50	\$ 94.40
Administration & Medical Records	\$ <u>-</u>	<u>18.46</u>	<u>16.31</u>	<u>16.31</u>
Subtotal		112.86	<u>\$115.81</u>	110.71
<u>Costs Not Subject to Standards:</u>				
Utilities		3.70		3.70
Special Services		-		-
Medical Supplies & Oxygen		2.07		2.07
Taxes and Insurance		1.68		1.68
Legal Fees		<u>.20</u>		<u>.20</u>
<b>TOTAL</b>		<u>\$120.51</u>		118.36
Inflation Factor (N/A)				-
Cost of Capital				6.58
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				5.10
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(3.35)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$126.69</u>

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2006 Through March 31, 2007  
 AC# 3-LCS-C7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 69.70	\$ 79.89	
Dietary		13.28	13.72	
Laundry/Housekeeping/Maintenance		<u>11.42</u>	<u>12.61</u>	
Subtotal	<u>\$7.44</u>	94.40	106.22	\$ 94.40
Administration & Medical Records	<u>\$ -</u>	<u>18.46</u>	<u>16.31</u>	<u>16.31</u>
Subtotal		112.86	<u>\$122.53</u>	110.71
<u>Costs Not Subject to Standards:</u>				
Utilities		3.70		3.70
Special Services		-		-
Medical Supplies & Oxygen		2.07		2.07
Taxes and Insurance		1.68		1.68
Legal Fees		<u>.20</u>		<u>.20</u>
<b>TOTAL</b>		<u>\$120.51</u>		118.36
Inflation Factor (N/A)				-
Cost of Capital				6.47
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				7.44
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(5.69)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$126.58</u>

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period April 1, 2007 Through September 30, 2007  
 AC# 3-LCS-C7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 69.70	\$ 79.89	
Dietary		13.28	13.72	
Laundry/Housekeeping/Maintenance		<u>11.42</u>	<u>12.61</u>	
Subtotal	<u>\$7.44</u>	94.40	106.22	\$ 94.40
Administration & Medical Records	<u>\$ -</u>	<u>18.46</u>	<u>16.31</u>	<u>16.31</u>
Subtotal		112.86	<u>\$122.53</u>	110.71
<u>Costs Not Subject to Standards:</u>				
Utilities		3.70		3.70
Special Services		-		-
Medical Supplies & Oxygen		2.07		2.07
Taxes and Insurance		1.68		1.68
Legal Fees		<u>.20</u>		<u>.20</u>
<b>TOTAL</b>		<u>\$120.51</u>		118.36
Inflation Factor (4.60%)				5.44
Cost of Capital				6.47
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				7.44
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(5.69)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$132.02</u>

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2007 Through September 30, 2008  
 AC# 3-LCS-C7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 69.70	\$ 83.18	
Dietary		13.28	13.90	
Laundry/Housekeeping/Maintenance		<u>11.42</u>	<u>13.36</u>	
Subtotal	\$ <u>7.73</u>	94.40	110.44	\$ 94.40
Administration & Medical Records	\$ <u>-</u>	<u>18.46</u>	<u>17.07</u>	<u>17.07</u>
Subtotal		112.86	<u>\$127.51</u>	111.47
<u>Costs Not Subject to Standards:</u>				
Utilities		3.70		3.70
Special Services		-		-
Medical Supplies & Oxygen		2.07		2.07
Taxes and Insurance		1.68		1.68
Legal Fees		<u>.20</u>		<u>.20</u>
<b>TOTAL</b>		<u>\$120.51</u>		119.12
Inflation Factor (4.60%)				5.48
Cost of Capital				6.63
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				7.73
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.98)
Transportation Escort Add-On				<u>.65</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$133.63</u>

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended March 31, 2007  
 For the Contract Period September 29, 2006 Through September 30, 2006  
 AC# 3-LCS-C7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,201,151	\$ -	\$105,416 (3) 5,859 (5) 388 (5) 981 (7) 15 (7) 5,080 (8)	\$1,083,412
Dietary	207,077	-	643 (5)	206,434
Laundry	42,897	-	214 (5)	42,683
Housekeeping	59,977	-	319 (5)	59,658
Maintenance	75,373	-	215 (5)	75,158
Administration & Medical Records	346,696	-	11,787 (2) 1,176 (5) 76 (5) 41,768 (6) 2,115 (7) 2,905 (8)	286,869
Utilities	57,528	-	-	57,528
Special Services	11	7,985 (8)	1,569 (5) 6,427 (9)	-
Medical Supplies & Oxygen	92,344	-	12,600 (3) 55 (5) 47,513 (9)	32,176
Taxes and Insurance	159,925	-	133,863 (4)	26,062

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended March 31, 2007  
For the Contract Period September 29, 2006 Through September 30, 2006  
AC# 3-LCS-C7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Legal Fees	3,170	-	1 (7)	3,169
Cost of Capital	<u>100,715</u>	<u>2,015</u> (10)	<u>441</u> (1)	<u>102,289</u>
Subtotal	2,346,864	10,000	381,426	1,975,438
Ancillary	92,424	-	-	92,424
Nonallowable	362,565	441 (1) 11,787 (2) 133,863 (4) 10,514 (5) 41,768 (6) 3,112 (7) 53,940 (9)	2,015 (10)	615,975
CNA Training and Testing	<u>1,125</u>	<u>-</u>	<u>-</u>	<u>1,125</u>
Total Operating Expenses	<u>\$2,802,978</u>	<u>\$265,425</u>	<u>\$383,441</u>	<u>\$2,684,962</u>
Total Patient Days	<u>15,544</u>	<u>-</u>	<u>-</u>	<u>15,544</u>
Total Beds	<u>88</u>			

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended March 31, 2007  
 For the Contract Periods October 1, 2006 Through September 30, 2007  
 AC# 3-LCS-C7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,201,151	\$ -	\$105,416 (3) 5,859 (5) 388 (5) 981 (7) 15 (7) 5,080 (8)	\$1,083,412
Dietary	207,077	-	643 (5)	206,434
Laundry	42,897	-	214 (5)	42,683
Housekeeping	59,977	-	319 (5)	59,658
Maintenance	75,373	-	215 (5)	75,158
Administration & Medical Records	346,696	-	11,787 (2) 1,176 (5) 76 (5) 41,768 (6) 2,115 (7) 2,905 (8)	286,869
Utilities	57,528	-	-	57,528
Special Services	11	7,985 (8)	1,569 (5) 6,427 (9)	-
Medical Supplies & Oxygen	92,344	-	12,600 (3) 55 (5) 47,513 (9)	32,176
Taxes and Insurance	159,925	-	133,863 (4)	26,062

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended March 31, 2007  
For the Contract Periods October 1, 2006 Through September 30, 2007  
AC# 3-LCS-C7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Legal Fees	3,170	-	1 (7)	3,169
Cost of Capital	<u>100,715</u>	<u>344</u> (11)	<u>441</u> (1)	<u>100,618</u>
Subtotal	2,346,864	8,329	381,426	1,973,767
Ancillary	92,424	-	-	92,424
Nonallowable	362,565	441 (1) 11,787 (2) 133,863 (4) 10,514 (5) 41,768 (6) 3,112 (7) 53,940 (9)	344 (11)	617,646
CNA Training and Testing	<u>1,125</u>	<u>-</u>	<u>-</u>	<u>1,125</u>
Total Operating Expenses	<u>\$2,802,978</u>	<u>\$263,754</u>	<u>\$381,770</u>	<u>\$2,684,962</u>
Total Patient Days	<u>15,544</u>	<u>-</u>	<u>-</u>	<u>15,544</u>
Total Beds	<u>88</u>			

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended March 31, 2007  
 For the Contract Period October 1, 2007 Through September 30, 2008  
 AC# 3-LCS-C7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,201,151	\$ -	\$105,416 (3) 5,859 (5) 388 (5) 981 (7) 15 (7) 5,080 (8)	\$1,083,412
Dietary	207,077	-	643 (5)	206,434
Laundry	42,897	-	214 (5)	42,683
Housekeeping	59,977	-	319 (5)	59,658
Maintenance	75,373	-	215 (5)	75,158
Administration & Medical Records	346,696	-	11,787 (2) 1,176 (5) 76 (5) 41,768 (6) 2,115 (7) 2,905 (8)	286,869
Utilities	57,528	-	-	57,528
Special Services	11	7,985 (8)	1,569 (5) 6,427 (9)	-
Medical Supplies & Oxygen	92,344	-	12,600 (3) 55 (5) 47,513 (9)	32,176
Taxes and Insurance	159,925	-	133,863 (4)	26,062

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended March 31, 2007  
For the Contract Period October 1, 2007 Through September 30, 2008  
AC# 3-LCS-C7

<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	3,170	-	1 (7)	3,169
Cost of Capital	<u>103,078</u>	<u>372</u> (12)	<u>441</u> (1)	<u>103,009</u>
Subtotal	2,349,227	8,357	381,426	1,976,158
Ancillary	92,424	-	-	92,424
Nonallowable	360,202	441 (1) 11,787 (2) 133,863 (4) 10,514 (5) 41,768 (6) 3,112 (7) 53,940 (9)	372 (12)	615,255
CNA Training and Testing	<u>1,125</u>	<u>-</u>	<u>-</u>	<u>1,125</u>
Total Operating Expenses	<u>\$2,802,978</u>	<u>\$263,782</u>	<u>\$381,798</u>	<u>\$2,684,962</u>
Total Patient Days	<u>15,544</u>	<u>-</u>	<u>-</u>	<u>15,544</u>
Total Beds	<u>88</u>			

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended March 31, 2007  
AC# 3-LCS-C7

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 3,764	
	Other Equity	5,508	
	Nonallowable	441	
	Accumulated Depreciation		\$ 9,272
	Cost of Capital		441
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	11,787	
	Administration		11,787
	To disallow interest expense		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
3	Accounts Payable	118,016	
	Nursing		105,416
	Medical Supplies		12,600
	To properly charge expense applicable to subsequent period		
	HIM-15-1, Section 2304		
4	Nonallowable	133,863	
	Taxes and Insurance		133,863
	To adjust liability insurance expense		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
5	Nonallowable	10,514	
	Nursing		5,859
	Restorative		388
	Dietary		643
	Laundry		214
	Housekeeping		319
	Maintenance		215
	Administration		1,176
	Medical Records		76
	Medical Supplies		55
	Special Services		1,569
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended March 31, 2007  
AC# 3-LCS-C7

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Administration	41,768	41,768
	To disallow related party expense HIM-15-1, Sections 1005 and 2304		
7	Nonallowable Nursing Restorative Administration Legal	3,112	981 15 2,115 1
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Special Services Nursing Administration	7,985	5,080 2,905
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
9	Nonallowable Medical Supplies Special Services	53,940	47,513 6,427
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
10	Cost of Capital Nonallowable	2,015	2,015
	To adjust capital return State Plan, Attachment 4.19D (This adjustment applies only to the contract period 9/29/06 - 9/30/06)		
11	Cost of Capital Nonallowable	344	344
	To adjust capital return State Plan, Attachment 4.19D (This adjustment applies only to the contract periods 10/1/06 - 9/30/07)		

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
 Adjustment Report  
 Cost Report Period Ended March 31, 2007  
 AC# 3-LCS-C7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Cost of Capital Nonallowable	372	372
	To adjust capital return State Plan, Attachment 4.19D (This adjustment applies only to the contract period 10/1/07 - 9/30/08)		
		_____	_____
	TOTAL ADJUSTMENTS	<u>\$393,429</u>	<u>\$393,429</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.

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended March 31, 2007  
 For the Contract Period September 29, 2006 Through September 30, 2006  
 AC# 3-LCS-C7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.71494</u>
Deemed Asset Value (Per Bed)	42,402
Number of Beds	<u>88</u>
Deemed Asset Value	3,731,376
Improvements Since 1981	461,118
Accumulated Depreciation at 3/31/07	<u>(1,264,192)</u>
Deemed Depreciated Value	2,928,302
Market Rate of Return	<u>.0516</u>
Total Annual Return	151,100
Number of Days in Period	<u>184/365</u>
Adjusted Annual Return	76,171
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	76,171
Depreciation Expense	26,118
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	102,289
Total Patient Days (Minimum 96% Occupancy)	<u>15,544</u>
Cost of Capital Per Diem	<u>\$ 6.58</u>

**LAKE CITY SCRANTON HEALTHCARE CENTER**

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended March 31, 2007

For the Contract Period September 29, 2006 Through September 30, 2006  
AC# 3-LCS-C7

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.64
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.63</u>
Reimbursable Cost of Capital Per Diem	\$6.58
Cost of Capital Per Diem	<u>6.58</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended March 31, 2007  
 For the Contract Periods October 1, 2006 Through September 30, 2007  
 AC# 3-LCS-C7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.77878</u>
Deemed Asset Value (Per Bed)	43,399
Number of Beds	<u>88</u>
Deemed Asset Value	3,819,112
Improvements Since 1981	461,118
Accumulated Depreciation at 3/31/07	<u>(1,264,192)</u>
Deemed Depreciated Value	3,016,038
Market Rate of Return	<u>.0490</u>
Total Annual Return	147,786
Number of Days in Period	<u>184/365</u>
Adjusted Annual Return	74,500
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	74,500
Depreciation Expense	26,118
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	100,618
Total Patient Days (Minimum 96% Occupancy)	<u>15,544</u>
Cost of Capital Per Diem	\$ <u><u>6.47</u></u>

**LAKE CITY SCRANTON HEALTHCARE CENTER**

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended March 31, 2007

For the Contract Periods October 1, 2006 Through September 30, 2007

AC# 3-LCS-C7

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$4.64
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.63</u>
Reimbursable Cost of Capital Per Diem	\$6.47
Cost of Capital Per Diem	<u>6.47</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended March 31, 2007  
 For the Contract Period October 1, 2007 Through September 30, 2008  
 AC# 3-LCS-C7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.85382</u>
Deemed Asset Value (Per Bed)	44,571
Number of Beds	<u>88</u>
Deemed Asset Value	3,922,248
Improvements Since 1981	461,118
Accumulated Depreciation at 3/31/07	( <u>1,264,192</u> )
Deemed Depreciated Value	3,119,174
Market Rate of Return	<u>.0489</u>
Total Annual Return	152,528
Number of Days in Period	<u>184/365</u>
Adjusted Annual Return	76,891
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	76,891
Depreciation Expense	26,118
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	103,009
Total Patient Days (Minimum 96% Occupancy)	<u>15,544</u>
Cost of Capital Per Diem	\$ <u><u>6.63</u></u>

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended March 31, 2007  
For the Contract Period October 1, 2007 Through September 30, 2008  
AC# 3-LCS-C7

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.64
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.63</u>
Reimbursable Cost of Capital Per Diem	\$6.63
Cost of Capital Per Diem	<u>6.63</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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