

*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 7, 2015

Ms. Martha Hughey  
Assistant Vice President of Reimbursement  
National Healthcare Corporation  
Post Office Box 1398  
Murfreesboro, Tennessee 37133

Re: AC# 3-NAG-J1 – NHC Healthcare – North Augusta, LLC d/b/a  
NHC Healthcare, North Augusta

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, 2010 through September 30, 2011. That report was used to set the rate covering the contract period beginning October 1, 2012.

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  
Ms. Nicole Mitchell Threat  
Ms. Melissa Simmons

**NHC HEALTHCARE – NORTH AUGUSTA, LLC  
D/B/A NHC HEALTHCARE, NORTH AUGUSTA  
NORTH AUGUSTA, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2012  
AC# 3-NAG-J1**

**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

October 14, 2014

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 – North Augusta, LLC d/b/a NHC Healthcare, North Augusta, for the contract period beginning October 1, 2012, and for the twelve month cost report period ended September 30, 2011, as set forth in the accompanying schedules. The management of NHC Healthcare – North Augusta, LLC d/b/a NHC Healthcare, North Augusta 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 – North Augusta, LLC d/b/a NHC Healthcare, North Augusta, 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 – North Augusta, LLC d/b/a NHC Healthcare, North Augusta dated as of October 1, 2011, 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  
October 14, 2014

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, NORTH AUGUSTA**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2012  
AC# 3-NAG-J1

|                                | 10/01/12-<br><u>09/30/13</u> |
|--------------------------------|------------------------------|
| Interim Reimbursement Rate (1) | \$180.78                     |
| Adjusted Reimbursement Rate    | <u>161.22</u>                |
| Decrease in Reimbursement Rate | \$ <u><u>19.56</u></u>       |

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 21, 2014.

**NHC HEALTHCARE, NORTH AUGUSTA**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2012 Through September 30, 2013  
 AC# 3-NAG-J1

|   | <u>Incentives</u> | <u>Allowable<br/>Cost</u> | <u>Cost<br/>Standard</u> | <u>Computed<br/>Rate</u> |
|---|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u>                |                   |                           |                          |                          |
| General Services                                  |                   | \$ 89.63                  | \$101.11                 |                          |
| Dietary   |                   | 18.20                     | 17.37                    |                          |
| Laundry/Housekeeping/Maintenance                  |                   | <u>14.84</u>              | <u>15.73</u>             |                          |
| Subtotal  | \$ <u>9.39</u>    | 122.67                    | 134.21                   | \$122.67                 |
| Administration & Medical Records                  | \$ <u>-</u>       | <u>23.48</u>              | <u>22.95</u>             | <u>22.95</u>             |
| Subtotal  |                   | 146.15                    | <u>\$157.16</u>          | 145.62                   |
| <u>Costs Not Subject to Standards:</u>            |                   |                           |                          |                          |
| Utilities   |                   | 5.34                      |                          | 5.34                     |
| Special Services                                  |                   | .02                       |                          | .02                      |
| Medical Supplies & Oxygen                         |                   | 7.20                      |                          | 7.20                     |
| Taxes and Insurance                               |                   | 3.05                      |                          | 3.05                     |
| Legal Fees  |                   | <u>.06</u>                |                          | <u>.06</u>               |
| <b>TOTAL</b>                                      |                   | <u>\$161.82</u>           |                          | 161.29                   |
| Inflation Factor (N/A)                            |                   |                           |                          | -                        |
| Cost of Capital                                   |                   |                           |                          | 4.56                     |
| Cost of Capital Limitation                        |                   |                           |                          | -                        |
| Profit Incentive (Maximum 3.5% of Allowable Cost) |                   |                           |                          | -                        |
| Cost Incentive                                    |                   |                           |                          | 9.39                     |
| Effect of \$1.75 Cap on Cost/Profit Incentives    |                   |                           |                          | (7.64)                   |
| Budget Neutrality Adjustment (3.805%)             |                   |                           |                          | <u>(6.38)</u>            |
| ADJUSTED REIMBURSEMENT RATE                       |                   |                           |                          | <u>\$161.22</u>          |

**NHC HEALTHCARE, NORTH AUGUSTA**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2011  
 AC# 3-NAG-J1

| <u>Expenses</u>                     | Totals (From<br>Schedule SC 13) as<br><u>Adjusted by DH&amp;HS</u> | Adjustments   |   | <u>Adjusted<br/>Totals</u> |
|-------------------------------------|--|---|---|----------------------------|
|                                     |  | <u>Debit</u>  | <u>Credit</u>   |                            |
| General Services                    | \$4,088,090  | \$121,557 (13)  | \$ 5,735 (5)<br>5,839 (6)<br>34,235 (8)<br>182 (9)<br>4,438 (9)<br>22,467 (10)<br>78,839 (11)<br>113,899 (14)<br>1,361 (15) | \$3,942,652                |
| Dietary                             | 802,542  | 319,287 (13)<br>29 (16)   | 840 (3)<br>2,189 (5)<br>29 (12)<br>318,311 (14)<br>118 (15)   | 800,371                    |
| Laundry                             | 159,548  | 63,476 (13)   | 6,430 (3)<br>61,645 (14)  | 154,949                    |
| Housekeeping                        | 317,767  | 135,865 (13)  | 173,541 (14)  | 280,091                    |
| Maintenance                         | 244,160  | 108,899 (13)  | 1,888 (12)<br>132,681 (14)<br>71 (15)<br>829 (16)   | 217,590                    |
| Administration &<br>Medical Records | 1,160,007  | 13,140 (5)<br>4,132 (5)<br>2,626 (6)<br>34,235 (8)<br>341,091 (13)<br>70,353 (13) | 1,638 (9)<br>557 (12)<br>226,130 (14)<br>81,462 (14)<br>281,457 (15)<br>1,396 (16)  | 1,032,944                  |

**NHC HEALTHCARE, NORTH AUGUSTA**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2011  
AC# 3-NAG-J1

| <u>Expenses</u>              | Totals (From<br>Schedule SC 13) as<br><u>Adjusted by DH&amp;HS</u> | <u>Debit</u>                | Adjustments<br><u>Credit</u>                             | <u>Adjusted<br/>Totals</u> |
|------------------------------|--|-----------------------------|--|----------------------------|
| Utilities                    | 266,831  | 112,483 (13)                | 144,529 (14)   | 234,785                    |
| Special Services             | 780  | 325,293 (16)                | 325,293 (12)   | 780                        |
| Medical Supplies &<br>Oxygen | 304,650  | 121,204 (13)<br>47,097 (16) | 10,474 (5)<br>13,803 (9)<br>94,483 (12)<br>37,475 (14)   | 316,716                    |
| Taxes and Insurance          | 493,464  | 192,659 (13)                | 28,469 (4)<br>448,232 (9)<br>65,759 (14)<br>9,409 (15)   | 134,254                    |
| Legal Fees                   | 2,785  | 997 (13)                    | 1,121 (15)   | 2,661                      |
| Cost of Capital              | 499,450  | 121,767 (2)<br>57,570 (13)  | 286,452 (1)<br>11,385 (7)<br>17,604 (14)<br>162,776 (15) | 200,570                    |
|                              | _____  | _____                       | _____  | _____                      |
| Subtotal                     | 8,340,074  | 2,193,760                   | 3,215,471  | 7,318,363                  |

**NHC HEALTHCARE, NORTH AUGUSTA**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2011  
 AC# 3-NAG-J1

| <u>Expenses</u>             | Totals (From<br>Schedule SC 13) as<br><u>Adjusted by DH&amp;HS</u> | Adjustments        |                              | <u>Adjusted<br/>Totals</u> |
|-----------------------------|--|--------------------|------------------------------|----------------------------|
|                             |  | <u>Debit</u>       | <u>Credit</u>                |                            |
| Ancillary                   | -  | 9,128 (16)         | -                            | 9,128                      |
| Nonallowable                | 4,540,724  | 286,452 (1)        | 121,767 (2)                  | 5,546,037                  |
|                             |  | 28,469 (4)         | 1,645,441 (13)               |                            |
|                             |  | 1,126 (5)          | 379,322 (16)                 |                            |
|                             |  | 3,213 (6)          |                              |                            |
|                             |  | 11,385 (7)         |                              |                            |
|                             |  | 468,293 (9)        |                              |                            |
|                             |  | 22,467 (10)        |                              |                            |
|                             |  | 78,839 (11)        |                              |                            |
|                             |  | 422,250 (12)       |                              |                            |
|                             |  | 1,373,036 (14)     |                              |                            |
|                             |  | 456,313 (15)       |                              |                            |
| CNA Training and Testing    | <u>-</u>   | <u>-</u>           | <u>-</u>                     | <u>-</u>                   |
| Total Operating<br>Expenses | <u>\$12,880,798</u>  | <u>\$5,354,731</u> | <u>\$5,362,001</u>           | <u>\$12,873,528</u>        |
| Total Patient Days          | <u>43,988</u>  | <u>-</u>           | <u>-</u>                     | <u>43,988</u>              |
|                             |  |                    | Cost of Capital Patient Days | <u>43,992</u>              |
| Total Beds                  | <u>132</u>   |                    |                              |                            |

**NHC HEALTHCARE, NORTH AUGUSTA**  
Adjustment Report  
Cost Report Period Ended September 30, 2011  
AC# 3-NAG-J1

| <u>ADJUSTMENT</u><br><u>NUMBER</u> | <u>ACCOUNT TITLE</u>  | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------------|---|--------------|---------------|
| 1                                  | Fixed Assets  | \$1,030,944  |               |
|                                    | Nonallowable  | 286,452      |               |
|                                    | Accumulated Depreciation  |              | \$964,073     |
|                                    | Other Equity  |              | 66,871        |
|                                    | Cost of Capital   |              | 286,452       |
|                                    | To adjust fixed assets and related depreciation<br>HIM-15-1, Section 2304<br>State Plan, Attachment 4.19D |              |               |
| 2                                  | Cost of Capital   | 121,767      |               |
|                                    | Nonallowable  |              | 121,767       |
|                                    | To adjust depreciation expense to comply with capital cost policy<br>State Plan, Attachment 4.19D         |              |               |
| 3                                  | Retained Earnings   | 7,270        |               |
|                                    | Dietary   |              | 840           |
|                                    | Laundry   |              | 6,430         |
|                                    | To properly charge expense applicable to the prior period<br>HIM-15-1, Section 2302.1                     |              |               |
| 4                                  | Nonallowable  | 28,469       |               |
|                                    | Taxes and Insurance   |              | 28,469        |
|                                    | To adjust property tax expense<br>HIM-15-1, Sections 2302.1 and 2304                                      |              |               |
| 5                                  | Administration  | 13,140       |               |
|                                    | Medical Records   | 4,132        |               |
|                                    | Nonallowable  | 1,126        |               |
|                                    | Nursing   |              | 5,735         |
|                                    | Dietary   |              | 2,189         |
|                                    | Medical Supplies  |              | 10,474        |
|                                    | To reclassify expense to the proper cost center<br>DH&HS Expense Crosswalk                                |              |               |

**NHC HEALTHCARE, NORTH AUGUSTA**  
Adjustment Report  
Cost Report Period Ended September 30, 2011  
AC# 3-NAG-J1

| <u>ADJUSTMENT</u><br><u>NUMBER</u> | <u>ACCOUNT TITLE</u>  | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------------|---|--------------|---------------|
| 6                                  | Medical Records   | 2,626        |               |
|                                    | Nonallowable  | 3,213        |               |
|                                    | Nursing   |              | 5,839         |
|                                    | To adjust fringe benefits and related allocation<br>HIM-15-1, Section 2304<br>State Plan, Attachment 4.19D                                |              |               |
| 7                                  | Nonallowable  | 11,385       |               |
|                                    | Cost of Capital   |              | 11,385        |
|                                    | To adjust capital return and related income offset<br>State Plan, Attachment 4.19D  |              |               |
| 8                                  | Medical Records   | 34,235       |               |
|                                    | Nursing   |              | 34,235        |
|                                    | To reclassify salaries and related fringe benefits to the proper cost center<br>HIM-15-1, Section 2304<br>DH&HS Expense Crosswalk         |              |               |
| 9                                  | Nonallowable  | 468,293      |               |
|                                    | Nursing   |              | 182           |
|                                    | Restorative   |              | 4,438         |
|                                    | Medical Records   |              | 1,638         |
|                                    | Taxes and Insurance   |              | 448,232       |
|                                    | Medical Supplies  |              | 13,803        |
|                                    | To disallow liability insurance and adjust related party cost<br>HIM-15-1, Sections 1005, 2162.2 and 2304<br>State Plan, Attachment 4.19D |              |               |
| 10                                 | Nonallowable  | 22,467       |               |
|                                    | Restorative   |              | 22,467        |
|                                    | To disallow cable TV expense<br>HIM-15-1, Section 2106.1<br>DH&HS Expense Crosswalk   |              |               |

**NHC HEALTHCARE, NORTH AUGUSTA**  
Adjustment Report  
Cost Report Period Ended September 30, 2011  
AC# 3-NAG-J1

| <u>ADJUSTMENT<br/>NUMBER</u> | <u>ACCOUNT TITLE</u>  | <u>DEBIT</u>  | <u>CREDIT</u>                           |
|------------------------------|---|---|---|
| 11                           | Nonallowable<br>Nursing   | 78,839  | 78,839                                  |
|                              | To adjust provider allocation of nursing cost to a non-reimbursable cost center<br>HIM-15-1, Sections 2102.3 and 2304<br>State Plan, Attachment 4.19D   |   |   |
| 12                           | Nonallowable<br>Dietary<br>Maintenance<br>Administration<br>Medical Supplies<br>Special Services  | 422,250   | 29<br>1,888<br>557<br>94,483<br>325,293 |
|                              | To reclassify ancillary service cost to a non-reimbursable cost center<br>HIM-15-1, Sections 2102.3 and 2304<br>State Plan, Attachment 4.19D  |   |   |
| 13                           | Restorative<br>Dietary<br>Laundry<br>Housekeeping<br>Maintenance<br>Administration<br>Medical Records<br>Legal<br>Utilities<br>Taxes and Insurance<br>Medical Supplies<br>Cost of Capital<br>Nonallowable | 121,557<br>319,287<br>63,476<br>135,865<br>108,899<br>341,091<br>70,353<br>997<br>112,483<br>192,659<br>121,204<br>57,570 | 1,645,441                               |
|                              | To reverse DH&HS adjustment to remove indirect cost applicable to non-reimbursable cost centers<br>HIM-15-1, Section 2102.3<br>State Plan, Attachment 4.19D   |   |   |

**NHC HEALTHCARE, NORTH AUGUSTA**  
 Adjustment Report  
 Cost Report Period Ended September 30, 2011  
 AC# 3-NAG-J1

| <u>ADJUSTMENT<br/>NUMBER</u> | <u>ACCOUNT TITLE</u>   | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|--|--------------|---------------|
| 14                           | Nonallowable   | 1,373,036    |               |
|                              | Restorative  |              | 113,899       |
|                              | Dietary  |              | 318,311       |
|                              | Laundry  |              | 61,645        |
|                              | Housekeeping   |              | 173,541       |
|                              | Maintenance  |              | 132,681       |
|                              | Administration   |              | 226,130       |
|                              | Medical Records  |              | 81,462        |
|                              | Utilities  |              | 144,529       |
|                              | Taxes and Insurance  |              | 65,759        |
|                              | Medical Supplies   |              | 37,475        |
|                              | Cost of Capital  |              | 17,604        |
|                              | To remove indirect cost applicable<br>to non-reimbursable cost centers<br>HIM-15-1, Section 2102.3<br>State Plan, Attachment 4.19D |              |               |
| 15                           | Nonallowable   | 456,313      |               |
|                              | Nursing  |              | 1,361         |
|                              | Dietary  |              | 118           |
|                              | Maintenance  |              | 71            |
|                              | Administration   |              | 281,457       |
|                              | Legal  |              | 1,121         |
|                              | Taxes and Insurance  |              | 9,409         |
|                              | Cost of Capital  |              | 162,776       |
|                              | To adjust home office cost<br>allocation<br>HIM-15-1, Section 2304<br>State Plan, Attachment 4.19D                                 |              |               |

**NHC HEALTHCARE, NORTH AUGUSTA**  
 Adjustment Report  
 Cost Report Period Ended September 30, 2011  
 AC# 3-NAG-J1

| <u>ADJUSTMENT<br/>NUMBER</u> | <u>ACCOUNT TITLE</u>  | <u>DEBIT</u>       | <u>CREDIT</u>      |
|------------------------------|---|--------------------|--------------------|
| 16                           | Dietary   | 29                 |                    |
|                              | Medical Supplies  | 47,097             |                    |
|                              | Special Services  | 325,293            |                    |
|                              | Ancillary   | 9,128              |                    |
|                              | Maintenance   |                    | 829                |
|                              | Administration  |                    | 1,396              |
|                              | Nonallowable  |                    | 379,322            |
|                              | To remove special (ancillary) services reimbursed by Medicare and reclassify expense to the proper cost center State Plan, Attachment 4.19D DH&HS Expense Crosswalk |                    |                    |
|                              |   | -----              | -----              |
|                              | TOTAL ADJUSTMENTS   | <u>\$6,392,945</u> | <u>\$6,392,945</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, NORTH AUGUSTA**  
**Cost of Capital Reimbursement Analysis**  
**For the Cost Report Period Ended September 30, 2011**  
**AC# 3-NAG-J1**

|  |                       |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
| Original Asset Cost (Per Bed)                                      | \$ 15,618             | \$ 15,618             |                       |
| Inflation Adjustment   | <u>3.1821</u>         | <u>3.1821</u>         |                       |
| Deemed Asset Value (Per Bed)                                       | 49,698                | 49,698                |                       |
| Number of Beds   | <u>88</u>             | <u>44</u>             |                       |
| Deemed Asset Value   | 4,373,424             | 2,186,712             |                       |
| Improvements Since 1981  | 959,944               | 1,043,042             |                       |
| Accumulated Depreciation at 9/30/11                                | (1,970,264)           | (1,800,322)           |                       |
| Deemed Depreciated Value   | 3,363,104             | 1,429,432             |                       |
| Market Rate of Return  | <u>.0408</u>          | <u>.0408</u>          |                       |
| Total Annual Return  | 137,215               | 58,321                |                       |
| Return Applicable to Non-Reimbursable<br>Cost Centers              | (11,771)              | (5,003)               |                       |
| Allocation of Interest to Non-Reimbursable<br>Cost Centers         | <u>-</u>              | <u>-</u>              |                       |
| Allowable Annual Return  | 125,444               | 53,318                |                       |
| Depreciation Expense   | 110,054               | 98,842                |                       |
| Amortization Expense   | -                     | -                     |                       |
| Capital Related Income Offsets                                     | (116,166)             | (53,318)              |                       |
| Allocation of Capital Expenses to<br>Non-Reimbursable Cost Centers | <u>(9,230)</u>        | <u>(8,374)</u>        | <u>Total</u>          |
| Allowable Cost of Capital Expense                                  | 110,102               | 90,468                | \$200,570             |
| Total Patient Days   | <u>29,330</u>         | <u>14,662</u>         | <u>43,992</u>         |
| Cost of Capital Per Diem   | \$ <u><u>3.75</u></u> | \$ <u><u>6.17</u></u> | \$ <u><u>4.56</u></u> |

2 copies of this document were published at an estimated printing cost of \$1.47 each, and a total printing cost of \$2.94. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.