



**STATE OF NEW YORK  
OFFICE OF THE MEDICAID INSPECTOR GENERAL**

259 Monroe Avenue, Room 312  
Rochester, New York 14607

(585) 238-8166  
Fax: (585) 238-8169

**ANDREW M. CUOMO**  
GOVERNOR

**JAMES C. COX**  
ACTING MEDICAID INSPECTOR GENERAL

September 19, 2011

[REDACTED]  
Cortland Care Center (aka CCNH, Inc.)  
c/o Healthcare Associates  
18 Harvard Street  
Rochester, New York 14607

Re: Medicaid Rate Audit #09-1858  
NPI Number: [REDACTED]  
Provider Number: [REDACTED]

Dear [REDACTED]

Enclosed is the final audit report of the Office of the Medicaid Inspector General's (the "OMIG") audit of Cortland Care Center's (the "Facility") Medicaid rates for the rate period January 1, 2004 through December 31, 2007. In accordance with 18 NYCRR Section 517.6, this report represents the OMIG's final determination on issues raised in the draft report.

In response to the draft audit report dated November 29, 2010, you identified specific audit findings with which you disagreed. Your comments have been considered and the report has been either revised accordingly and/or amended to address your comments. Consideration of your comments resulted in a reduction of \$25,956 to the Medicaid overpayment. However, the actual rate calculations by the Bureau of Long Term Care Reimbursement resulted in an increase in the estimated impact of \$40,835. Overall, these items resulted in an increase of \$14,879 to the estimated Medicaid overpayment stated in the draft audit report. Based on the enclosed audited rates calculated by the Bureau of Long Term Care Reimbursement, the Medicaid overpayment currently due is \$294,716. This overpayment is subject to Department of Health (the "DOH") and Division of Budget (the "DOB") final approval. While not anticipated, any difference between the calculated overpayment and the final DOH and DOB approved amount will be resolved with the Facility by the OMIG Bureau of Collections Management.

In accordance with 18 NYCRR Part 518 which regulates the collection of overpayments, your repayment options are described below.

**OPTION #1:** Make full payment by check or money order within 20 days of the date of the final audit report. The check should be made payable to the New York State Department of Health and be sent with the attached Remittance Advice to:

[REDACTED]  
New York State Department of Health  
Medicaid Financial Management  
GNARESP Corning Tower, Room 1237  
File #09-1858  
Albany, New York 12237-0048

**OPTION #2:** Enter into a repayment agreement with the Office of the Medicaid Inspector General. If your repayment terms exceed 90 days from the date of the final audit report, recoveries of amounts due are subject to interest charges at the prime rate plus 2%. If the process of establishing the repayment agreement exceeds 20 days from the date of the final audit report, the OMIG will impose a 15% withhold after 20 days until the agreement is established. The OMIG may require financial information from you to establish the terms of the repayment agreement. If additional information is requested, the OMIG must receive the information within 30 days of the request or a 50% withhold will be imposed. OMIG acceptance of the repayment agreement is based on your repaying the Medicaid overpayment as agreed. The OMIG will adjust the rate of recovery, or require payment in full, if your unpaid balance is not being repaid as agreed. The OMIG will notify you no later than 5 days after initiating such action. If you wish to enter into a repayment agreement, you must forward your written request within 20 days to the following:

Bureau of Collections Management  
New York State Office of the Medicaid Inspector General  
800 North Pearl Street  
Albany, New York 12204  
[REDACTED]

If within 20 days, you fail to make full payment or contact the OMIG to make repayment arrangements, the OMIG will establish a withhold equal to 50% of your Medicaid billings to secure payment and liquidate the overpayment amount, interest and/or penalty, not barring any other remedy allowed by law. The OMIG will provide notice to you no later than 5 days after the withholding of any funds.

In addition, if you receive an adjustment in your favor while you owe funds to the State, such adjustment will be applied against the amount owed.

You have the right to challenge this action and determination by requesting an administrative hearing within sixty (60) days of the date of this notice. You may not request a hearing to raise issues related to rate setting or rate setting methodology. In addition, you may not raise any issue that was raised or could have been raised at a rate appeal with your rate setting agency.

You may only request a hearing to challenge specific audit adjustments which you challenged in a response to the draft audit report.

If you wish to request a hearing, the request must be submitted in writing to:

General Counsel  
Office of Counsel  
New York State Office of the Medicaid Inspector General  
800 North Pearl Street  
Albany, New York 12204

Questions regarding the request for a hearing should be directed to [REDACTED] of the Office of Counsel at [REDACTED]

If a hearing is held, you may have a person represent you or you may represent yourself. If you choose to be represented by someone other than an attorney, you must supply a signed authorization permitting that person to represent you along with your hearing request. At the hearing, you may call witnesses and present documentary evidence on your behalf. If you have any questions regarding the above, please contact me at [REDACTED]

Sincerely,

[REDACTED]  
Principal Medical Facilities Auditor  
Division of Medicaid Audit  
Audit Management and Development  
Office of the Medicaid Inspector General

Attachments:

- EXHIBIT I – Summary of Per Diem Impact and Medicaid Overpayment
- EXHIBIT II – Summary of Medicaid Rates Audited
- EXHIBIT III – Operating Expense Disallowances
- EXHIBIT IV – Property Expense Disallowances/(Allowances)
- EXHIBIT V – Per Diem Disallowances
- EXHIBIT VI – Return on and of Equity Disallowances/(Allowances)

cc: [REDACTED]

CERTIFIED MAIL # [REDACTED]  
RETURN RECEIPT REQUESTED

**NEW YORK STATE  
OFFICE OF THE MEDICAID INSPECTOR GENERAL  
REMITTANCE ADVICE**

**NAME AND ADDRESS OF AUDITEE**

Cortland Care Center  
(aka CCNH, Inc.)  
c/o Healthcare Associates  
18 Harvard Street  
Rochester, NY 14607

NPI #: [REDACTED]  
PROVIDER #: [REDACTED]

AUDIT #09-1858

AMOUNT DUE: \$294,716

AUDIT	<input type="checkbox"/>	PROVIDER
TYPE	<input checked="" type="checkbox"/>	RATE
	<input type="checkbox"/>	PART B
	<input type="checkbox"/>	OTHER:

**CHECKLIST**

1. To ensure proper credit, please enclose this form with your check.
2. Make checks payable to: *New York State Department of Health*
3. Record the Audit Number on your check.
4. Mail check to:

[REDACTED]  
New York State Department of Health  
Medicaid Financial Management  
GNARESP Corning Tower, Room 1237  
File #09-1858  
Albany, New York 12237-0048

5. If the provider number shown above is incorrect, please enter the correct number below.

**CORRECT PROVIDER NUMBER**

**CORTLAND CARE CENTER (AKA CCNH, INC.)**  
**RATE PERIOD JANUARY 1, 2004 THROUGH DECEMBER 31, 2007**  
**SUMMARY OF PER DIEM IMPACT AND MEDICAID OVERPAYMENT**

<u>RATE PERIOD</u>	<u>ISSUED RATES*</u>		<u>FINAL RATES</u>		<u>RATE DECREASE (INCREASE)</u>	<u>MEDICAID DAYS</u>	<u>MEDICAID OVERPAYMENT</u>
	<u>Medicare Part B Non-Elig.</u>	<u>Medicare Part B Eligible</u>	<u>Medicare Part B Non-Elig.</u>	<u>Medicare Part B Eligible</u>			
01/01/04 - 01/31/04	\$128.43	128.36	\$126.38	126.31	\$ 2.05	2,772	\$ 5,683
02/01/04 - 03/31/04	131.00	130.93	128.96	128.89	2.04	5,567	11,357
04/01/04 - 04/30/04	131.00	130.93	128.96	128.89	2.04	2,756	5,622
05/01/04 - 07/31/04	131.54	131.47	129.49	129.42	2.05	8,222	16,855
08/01/04 - 10/31/04	128.37	128.30	126.34	126.27	2.03	8,312	16,873
11/01/04 - 12/31/04	129.07	129.00	127.07	127.00	2.00	5,487	10,974
01/01/05 - 01/31/05	130.89	130.82	128.12	128.05	2.77	2,684	7,435
02/01/05 - 04/30/05	132.51	132.44	129.83	129.76	2.68	7,667	20,548
05/01/05 - 06/30/05	134.07	134.00	131.30	131.23	2.77	5,041	13,964
07/01/05 - 07/31/05	138.38	138.31	135.61	135.54	2.77	2,570	7,119
08/01/05 - 10/31/05	135.05	134.98	132.30	132.23	2.75	7,932	21,813
11/01/05 - 12/31/05	135.32	135.25	132.64	132.57	2.68	5,361	14,367
01/01/06 - 01/31/06	136.21	136.14	134.46	134.39	1.75	2,864	5,012
02/01/06 - 03/31/06	136.89	136.82	135.13	135.06	1.76	5,194	9,141
04/01/06 - 04/30/06	136.60	136.53	134.84	134.77	1.76	2,542	4,474
05/01/06 - 07/31/06	137.15	137.08	135.41	135.34	1.74	7,876	13,704
08/01/06 - 09/30/06	134.28	134.21	132.54	132.47	1.74	5,638	9,810
10/01/06 - 10/31/06	134.28	134.21	131.47	131.40	2.81	2,937	8,253
11/01/06 - 12/31/06	134.00	133.93	131.17	131.10	2.83	5,782	16,363
01/01/07 - 03/31/07	143.60	143.53	141.35	141.28	2.25	8,383	18,862
04/01/07 - 06/30/07	142.87	142.80	140.60	140.53	2.27	8,304	18,850
07/01/07 - 08/31/07	138.46	138.39	136.19	136.12	2.27	5,484	12,449
09/01/07 - 12/31/07	138.46	138.39	136.19	136.12	2.27	11,096	25,188
Total Medicaid Overpayment							<u>\$ 294,716</u>

\* Any differences between these rates and the rates listed in Exhibit II of this report represent rate changes made subsequent to our audit. These changes remain open to future audit by the Office of the Medicaid Inspector General.

**CORTLAND CARE CENTER (AKA CCNH, INC.)**  
**RATE PERIOD JANUARY 1, 2004 THROUGH DECEMBER 31, 2007**  
**SUMMARY OF MEDICAID RATES AUDITED**

The facility's Medicaid utilization was approximately 72 percent for the period under audit and the Medicaid per diem rates audited are shown below. Any differences between these rates and the "Issued Rates" listed in Exhibit I of this report represent rate changes made subsequent to our audit. These changes remain open to future audit by the Office of the Medicaid Inspector General.

<b><u>RATE PERIOD</u></b>	<b><u>ISSUED RATES</u></b>	
	<b><u>Non-Elig.</u></b>	<b><u>Eligible</u></b>
01/01/04 - 03/31/04	\$ 128.43	\$ 128.36
04/01/04 - 04/30/04	131.00	130.93
05/01/04 - 07/31/04	131.54	131.47
08/01/04 - 10/31/04	128.37	128.30
11/01/04 - 12/31/04	129.07	129.00
01/01/05 - 01/31/05	130.89	130.82
02/01/05 - 04/30/05	132.51	132.44
05/01/05 - 06/30/05	134.07	134.00
07/01/05 - 07/31/05	138.38	138.31
08/01/05 - 10/31/05	135.05	134.98
11/01/05 - 12/31/05	135.32	135.25
01/01/06 - 01/31/06	136.21	136.14
02/01/06 - 03/31/06	136.89	136.82
04/01/06 - 04/30/06	136.60	136.53
05/01/06 - 07/31/06	137.15	137.08
08/01/06 - 10/31/06	134.28	134.21
11/01/06 - 12/31/06	134.00	133.93
01/01/07 - 03/31/07	143.60	143.53
04/01/07 - 06/30/07	142.87	142.80
07/01/07 - 08/31/07	138.46	138.39
09/01/07 - 12/31/07	138.46	138.39

**CORTLAND CARE CENTER (AKA CCNH, INC.)**  
**RATE PERIOD JANUARY 1, 2004 THROUGH DECEMBER 31, 2007**  
**OPERATING EXPENSE DISALLOWANCES**

	<u>DESCRIPTION</u>	<u>COST CENTER</u>	<u>OPERATING EXPENSE COMPONENTS</u>			
			<u>DIRECT</u>	<u>INDIRECT</u>	<u>01/01/04-12/31/06 NON-COMP.</u>	<u>01/01/07-12/31/07 NON-COMP.</u>
Expense allowed on HE-12B			\$ 2,496,348	\$ 1,707,420	\$ 261,894	\$ 174,892
Less Disallowances/(Allowances)						
<b>1. ELIMINATION OF COSTS RELATED TO TERMINATED SERVICES</b>						
The Facility's RHC4 reports showed that psychiatric services and transportation costs were no longer being incurred as of January 1, 2004. The removal of psychiatric and transportation costs from trended base year expense is required to prevent the reimbursement of services that were terminated. Therefore, the base year expenses associated with the terminated psychiatric and transportation services were disallowed.	Transportation	022	1,720			
	Psychiatric	038			3,555	3,555
<b>Regulations: 10 NYCRR Section 86-2.17(a) &amp; (d), &amp; 86-2.27</b>						
<b>2. SALES TAX DISALLOWANCE</b>						
Non-trendable sales tax reported by the provider for cost years 2002 through 2005 was included in the January 1, 2004 through December 31, 2007 capital component of the rates. The Facility's base year (8/1/94-7/31/95) operating expenses also included sales tax expense. Since this base year is used for the operating portion of the January 1, 2004 through December 31, 2007 rates, the inclusion of sales tax in the capital portion of these rates resulted in a duplication of reimbursement. In order to eliminate the duplication, the operating base year sales tax expense was disallowed from the January 1, 2004 through December 31, 2007 Medicaid rates.	Activities	014	460			
	Social Svcs.	021	122			
	PT	039	391			
	OT	040	110			
	Pharmacy	042	854			
	Central Svc.	043	4,340			
	SNF	051/052	348			
	Transportation	022	127			
	Fiscal	004		928		
	Admin.	005		467		
	Plant	006		5,395		
	Grounds	007		297		
	Laundry	009		8,804		
	Hskp.	010		1,266		
	Patient Food	011		1,571		
	Cafeteria	012		1,115		
	Medical Rec.	019		242		
	Electric & Gas	106			8,240	8,240
<b>Total Disallowance</b>			<u>8,472</u>	<u>20,085</u>	<u>11,795</u>	<u>11,795</u>
<b>AUDITED OPERATING EXPENSE</b>			<u>\$ 2,487,876</u>	<u>\$ 1,687,335</u>	<u>\$ 250,099</u>	<u>\$ 163,097</u>

**CORTLAND CARE CENTER (AKA CCNH, INC.)****RATE PERIOD JANUARY 1, 2004 THROUGH DECEMBER 31, 2007****PROPERTY EXPENSE DISALLOWANCES(ALLOWANCES)**

	DESCRIPTION	COST CENTER	RATE PERIOD				
			2004	2005	1/1/2006 09/30/06	10/1/2006 12/31/06	2007
Expense Allowed on HE-12B			\$ 423,443	\$ 468,259	\$ 390,292	\$ 390,292	\$ 491,749
Less Disallowances/(Allowances):							
<b>1. MORTGAGE INTEREST AND AMORTIZATION ADJUSTMENTS</b>							
The mortgage interest and amortization reimbursed in the Facility's 2004 through 2006 rates did not agree to the actual rate year mortgage payments. Accordingly, these amounts were adjusted to reflect the substantiated mortgage interest and amortization payments up to September 30, 2006. The mortgage was no longer recognized as of October 1, 2006, and the mortgage interest and amortization were eliminated from the rates as of that date in adjustment #2 below.							
<b>Regulations: 10 NYCRR Section 86-2.4, 2.17(a)&amp;(d), &amp; 86-2.21</b>							
<b>2. ELIMINATION OF MORTGAGE INTEREST AND AMORTIZATION</b>							
The Facility's mortgage was refinanced effective October 1, 2006. However, the Bureau of Long Term Care Reimbursement (BLTCR) did not recognize the refinancing and began to reimburse the Facility a return of real property equity effective January 1, 2007. A proprietary facility is reimbursed mortgage interest, amortization, and a return on real property equity as long as the mortgage is recognized. When the mortgage is no longer recognized, the facility starts to receive a return of real property equity (see adjustment #3 below). Since the Facility no longer had a recognized mortgage as of October 1, 2006, the mortgage interest and amortization amounts included in the October 1, 2006 through December 31, 2006 rates were disallowed.							
<b>Regulation: 10 NYCRR Section 86-2.21, BLTCR Rate Methodology</b>							
<b>3. RETURN OF REAL PROPERTY EQUITY ALLOWANCE (EXHIBIT VI)</b>							
As noted in adjustment #2 above, the mortgage associated with the facility was no longer recognized as of October 1, 2006. When a mortgage is no longer recognized, the facility is to receive a return of real property equity. Accordingly, a return of real property equity was allowed in lieu of mortgage interest and amortization for the October 1 through December 31, 2006 rate period. See Exhibit VI for the calculation of the audited return of real property equity.							
<b>Regulation: 10 NYCRR Section 86-2.21, BLTCR Rate Methodology</b>							
	Mtg. Int.-Bldg.	003	15,351	1,990	(29,346)		
	Mtg. Int.-ME	003	1,100	142	(2,104)		
	Mtg. Amort.	001	(1,340)	(1,340)	6,466		
	Mtg. Int.-Bldg.	003				53,766	
	Mtg. Int.-ME	003				3,855	
	Mtg. Amort.	001				98,359	
	Ret. of Equity	005				(89,562)	





CORTLAND CARE CENTER (AKA CCNH, INC.)

RATE PERIOD JANUARY 1, 2004 THROUGH DECEMBER 31, 2007

## PROPERTY EXPENSE DISALLOWANCES(ALLOWANCES)

	DESCRIPTION	COST CENTER	RATE PERIOD					
			2004	2005	1/1/2006 09/30/06	10/1/2006 12/31/06	2007	
<b>12. ALLOWANCE OF SALES TAX</b>								
The Facility only reported \$17,272 of sales tax in 2002 (used for the 2004 property rate) because it did not separately record sales taxes until the later part of 2002. The OMIG calculation of 2002 taxable expenses indicated that the 2002 sales tax expense should have been \$49,315. Since sales tax expense was eliminated from base period operating expenses (see Exhibit III, adjustment #2), the difference between the allowable amount of \$49,315, and the reported amount of \$17,272, was allowed to reimburse the facility a full year of sales tax expense. This allowance was contingent upon the Facility's acceptance of the OMIG's sales tax adjustments in this report, and the written withdrawal of any outstanding appeals with the BLTCR regarding the sales tax expense addressed in this report. The Facility has indicated its agreement with the sales tax adjustments and informed the OMIG there are no outstanding BLTCR appeals.	Sales tax	005	(34,454)					
<b>Regulations: 10 NYCRR Sections 86-2.17(a) &amp; (d); BLTCR Rate Methodology</b>								
<b>13. OFFSET OF SALES TAX REFUND</b>								
In 2006, the provider received a refund of sales taxes on utilities that had been paid from 2003 through 2005. These sales taxes were refunded because nursing homes were not required to pay sales taxes on utilities. Refunds are considered reductions to the specific costs to which they apply in the year of the expenditure. Since the sales taxes on utilities were not necessary or proper, and were eventually refunded, the 2003 through 2005 sales tax expenses (reimbursed in the 2005 through 2007 rates, respectively) were reduced by the refunded amounts.	Sales tax	005		2,151	4,822	4,822	4,822	6,187
<b>Regulations: 10 NYCRR Sections 86-2.17(a) &amp; (d) and 2.18(a); PRM-1 Sections 800-804</b>								
<b>14. DISALLOWANCE OF WORKING CAPITAL INTEREST</b>								
The Facility was reimbursed interest expense on working capital loans in the 2004 through 2007 rates. Based on the documentation provided with the Facility's response to the draft audit report, the 2004 disallowance has been eliminated from the final audit report. However, the Facility was still unable to fully substantiate working capital interest expense reimbursed in the 2007 rates. Consequently, the unsubstantiated amount was disallowed.	WC interest	005						1,447
<b>Regulations: 10 NYCRR Sections 86-2.7 &amp; 86-2.17(a); PRM-1 Sections 2300 and 2304</b>								
<b>Total Disallowance/(Allowance)</b>			11,879	43,376	(2,339)	44,198	15,177	
<b>AUDITED PROPERTY EXPENSE</b>			<u>\$ 411,564</u>	<u>\$ 424,883</u>	<u>\$ 392,631</u>	<u>\$ 346,094</u>	<u>\$ 476,572</u>	

**CORTLAND CARE CENTER (AKA CCNH, INC.)**  
**RATE PERIOD JANUARY 1, 2004 THROUGH DECEMBER 31, 2007**  
**PER DIEM DISALLOWANCES**  
**REDUCTION IN NURSING, OBRA, AND GLOVES PER DIEM ADD-ON ADJUSTMENTS**

The Facility received Nursing, OBRA, and Gloves per diem add-ons in its 1/1/2004 through 12/31/2007 Medicaid rates. The Nursing per diem was added to recognize increases in nursing costs between 1987 and 1988 for facilities with operating base periods prior to 1988. The OBRA per diem was added to recognize various Federally mandated direct expenses for facilities with operating base periods prior to 4/1/91. The Gloves per diem was added to recognize a Federal mandate for glove supplies for facilities with operating base periods prior to 4/1/94. This facility's operating base period covered 8/1/94 through 7/31/95, so the increased nursing costs and Federally mandated expenditures were included in its base period direct operating costs. Therefore, the per diem add-ons for this facility should only have replaced amounts that were cut by direct cost ceiling limitations in the applicable rate calculations. A comparison of the above per diem add-ons to the direct cost ceiling cuts disclosed that the per diem add-ons exceeded the amounts that were cut from direct costs. Consequently, the Nursing, OBRA, and Gloves per diem add-ons were reduced to equal the per diem cuts caused by the direct cost ceiling limitation.

**Regulations: 10 NYCRR Sections 86-2.10(r), 86-2.10(u), and 86-2.17(a), Bureau of Long Term Care Reimbursement Rate Setting Policy**

	RATE PERIODS																					
	<u>1/1/04</u>	<u>2/1/04</u>	<u>4/1/04</u>	<u>5/1/04</u>	<u>8/1/04</u>	<u>11/1/04</u>	<u>1/1/05</u>	<u>2/1/05</u>	<u>5/1/05</u>	<u>7/1/05</u>	<u>8/1/05</u>	<u>11/1/05</u>	<u>1/1/06</u>	<u>2/1/06</u>	<u>4/1/06</u>	<u>5/1/06</u>	<u>8/1/06</u>	<u>11/1/06</u>	<u>1/1/07</u>	<u>4/1/07</u>	<u>7/1/07</u>	<u>9/1/07</u>
Nursing Per Diem Adjustment	\$ 0.46	\$ 0.46	\$ 0.46	\$ 0.46	\$ 0.46	\$ 0.46	\$ 0.47	\$ 0.47	\$ 0.47	\$ 0.47	\$ 0.47	\$ 0.47	\$ 0.49	\$ 0.49	\$ 0.49	\$ 0.49	\$ 0.49	\$ 0.49	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50
OBRA Per Diem Adjustment	0.42	0.42	0.42	0.42	0.42	0.42	0.43	0.43	0.43	0.43	0.43	0.43	0.44	0.44	0.44	0.44	0.44	0.44	0.44	0.45	0.45	0.45
Gloves Per Diem Adjustment	0.24	0.24	0.24	0.24	0.24	0.24	0.26	0.26	0.26	0.26	0.26	0.26	0.27	0.27	0.27	0.27	0.27	0.27	0.28	0.28	0.28	0.28
Total Per Diem Add-Ons	\$ 1.12	\$ 1.12	\$ 1.12	\$ 1.12	\$ 1.12	\$ 1.12	\$ 1.16	\$ 1.16	\$ 1.16	\$ 1.16	\$ 1.16	\$ 1.16	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.22	\$ 1.23	\$ 1.23	\$ 1.23
Direct Cost Ceiling Per Diem Reduction	0.01	0.04	0.04	0.03	0.03	0.04	0.07	0.09	0.07	0.07	0.07	0.09	0.08	0.06	0.06	0.08	0.08	0.06	0.03	0.03	0.03	0.03
Disallowance to Per Diem Add-Ons	\$ 1.11	\$ 1.08	\$ 1.08	\$ 1.09	\$ 1.09	\$ 1.08	\$ 1.09	\$ 1.07	\$ 1.09	\$ 1.09	\$ 1.09	\$ 1.07	\$ 1.12	\$ 1.14	\$ 1.14	\$ 1.12	\$ 1.12	\$ 1.14	\$ 1.19	\$ 1.20	\$ 1.20	\$ 1.20

**CORTLAND CARE CENTER (AKA CCNH, INC.)**  
**RATE PERIOD JANUARY 1, 2004 THROUGH DECEMBER 31, 2007**  
**RETURN OF AND ON EQUITY AUDIT DISALLOWANCES/(ALLOWANCES)**

	<b>RATE YEARS / RATE PERIODS</b>				
	<b>2004</b>	<b>2005</b>	<b>01/1/2006 9/30/2006</b>	<b>10/1/2006 12/31/2006</b>	<b>2007</b>
<b><u>Return of Equity Calculation</u></b>					
Real Property Historical Cost per HE-12B	\$ 4,003,878	\$ 4,028,292	\$ 4,028,292	\$ 4,028,292	\$ 4,153,230
Audit Disallowances/(Allowances)	(6,229)	12,693	(93,391)	(93,391)	12,692
Audited Historical Cost	<b>A</b> \$ 4,010,107	\$ 4,015,599	\$ 4,121,683	\$ 4,121,683	\$ 4,140,538
Original Mortgage Per HE-12B	\$ 2,753,879	\$ 2,753,879	\$ 2,753,879		
Audit Increase	58,593	58,593	58,593		
Audited Original Mortgage	<b>B</b> \$ 2,812,472	\$ 2,812,472	\$ 2,812,472		
Accumulated Reimbursement per HE-12B					\$ 1,908,858
Audit Disallowances/(Allowances)					(93,390)
Audited Accumulated Reimbursement	<b>C</b>			\$ 1,793,078	\$ 1,815,468
Audited Net Equity (A - C)				\$ 2,328,605	\$ 2,325,070
Divided by Remaining Useful Life				26.00	25.00
Current Year Audited Return of Equity				\$ 89,562	\$ 93,003
Promulgated Return of Equity				\$ -	\$ 89,775
Disallowances/(Allowances)				\$ (89,562)	\$ (3,228)
Prorated Current Year Audited Return of Equity				\$ (22,391)	
<b><u>Return on Equity Calculation</u></b>					
Audited Net Equity (A - B)	\$ 1,197,635	\$ 1,203,127	\$ 1,309,211		
Audited Net Equity (A - C)				\$ 2,328,605	\$ 2,325,070
Less: ½ Prorated Current Year Aud.Ret. of Eq.				11,196	46,502
Adjusted Audited Net Equity				\$ 2,317,409	\$ 2,278,568
Rate of Return	5.15%	4.95%	4.45%	4.45%	4.90%
Audited Return on Equity	\$ 61,678	\$ 59,555	\$ 58,260	\$ 103,125	\$ 111,650
Promulgated Return on Equity	\$ 64,375	\$ 63,083	\$ 56,711	\$ 56,711	\$ 107,775
Disallowances/(Allowances)	\$ 2,697	\$ 3,529	\$ (1,549)	\$ (46,414)	\$ (3,875)