

**REPORT  
ON THE  
HOME OFFICE AUDIT**

**PROGRESSIVE SUBACUTE CARE, INC.  
SARATOGA, CALIFORNIA  
PROVIDER NUMBER: LTCHO0075**

**FISCAL PERIOD ENDED  
DECEMBER 31, 2009**

**Audits Section - Richmond  
Financial Audits Branch  
Audits and Investigations  
Department of Health Care Services**

**Section Chief: Louise Wong  
Audit Supervisor: Diana Dong  
Auditor: Christine Cao**



TOBY DOUGLAS  
DIRECTOR

State of California—Health and Human Services Agency  
Department of Health Care Services



EDMUND G. BROWN JR.  
GOVERNOR

April 7, 2011

Michael Zarcone, President  
Progressive Subacute Care  
13425 Sousa Lane,  
Saratoga, CA 95070

PROGRESSIVE SUBACUTE CARE, INC.  
FISCAL PERIOD ENDED DECEMBER 31, 2009

We have examined the Medi-Cal Home Office cost report for the fiscal period ended December 31, 2009. Our examination was made under the authority of Section 14170 of the Welfare and Institutions Code and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the data presented in the Summary of Audited Home Office Costs to Health Facilities represents a proper determination of home office allowable costs for the above fiscal period in accordance with Medi-Cal reimbursement principles. The audited home office cost will be incorporated, by separate adjustment, into each applicable facility audit report.

This Audit Report includes the:

1. Summary of Audited Home Office Costs to Health Care Facilities
2. Audit Adjustments Schedule

If you disagree with the decision of the Department, the results of the home office audit may only be appealed through each individual facility's audit report. Please refer to the appeal instructions in each facility's audit report.

Michael Zarcone  
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If you have further questions regarding this report, you may call the Audits Section-Richmond at (510) 620-3100.

Original Signed by

Louise Wong, Chief  
Audits Section-Richmond  
Financial Audits Branch

Certified

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## SUMMARY OF AUDITED HOME OFFICE CAPITAL AND NONCAPITAL RELATED COSTS TO CHAIN COMPONENTS

HOME OFFICE NAME:  
PROGRESSIVE SUBACUTE CARE INC.FISCAL PERIOD ENDED:  
DECEMBER 31, 2009

|                                      | MEDI-CAL<br>NUMBER | FISCAL PERIODS ENDING<br>DURING HOME OFFICE<br>FISCAL YEAR |          | CAPITAL<br>RELATED<br>(SCHEDULE 3)<br>1 | NONCAPITAL<br>RELATED<br>(SCHEDULE 3-1)<br>2 | TOTAL AUDITED<br>H.O. COSTS<br>(COLUMN 1 + 2)<br>3 |
|--------------------------------------|--------------------|--|----------|---|--|--|
|                                      |                    | FROM   | TO       |   |  |  |
| <b><u>HEALTH CARE FACILITIES</u></b> |                    |  |          |   |  |  |
| 1. Subacute Saratoga                 | LTC 40003F         | 01/01/09   | 12/31/09 | \$27,535                                | \$511,336                                    | \$538,871  |
| 2. Children's Recovery Center        | LTC 40007F         | 01/01/09   | 12/31/09 | 5,594                                   | 289,678                                      | 295,273  |
| <b>SUBTOTAL (LINES 1 THROUGH 2)</b>  |                    |  |          | <b>\$33,129</b>                         | <b>\$801,014</b>                             | <b>\$834,143</b>                                   |
| <b><u>OTHER COMPONENTS</u></b>       |                    |  |          |   |  |  |
| 3. Scribbles and Giggles Day Care    | N/A                | 01/01/09   | 12/31/09 | \$5,758                                 | \$44,268                                     | \$50,026   |
| <b>SUBTOTAL (LINE 3 )</b>            |                    |  |          | <b>\$5,758</b>                          | <b>\$44,268</b>                              | <b>\$50,026</b>                                    |
| <b>GRAND TOTAL</b>                   |                    |  |          | <b>\$38,887</b>                         | <b>\$845,282</b>                             | <b>\$884,169</b>                                   |

## COMPARISON OF REPORTED AND AUDITED HOME OFFICE COSTS

HOME OFFICE NAME:  
PROGRESSIVE SUBACUTE CARE INC.

FISCAL PERIOD ENDED:  
DECEMBER 31, 2009

|                                      | MEDI-CAL<br>NUMBER | FISCAL PERIODS ENDING<br>DURING HOME OFFICE<br>FISCAL YEAR |          | REPORTED<br>HOME OFFICE<br>COSTS (SCH. 9) | AUDITED<br>H.O. COSTS<br>(SCH. 3 & 3-1) | VARIANCE<br>(COLUMN 2-1) |
|--------------------------------------|--------------------|--|----------|---|---|--------------------------|
|                                      |                    | FROM   | TO       | 1   | 2                                       | 3                        |
| <b><u>HEALTH CARE FACILITIES</u></b> |                    |  |          |   |   |                          |
| 1. Subacute Saratoga                 | LTC 40003F         | 01/01/09   | 12/31/09 | \$519,498                                 | \$538,871                               | \$19,373                 |
| 2. Children's Recovery Center        | LTC 40007F         | 01/01/09   | 12/31/09 | 282,650                                   | 295,273                                 | 12,623                   |
| <b>SUBTOTAL (LINES 1 THROUGH 2)</b>  |                    |  |          | <b>\$802,148</b>                          | <b>\$834,143</b>                        | <b>\$31,995</b>          |
| <b><u>OTHER COMPONENTS</u></b>       |                    |  |          |   |   |                          |
| 3. Scribbles and Giggles Day Care    | N/A                | 01/01/09   | 12/31/09 | \$46,717                                  | \$50,026                                | \$3,309                  |
| <b>SUBTOTAL (LINE 3 )</b>            |                    |  |          | <b>\$46,717</b>                           | <b>\$50,026</b>                         | <b>\$3,309</b>           |
| <b>GRAND TOTAL</b>                   |                    |  |          | <b>\$848,865</b>                          | <b>\$884,169</b>                        | <b>\$35,304</b>          |

SUMMARY ALLOCATION OF HOME OFFICE COSTS - CAPITAL RELATED

HOME OFFICE NAME:  
PROGRESSIVE SUBACUTE CARE INC.

FISCAL PERIOD ENDED:  
DECEMBER 31, 2009

|                                      | MEDI-CAL NUMBER                | FISCAL PERIODS ENDING DURING HOME OFFICE FISCAL YEAR |          | DIRECT CAPITAL COSTS (SCHEDULE 7)<br>1 | FUNCTIONAL CAPITAL COSTS<br>2 | POOLED CAPITAL COSTS (SCHEDULE 4)<br>3 | TOTAL CAPITAL COSTS (COL. 1 TO 3) |                 |
|--------------------------------------|--------------------------------|--|----------|--|-------------------------------|--|-----------------------------------|-----------------|
|                                      |                                | FROM   | TO       |  |                               |  |                                   |                 |
| <b><u>HEALTH CARE FACILITIES</u></b> |                                |  |          |  |                               |  |                                   |                 |
| 1.                                   | Subacute Saratoga              | LTC 40003F   | 01/01/09 | 12/31/09                               | \$19,885                      | \$0                                    | \$7,650                           | \$27,535        |
| 2.                                   | Children's Recovery Center     | LTC 40007F   | 01/01/09 | 12/31/09                               | 0                             | 0                                      | 5,594                             | 5,594           |
| <b>SUBTOTAL (LINES 1 THROUGH 2)</b>  |                                |  |          |  | <b>\$19,885</b>               | <b>\$0</b>                             | <b>\$13,244</b>                   | <b>\$33,129</b> |
| <b><u>OTHER COMPONENTS</u></b>       |                                |  |          |  |                               |  |                                   |                 |
| 3.                                   | Scribbles and Giggles Day Care | N/A  | 01/01/09 | 12/31/09                               | \$4,635                       | \$0                                    | \$1,123                           | \$5,758         |
| <b>SUBTOTAL (LINE 3 )</b>            |                                |  |          |  | <b>\$4,635</b>                | <b>\$0</b>                             | <b>\$1,123</b>                    | <b>\$5,758</b>  |
| <b>GRAND TOTAL</b>                   |                                |  |          |  | <b>\$24,520</b>               | <b>\$0</b>                             | <b>\$14,367</b>                   | <b>\$38,887</b> |

(To Schedule 1 & 2)

SUMMARY ALLOCATION OF HOME OFFICE COSTS - NONCAPITAL RELATED

HOME OFFICE NAME:  
PROGRESSIVE SUBACUTE CARE INC.

FISCAL PERIOD ENDED:  
DECEMBER 31, 2009

|                                      | MEDI-CAL NUMBER                | FISCAL PERIODS ENDING DURING HOME OFFICE FISCAL YEAR |          | DIRECT COSTS (SCH. 7-1)<br>1 | FUNCTIONAL COSTS<br>2 | POOLED COSTS (SCH. 4)<br>3 | TOTAL NONCAPITAL COSTS (COL. 1 TO 3) |                  |
|--------------------------------------|--------------------------------|--|----------|------------------------------|-----------------------|----------------------------|--------------------------------------|------------------|
|                                      |                                | FROM   | TO       |                              |                       |                            |                                      |                  |
| <b><u>HEALTH CARE FACILITIES</u></b> |                                |  |          |                              |                       |                            |                                      |                  |
| 1.                                   | Subacute Saratoga              | LTC 40003F   | 01/01/09 | 12/31/09                     | \$241,243             | \$0                        | \$270,093                            | \$511,336        |
| 2.                                   | Children's Recovery Center     | LTC 40007F   | 01/01/09 | 12/31/09                     | 92,177                | 0                          | 197,501                              | 289,678          |
| <b>SUBTOTAL (LINES 1 THROUGH 2)</b>  |                                |  |          |                              | <b>\$333,420</b>      | <b>\$0</b>                 | <b>\$467,594</b>                     | <b>\$801,014</b> |
| <b><u>OTHER COMPONENTS</u></b>       |                                |  |          |                              |                       |                            |                                      |                  |
| 3.                                   | Scribbles and Giggles Day Care | N/A  | 01/01/09 | 12/31/09                     | \$4,626               | \$0                        | \$39,642                             | \$44,268         |
| <b>SUBTOTAL (LINE 3 )</b>            |                                |  |          |                              | <b>\$4,626</b>        | <b>\$0</b>                 | <b>\$39,642</b>                      | <b>\$44,268</b>  |
| <b>GRAND TOTAL</b>                   |                                |  |          |                              | <b>\$338,046</b>      | <b>\$0</b>                 | <b>\$507,236</b>                     | <b>\$845,282</b> |

(To Schedule 1 & 2)

POOLED ALLOCATION OF HOME OFFICE COSTS TO CHAIN COMPONENTS

HOME OFFICE NAME:  
PROGRESSIVE SUBACUTE CARE INC.

FISCAL PERIOD ENDED:  
DECEMBER 31, 2009

|                                      |                                | MEDI-CAL<br>NUMBER | TOTAL COST<br>(SCH. G, COL. 1)<br>1 | CAPITAL<br>(SCH. 8)<br>2 | NONCAPITAL<br>(SCH. 8)<br>3 | TOTAL POOLED<br>(COL. 2 + 3)<br>4 |
|--------------------------------------|--------------------------------|--------------------|-------------------------------------|--------------------------|-----------------------------|-----------------------------------|
| <b><u>HEALTH CARE FACILITIES</u></b> |                                |                    |                                     |                          |                             |                                   |
| 1.                                   | Subacute Saratoga              | LTC 40003F         | \$8,809,166                         | \$7,650                  | \$270,093                   | \$277,743                         |
| 2.                                   | Children's Recovery Center     | LTC 40007F         | 6,441,583                           | 5,594                    | 197,501                     | 203,096                           |
| <b>SUBTOTAL (LINES 1 THROUGH 2)</b>  |                                |                    | <b>\$15,250,749</b>                 | <b>\$13,244</b>          | <b>\$467,594</b>            | <b>\$480,838</b>                  |
| <b><u>OTHER COMPONENTS</u></b>       |                                |                    |                                     |                          |                             |                                   |
| 3.                                   | Scribbles and Giggles Day Care | N/A                | \$1,292,939                         | \$1,123                  | \$39,642                    | \$40,765                          |
| <b>SUBTOTAL (LINE 3)</b>             |                                |                    | <b>\$1,292,939</b>                  | <b>\$1,123</b>           | <b>\$39,642</b>             | <b>\$40,765</b>                   |
| <b>GRAND TOTAL</b>                   |                                |                    | <b>\$16,543,688</b>                 | <b>\$14,367</b>          | <b>\$507,236</b>            | <b>\$521,603</b>                  |
|                                      |                                |                    | (To Schedule 3) (To Schedule 3-1)   |                          |                             |                                   |
| MULTIPLIER                           |                                |                    |                                     | 0.000868                 | 0.030660                    |                                   |

DIRECT ALLOCATION OF CAPITAL COSTS TO CHAIN COMPONENTS

HOME OFFICE NAME:  
PROGRESSIVE SUBACUTE CARE INC.

FISCAL PERIOD ENDED:  
DECEMBER 31, 2009

| <u>HEALTH CARE FACILITIES</u>       |                                | MEDI-CAL NUMBER | REPORTED TOTAL (SCH. E) | Property Taxes (Adj. 1 ) | Property Insurance (Adj. 2 ) |            |            |            | AUDITED TOTAL   |
|-------------------------------------|--------------------------------|-----------------|-------------------------|--------------------------|------------------------------|------------|------------|------------|-----------------|
| 1.                                  | Subacute Saratoga              | LTC 40003F      | \$0                     | \$13,678                 | \$6,207                      | \$0        | \$0        | \$0        | \$19,885        |
| 2.                                  | Children's Recovery Center     | LTC 40007F      | 0                       | 0                        | 0                            | 0          | 0          | 0          | 0               |
| <b>SUBTOTAL (LINES 1 THROUGH 2)</b> |                                |                 | <b>\$0</b>              | <b>\$13,678</b>          | <b>\$6,207</b>               | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$19,885</b> |
| <u>OTHER COMPONENTS</u>             |                                |                 |                         |                          |                              |            |            |            |                 |
| 3.                                  | Scribbles and Giggles Day Care | N/A             | \$0                     | \$0                      | \$4,635                      | \$0        | \$0        | \$0        | \$4,635         |
| <b>SUBTOTAL (LINE 3 )</b>           |                                |                 | <b>\$0</b>              | <b>\$0</b>               | <b>\$4,635</b>               | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$4,635</b>  |
| <b>GRAND TOTAL</b>                  |                                |                 | <b>\$0</b>              | <b>\$13,678</b>          | <b>\$10,842</b>              | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$24,520</b> |

(To Schedule 3)

## DIRECT ALLOCATION OF NONCAPITAL COSTS TO CHAIN COMPONENTS

HOME OFFICE NAME:  
PROGRESSIVE SUBACUTE CARE INC.FISCAL PERIOD ENDED:  
DECEMBER 31, 2009

|                                      | MEDI-CAL<br>NUMBER | REPORTED<br>TOTAL<br>(SCH. E-1) | Insurance<br>Premium -<br>Non-Cap. Rel. | Pharmacy<br>Supplies | Utilities         | Communications<br>(Telephone) | Liability<br>Insurance | Salaries &<br>Wages of Other<br>(Pharmacy) | Employee<br>Benefits<br>(Pharmacy) |
|--------------------------------------|--------------------|---------------------------------|---|----------------------|-------------------|-------------------------------|------------------------|--|------------------------------------|
|                                      |                    |                                 | (Adj. 3)                                | (Adj. 4)             | (Adj. 5)          | (Adj. 6)                      | (Adj. 7)               | (Adj. 8)                                   | (Adj. 9)                           |
| <b><u>HEALTH CARE FACILITIES</u></b> |                    |                                 |   |                      |                   |                               |                        |  |                                    |
| 1. Subacute Saratoga                 | LTC 40003F         | \$249,827                       | \$2,767                                 | \$3,758              | (\$18,657)        | \$7,005                       | \$769                  | (\$900)                                    | (\$296)                            |
| 2. Children's Recovery Center        | LTC 40007F         | 85,458                          | 0                                       | 2,493                | 0                 | 0                             | 0                      | 900  | 296                                |
| <b>SUBTOTAL (LINES 1 THROUGH 2)</b>  |                    | <b>\$335,285</b>                | <b>\$2,767</b>                          | <b>\$6,251</b>       | <b>(\$18,657)</b> | <b>\$7,005</b>                | <b>\$769</b>           | <b>\$0</b>                                 | <b>\$0</b>                         |
| <b><u>OTHER COMPONENTS</u></b>       |                    |                                 |   |                      |                   |                               |                        |  |                                    |
| 3. Scribbles and Giggles Day Care    | N/A                | 7,137                           | 0                                       | 0                    | 0                 | (2,511)                       | 0                      | 0  | 0                                  |
| <b>SUBTOTAL (LINE 3 )</b>            |                    | <b>\$7,137</b>                  | <b>\$0</b>                              | <b>\$0</b>           | <b>\$0</b>        | <b>(\$2,511)</b>              | <b>\$0</b>             | <b>\$0</b>                                 | <b>\$0</b>                         |
| <b>GRAND TOTAL</b>                   |                    | <b>\$342,422</b>                | <b>\$2,767</b>                          | <b>\$6,251</b>       | <b>(\$18,657)</b> | <b>\$4,494</b>                | <b>\$769</b>           | <b>\$0</b>                                 | <b>\$0</b>                         |

DIRECT ALLOCATION OF NONCAPITAL COSTS TO CHAIN COMPONENTS

HOME OFFICE NAME:  
PROGRESSIVE SUBACUTE CARE INC.

FISCAL PERIOD ENDED:  
DECEMBER 31, 2009

**HEALTH CARE FACILITIES**

| MEDI-CAL NUMBER | Pharmacy Supplies |  |  |  |  |  |  | AUDITED TOTAL |
|-----------------|-------------------|--|--|--|--|--|--|---------------|
|-----------------|-------------------|--|--|--|--|--|--|---------------|

(Adj. 10)

|                                     |            |            |            |            |            |            |            |                  |
|-------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------------|
| 1. Subacute Saratoga                | LTC 40003F | (\$3,030)  | \$0        | \$0        | \$0        | \$0        | \$0        | \$241,243        |
| 2. Children's Recovery Center       | LTC 40007F | 3,030      | 0          | 0          | 0          | 0          | 0          | 92,177           |
| <b>SUBTOTAL (LINES 1 THROUGH 2)</b> |            | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$333,420</b> |

**OTHER COMPONENTS**

|                                   |     |            |            |            |            |            |            |                  |
|-----------------------------------|-----|------------|------------|------------|------------|------------|------------|------------------|
| 3. Scribbles and Giggles Day Care | N/A | 0          | 0          | 0          | 0          | 0          | 0          | 4,626            |
| <b>SUBTOTAL (LINE 3)</b>          |     | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$4,626</b>   |
| <b>GRAND TOTAL</b>                |     | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$338,046</b> |

(To Schedule 3-1)

## TRIAL BALANCE OF EXPENSES

HOME OFFICE NAME:  
PROGRESSIVE SUBACUTE CARE INC.FISCAL PERIOD ENDED:  
DECEMBER 31, 2009

| LINE NO.                           | COST CENTER DESCRIPTION                  | REPORTED POOLED ALLOC. (SCH. B, COL 8) | ADJ. NO. | ADJUSTMENT AMOUNTS | AUDITED POOLED COSTS     |
|------------------------------------|--|--|----------|--------------------|--------------------------|
| <b>CAPITAL-RELATED COSTS - OLD</b> |  |  |          |                    |                          |
| 1.00                               | Old Cap. Related-Buildings and Fixtures  | \$0                                    |          | \$0                | \$0                      |
| 2.00                               | Old Cap. Related-Movable Equipment       | 0                                      |          | 0                  | 0                        |
| 3.00                               | SUBTOTAL (sum of lines 1 through 2.00)   | \$0                                    |          | \$0                | \$0                      |
| <b>CAPITAL-RELATED COSTS - NEW</b> |  |  |          |                    |                          |
| 4.00                               | New Cap. Related-Buildings and Fixtures  | \$37,447                               | 11,12,13 | (\$30,175)         | \$7,272                  |
| 5.00                               | New Cap. Related-Movable Equipment       | 4,724                                  | 11       | 2,370              | 7,094                    |
| 6.00                               | SUBTOTAL (sum of lines 4 through 5.00)   | \$42,171                               |          | (\$27,805)         | \$14,366                 |
| <b>OTHER CAPITAL-RELATED COSTS</b> |  |  |          |                    |                          |
| 7.00                               | Insurance Premiums                       | \$0                                    |          | \$0                | \$0                      |
| 8.00                               | Taxes and Licenses - Not INCM            | 0                                      |          | 0                  | 0                        |
| 9.00                               | Other                                    | 0                                      |          | 0                  | 0                        |
| 10.00                              | SUBTOTAL (sum of lines 7 through 9)      | \$0                                    |          | \$0                | \$0                      |
| <b>NON CAPITAL-RELATED COSTS</b>   |  |  |          |                    |                          |
| 11.00                              | Salaries of Officers                     | \$139,800                              |          | \$0                | \$139,800                |
| 12.00                              | Salaries and Wages of Others             | 183,397                                |          | 0                  | 183,397                  |
| 13.00                              | Payroll Taxes                            | 0                                      |          | 0                  | 0                        |
| 14.00                              | Employee Benefits-Payroll Related        | 48,480                                 | 14       | 43,916             | 92,396                   |
| 15.00                              | Employee Benefits-Nonpayroll Related     | 0                                      |          | 0                  | 0                        |
| 16.00                              | Profit Sharing/Pension Plans             | 0                                      |          | 0                  | 0                        |
| 17.00                              | Legal Fees                               | 0                                      |          | 0                  | 0                        |
| 18.00                              | Auditing and Accounting Fees             | 3,000                                  | 15,16    | 8,947              | 11,947                   |
| 19.00                              | Utilities                                | 20,005                                 | 17       | (3,130)            | 16,875                   |
| 20.00                              | Communications                           | 10,706                                 | 18       | (6,080)            | 4,626                    |
| 21.00                              | Travel and Entertainment                 | 0                                      |          | 0                  | 0                        |
| 22.00                              | Transportation                           | 0                                      |          | 0                  | 0                        |
| 23.00                              | Cleaning Office and Admin Supplies       | 18,361                                 |          | 0                  | 18,361                   |
| 24.00                              | Minor Equipment Expensed                 | 1,456                                  |          | 0                  | 1,456                    |
| 25.00                              | Repairs and Maintenance                  | 0                                      |          | 0                  | 0                        |
| 26.00                              | Dues and Subscriptions                   | 0                                      |          | 0                  | 0                        |
| 27.00                              | Contributions                            | 0                                      |          | 0                  | 0                        |
| 28.00                              | Insurance Premium-Non Capital Related    | 3,537                                  | 19       | (689)              | 2,848                    |
| 29.00                              | Taxes and Licenses - Non Capital Related | 0                                      |          | 0                  | 0                        |
| 30.00                              | Interest Expense                         | 0                                      |          | 0                  | 0                        |
| 31.00                              | Temporary Labor                          | 30,919                                 |          | 0                  | 30,919                   |
| 32.00                              | Advertising                              | 4,611                                  |          | 0                  | 4,611                    |
| 33.00                              | Pharmacy Supplies                        | 0                                      |          | 0                  | 0                        |
| 34.00                              | Training/Employee Programs               | 0                                      |          | 0                  | 0                        |
| 35.00                              | Other                                    | 0                                      |          | 0                  | 0                        |
| 36.00                              | SUBTOTAL (sum of lines 11 through 35.00) | \$464,272                              |          | \$42,964           | \$507,236                |
| 37.00                              | TOTAL ALLOWABLE EXPENSES                 | \$506,443                              |          | \$15,159           | \$521,602<br>(To Sch. 4) |
| 38.00                              | NONREIMBURSABLE EXPENSES                 | \$0                                    |          | \$0                | \$0                      |
|                                    | <b>TOTAL EXPENSES</b>                    | \$506,443                              |          | \$15,159           | \$521,602                |

## TRIAL BALANCE OF EXPENSES

HOME OFFICE NAME:  
PROGRESSIVE SUBACUTE CARE INC.FISCAL PERIOD ENDED:  
DECEMBER 31, 2009

| LINE NO.                           | COST CENTER DESCRIPTION                  | REPORTED DIRECT ALLOC. (SCH. B, COL 6) | ADJ. NO. | ADJUSTMENT AMOUNTS | AUDITED DIRECT COSTS |
|------------------------------------|--|--|----------|--------------------|----------------------|
| <b>CAPITAL-RELATED COSTS - OLD</b> |  |  |          |                    |                      |
| 1.00                               | Old Cap. Related-Buildings and Fixtures  | \$0                                    |          | \$0                | \$0                  |
| 2.00                               | Old Cap. Related-Movable Equipment       | 0                                      |          | 0                  | 0                    |
| 3.00                               | SUBTOTAL (sum of lines 1 through 2.00)   | \$0                                    |          | \$0                | \$0                  |
| <b>CAPITAL-RELATED COSTS - NEW</b> |  |  |          |                    |                      |
| 4.00                               | New Cap. Related-Buildings and Fixtures  | \$0                                    | 1,2      | \$24,520           | \$24,520             |
| 5.00                               | New Cap. Related-Movable Equipment       | 0                                      |          | 0                  | 0                    |
| 6.00                               | SUBTOTAL (sum of lines 4 through 5.00)   | \$0                                    |          | \$24,520           | \$24,520             |
| <b>OTHER CAPITAL-RELATED COSTS</b> |  |  |          |                    |                      |
| 7.00                               | Insurance Premiums                       | \$0                                    |          | \$0                | \$0                  |
| 8.00                               | Taxes and Licenses - Not INCM            | 0                                      |          | 0                  | 0                    |
| 9.00                               | Other                                    | 0                                      |          | 0                  | 0                    |
| 10.00                              | SUBTOTAL (sum of lines 7 through 9)      | \$0                                    |          | \$0                | \$0                  |
| <b>NON CAPITAL-RELATED COSTS</b>   |  |  |          |                    |                      |
| 11.00                              | Salaries of Officers                     | \$0                                    |          | \$0                | \$0                  |
| 12.00                              | Salaries and Wages of Others             | 48,993                                 |          | 0                  | 48,993               |
| 13.00                              | Payroll Taxes                            | 0                                      |          | 0                  | 0                    |
| 14.00                              | Employee Benefits-Payroll Related        | 14,633                                 |          | 0                  | 14,633               |
| 15.00                              | Employee Benefits-Nonpayroll Related     | 0                                      |          | 0                  | 0                    |
| 16.00                              | Profit Sharing/Pension Plans             | 0                                      |          | 0                  | 0                    |
| 17.00                              | Legal Fees                               | 0                                      |          | 0                  | 0                    |
| 18.00                              | Auditing and Accounting Fees             | 0                                      |          | 0                  | 0                    |
| 19.00                              | Utilities                                | 70,414                                 | 5        | (18,657)           | 51,757               |
| 20.00                              | Communications                           | 29,739                                 | 6        | 4,494              | 34,233               |
| 21.00                              | Travel and Entertainment                 | 0                                      |          | 0                  | 0                    |
| 22.00                              | Transportation                           | 0                                      |          | 0                  | 0                    |
| 23.00                              | Cleaning Office and Admin Supplies       | 0                                      |          | 0                  | 0                    |
| 24.00                              | Minor Equipment Expensed                 | 0                                      |          | 0                  | 0                    |
| 25.00                              | Repairs and Maintenance                  | 0                                      |          | 0                  | 0                    |
| 26.00                              | Dues and Subscriptions                   | 0                                      |          | 0                  | 0                    |
| 27.00                              | Contributions                            | 0                                      |          | 0                  | 0                    |
| 28.00                              | Insurance Premium-Non Capital Related    | 28,622                                 | 3,7      | 3,536              | 32,158               |
| 29.00                              | Taxes and Licenses - Non Capital Related | 0                                      |          | 0                  | 0                    |
| 30.00                              | Interest Expense                         | 0                                      |          | 0                  | 0                    |
| 31.00                              | Temporary Labor                          | 0                                      |          | 0                  | 0                    |
| 32.00                              | Advertising                              | 0                                      |          | 0                  | 0                    |
| 33.00                              | Pharmacy Supplies                        | 150,021                                | 4        | 6,251              | 156,272              |
| 34.00                              | Training/Employee Programs               | 0                                      |          | 0                  | 0                    |
| 35.00                              | Other                                    | 0                                      |          | 0                  | 0                    |
| 36.00                              | SUBTOTAL (sum of lines 11 through 35.00) | \$342,422                              |          | (\$4,376)          | \$338,046            |
| 37.00                              | TOTAL ALLOWABLE EXPENSES                 | \$342,422                              |          | \$20,144           | \$362,566            |
| (To Sch. 7, 7-1)                   |  |  |          |                    |                      |
| 38.00                              | NONREIMBURSABLE EXPENSES                 | \$0                                    |          | \$0                | \$0                  |
| <b>TOTAL EXPENSES</b>              |  | <b>\$342,422</b>                       |          | <b>\$20,144</b>    | <b>\$362,566</b>     |

## TRIAL BALANCE OF EXPENSES

HOME OFFICE NAME:  
PROGRESSIVE SUBACUTE CARE INC.FISCAL PERIOD ENDED:  
DECEMBER 31, 2009

| LINE NO.                           | COST CENTER DESCRIPTION                  | REPORTED FUNCTIONAL COSTS (SCH. B, COL 7) | ADJ. NO. | ADJUSTMENT AMOUNTS | AUDITED FUNCTIONAL COSTS |
|------------------------------------|--|---|----------|--------------------|--------------------------|
| <b>CAPITAL-RELATED COSTS - OLD</b> |  |   |          |                    |                          |
| 1.00                               | Old Cap. Related-Buildings and Fixtures  | \$0                                       |          | \$0                | \$0                      |
| 2.00                               | Old Cap. Related-Movable Equipment       | 0   |          | 0                  | 0                        |
| 3.00                               | SUBTOTAL (sum of lines 1 through 2.00)   | \$0                                       |          | \$0                | \$0                      |
| <b>CAPITAL-RELATED COSTS - NEW</b> |  |   |          |                    |                          |
| 4.00                               | New Cap. Related-Buildings and Fixtures  | \$0                                       |          | \$0                | \$0                      |
| 5.00                               | New Cap. Related-Movable Equipment       | 0   |          | 0                  | 0                        |
| 6.00                               | SUBTOTAL (sum of lines 4 through 5.00)   | \$0                                       |          | \$0                | \$0                      |
| <b>OTHER CAPITAL-RELATED COSTS</b> |  |   |          |                    |                          |
| 7.00                               | Insurance Premiums                       | \$0                                       |          | \$0                | \$0                      |
| 8.00                               | Taxes and Licenses - Not INCM            | 0   |          | 0                  | 0                        |
| 9.00                               | Other                                    | 0   |          | 0                  | 0                        |
| 10.00                              | SUBTOTAL (sum of lines 7 through 9)      | \$0                                       |          | \$0                | \$0                      |
| <b>NON CAPITAL-RELATED COSTS</b>   |  |   |          |                    |                          |
| 11.00                              | Salaries of Officers                     | \$0                                       |          | \$0                | \$0                      |
| 12.00                              | Salaries and Wages of Others             | 0   |          | 0                  | 0                        |
| 13.00                              | Payroll Taxes                            | 0   |          | 0                  | 0                        |
| 14.00                              | Employee Benefits-Payroll Related        | 0   |          | 0                  | 0                        |
| 15.00                              | Employee Benefits-Nonpayroll Related     | 0   |          | 0                  | 0                        |
| 16.00                              | Profit Sharing/Pension Plans             | 0   |          | 0                  | 0                        |
| 17.00                              | Legal Fees                               | 0   |          | 0                  | 0                        |
| 18.00                              | Auditing and Accounting Fees             | 0   |          | 0                  | 0                        |
| 19.00                              | Utilities                                | 0   |          | 0                  | 0                        |
| 20.00                              | Communications                           | 0   |          | 0                  | 0                        |
| 21.00                              | Travel and Entertainment                 | 0   |          | 0                  | 0                        |
| 22.00                              | Transportation                           | 0   |          | 0                  | 0                        |
| 23.00                              | Cleaning Office and Admin Supplies       | 0   |          | 0                  | 0                        |
| 24.00                              | Minor Equipment Expensed                 | 0   |          | 0                  | 0                        |
| 25.00                              | Repairs and Maintenance                  | 0   |          | 0                  | 0                        |
| 26.00                              | Dues and Subscriptions                   | 0   |          | 0                  | 0                        |
| 27.00                              | Contributions                            | 0   |          | 0                  | 0                        |
| 28.00                              | Insurance Premium-Non Capital Related    | 0   |          | 0                  | 0                        |
| 29.00                              | Taxes and Licenses - Non Capital Related | 0   |          | 0                  | 0                        |
| 30.00                              | Interest Expense                         | 0   |          | 0                  | 0                        |
| 31.00                              | Temporary Labor                          | 0   |          | 0                  | 0                        |
| 32.00                              | Advertising                              | 0   |          | 0                  | 0                        |
| 33.00                              | Pharmacy Supplies                        | 0   |          | 0                  | 0                        |
| 34.00                              | Training/Employee Programs               | 0   |          | 0                  | 0                        |
| 35.00                              | Other                                    | 0   |          | 0                  | 0                        |
| 36.00                              | SUBTOTAL (sum of lines 11 through 35.00) | \$0                                       |          | \$0                | \$0                      |
| 37.00                              | TOTAL ALLOWABLE EXPENSES                 | \$0                                       |          | \$0                | \$0                      |
| (To Sch. 6, 6-1)                   |  |   |          |                    |                          |
| 38.00                              | NONREIMBURSABLE EXPENSES                 | \$0                                       |          | \$0                | \$0                      |
| <b>TOTAL EXPENSES</b>              |  | <b>\$0</b>                                |          | <b>\$0</b>         | <b>\$0</b>               |

REPORTED HOME OFFICE COSTS

HOME OFFICE NAME:  
PROGRESSIVE SUBACUTE CARE INC.

FISCAL PERIOD ENDED:  
DECEMBER 31, 2009

|                                     | MEDI-CAL NUMBER                | FISCAL PERIODS ENDING DURING HOME OFFICE FISCAL YEAR |          | DIRECT ALLOCATION              |                                      | FUNCTIONAL ALLOCATION          |                                      | POOLED ALLOCATION              |                                    | TOTAL ALLOCATION HOME OFFICE COSTS |                  |
|-------------------------------------|--------------------------------|--|----------|--------------------------------|--------------------------------------|--------------------------------|--------------------------------------|--------------------------------|------------------------------------|------------------------------------|------------------|
|                                     |                                | FROM   | TO       | CAPITAL RELATED COSTS (SCH. E) | NON-CAPITAL RELATED COSTS (SCH. E-1) | CAPITAL RELATED COSTS (SCH. F) | NON-CAPITAL RELATED COSTS (SCH. F-1) | CAPITAL RELATED COSTS (SCH. G) | NON-CAPITAL RELATED COSTS (SCH. G) |                                    |                  |
|                                     |                                |  |          |                                |                                      |                                |                                      |                                |                                    |                                    |                  |
| <b>HEALTH CARE FACILITIES</b>       |                                |  |          |                                |                                      |                                |                                      |                                |                                    |                                    |                  |
| 1.                                  | Subacute Saratoga              | LTC 40003F   | 01/01/09 | 12/31/09                       | \$0                                  | \$249,827                      |                                      |                                | \$22,456                           | \$247,215                          | \$519,498        |
| 2.                                  | Children's Recovery Center     | LTC 40007F   | 01/01/09 | 12/31/09                       | 0                                    | 85,458                         |                                      |                                | 16,419                             | 180,773                            | 282,650          |
| <b>SUBTOTAL (LINES 1 THROUGH 2)</b> |                                |  |          |                                | <b>\$0</b>                           | <b>\$335,285</b>               | <b>\$0</b>                           | <b>\$0</b>                     | <b>\$38,875</b>                    | <b>\$427,988</b>                   | <b>\$802,148</b> |
| <b>OTHER COMPONENTS</b>             |                                |  |          |                                |                                      |                                |                                      |                                |                                    |                                    |                  |
| 3.                                  | Scribbles and Giggles Day Care | N/A  | 01/01/09 | 12/31/09                       | \$0                                  | \$7,137                        |                                      |                                | 3,296                              | 36,284                             | \$46,717         |
| <b>SUBTOTAL (LINE 3 )</b>           |                                |  |          |                                | <b>\$0</b>                           | <b>\$7,137</b>                 | <b>\$0</b>                           | <b>\$0</b>                     | <b>\$3,296</b>                     | <b>\$36,284</b>                    | <b>\$46,717</b>  |
| <b>GRAND TOTAL</b>                  |                                |  |          |                                | <b>\$0</b>                           | <b>\$342,422</b>               | <b>\$0</b>                           | <b>\$0</b>                     | <b>\$42,171</b>                    | <b>\$464,272</b>                   | <b>\$848,865</b> |

(To Sch. 2, Col. 1)

| Provider Name                               |              |             |      |       |       |      | Fiscal Period  |             |                     | Provider Number |  | Adjustments |
|---|--------------|-------------|------|-------|-------|------|--|-------------|---------------------|-----------------|--|-------------|
| PROGRESSIVE SUBACUTE CARE, INC.             |              |             |      |       |       |      | JANUARY 1, 2009 THROUGH DECEMBER 31, 2009  |             |                     | LTCHO0075       |  | 19          |
| Report References                           |              |             |      |       |       |      | Explanation of Audit Adjustments   | As Reported | Increase (Decrease) | As Adjusted     |  |             |
| Adj. No.                                    | Audit Report | Cost Report |      |       |       |      |  |             |                     |                 |  |             |
|   |              | Work Sheet  | Part | Title | Line  | Col. |  |             |                     |                 |  |             |
| <b>ADJUSTMENTS TO REPORTED DIRECT COSTS</b> |              |             |      |       |       |      |  |             |                     |                 |  |             |
| 1   | 7            | E           |      |       | 1.00  | 4    | Subacute Saratoga  | \$0         | \$13,678            | \$13,678 *      |  |             |
|   | 8            | B           |      |       | 4.00  | 6    | New Capital Related Costs - Buildings and Fixtures<br>To adjust direct cost of property taxes to agree with the provider's records.<br>CMS Pub. 15-1, Sections 2300 and 2304                 | 0           | 13,678              | 13,678 *        |  |             |
| 2   | 7            | E           |      |       | 1.00  | 4    | Subacute Saratoga  | * \$13,678  | \$6,207             | \$19,885        |  |             |
|   | 7            | E           |      |       | 19.00 | 4    | Scribbles and Giggles Day Care   | 0           | 4,635               | 4,635           |  |             |
|   | 8            | B           |      |       | 4.00  | 6    | New Capital Related Costs - Buildings and Fixtures<br>To adjust the direct costs of property insurance to agree with the provider's records.<br>CMS Pub. 15-1, Sections 2150, 2161, and 2304 | * 13,678    | 10,842              | 24,520          |  |             |
| 3   | 7-1          | E-1         |      |       | 1.00  | 36   | Subacute Saratoga  | \$249,827   | \$2,767             | \$252,594 *     |  |             |
|   | 8            | B           |      |       | 28.00 | 6    | Insurance Premium - Non Capital Related  | 28,622      | 2,767               | 31,389 *        |  |             |
| 4   | 7-1          | E-1         |      |       | 1.00  | 36   | Subacute Saratoga  | * \$252,594 | \$3,758             | \$256,352 *     |  |             |
|   | 7-1          | E-1         |      |       | 2.00  | 36   | Children's Recovery Center   | 85,458      | 2,493               | 87,951 *        |  |             |
|   | 8            | B           |      |       | 33.00 | 6    | Pharmacy Supplies<br><br>To reconcile the reported direct costs to agree with the general ledger and provider's documentation.<br>CMS Pub. 15-1, Section 2304                                | 150,021     | 6,251               | 156,272         |  |             |
| 5   | 7-1          | E-1         |      |       | 1.00  | 36   | Subacute Saratoga  | * \$256,352 | (\$18,657)          | \$237,695 *     |  |             |
|   | 8            | B           |      |       | 19.00 | 6    | Utilities<br>To adjust the direct costs of utilities expenses to agree with the provider's records.<br>CMS Pub. 15-1, Sections 2300 and 2304   | 70,414      | (18,657)            | 51,757          |  |             |

| Provider Name  |              |             |      |       |      |   | Fiscal Period                             |             |                     | Provider Number |  | Adjustments |
|--|--------------|-------------|------|-------|------|---|---|-------------|---------------------|-----------------|--|-------------|
| PROGRESSIVE SUBACUTE CARE, INC.  |              |             |      |       |      |   | JANUARY 1, 2009 THROUGH DECEMBER 31, 2009 |             |                     | LTCHO0075       |  | 19          |
| Report References  |              |             |      |       |      |   | Explanation of Audit Adjustments          | As Reported | Increase (Decrease) | As Adjusted     |  |             |
| Adj. No.   | Audit Report | Cost Report |      |       |      |   |   |             |                     |                 |  |             |
|  |              | Work Sheet  | Part | Title | Line | Col.                                    |   |             |                     |                 |  |             |
| <b>ADJUSTMENTS TO REPORTED DIRECT COSTS</b>  |              |             |      |       |      |   |   |             |                     |                 |  |             |
| 6  | 7-1          | E-1         |      | 1.00  | 36   | Subacute Saratoga                       | *   | \$237,695   | \$7,005             | \$244,700 *     |  |             |
|  | 7-1          | E-1         |      | 19.00 | 36   | Scribbles and Giggles Day Care          |   | 7,137       | (2,511)             | 4,626           |  |             |
|  | 8            | B           |      | 20.00 | 6    | Communications                          |   | 29,739      | 4,494               | 34,233          |  |             |
| To adjust the direct costs of telephone expenses to agree with the provider's records and for proper cost finding.<br>CMS Pub. 15-1, Sections 2304 and 2306                              |              |             |      |       |      |   |   |             |                     |                 |  |             |
| 7  | 7-1          | E-1         |      | 1.00  | 36   | Subacute Saratoga                       | *   | \$244,700   | \$769               | \$245,469 *     |  |             |
|  | 8            | B           |      | 28.00 | 6    | Insurance Premium - Non-Capital Related | *   | 31,389      | 769                 | 32,158          |  |             |
| To adjust the direct costs of liability insurance to agree with the provider's records.<br>CMS Pub. 15-1, Sections 2300 and 2304   |              |             |      |       |      |   |   |             |                     |                 |  |             |
| 8  | 7-1          | E-1         |      | 1.00  | 36   | Subacute Saratoga                       | *   | \$245,469   | (\$900)             | \$244,569 *     |  |             |
|  | 7-1          | E-1         |      | 2.00  | 36   | Children's Recovery Center              | *   | 87,951      | 900                 | 88,851 *        |  |             |
| 9  | 7-1          | E-1         |      | 1.00  | 36   | Subacute Saratoga                       | *   | \$244,569   | (\$296)             | \$244,273 *     |  |             |
|  | 7-1          | E-1         |      | 2.00  | 36   | Children's Recovery Center              | *   | 88,851      | 296                 | 89,147 *        |  |             |
| 10   | 7-1          | E-1         |      | 1.00  | 36   | Subacute Saratoga                       | *   | \$244,273   | (\$3,030)           | \$241,243       |  |             |
|  | 7-1          | E-1         |      | 2.00  | 36   | Children's Recovery Center              | *   | 89,147      | 3,030               | 92,177          |  |             |
| To reclassify pharmacy expenses to reflect the change in allocation methodology from total patient days to gross pharmacy revenue.<br>CMS Pub. 15-1, Sections 2150, 2161, 2304, and 2328 |              |             |      |       |      |   |   |             |                     |                 |  |             |

| Provider Name                                      |              |             |      |       |       |      | Fiscal Period  |             | Provider Number     |             | Adjustments |
|--|--------------|-------------|------|-------|-------|------|--|-------------|---------------------|-------------|-------------|
| PROGRESSIVE SUBACUTE CARE, INC.                    |              |             |      |       |       |      | JANUARY 1, 2009 THROUGH DECEMBER 31, 2009  |             | LTCHO0075           |             | 19          |
| Report References                                  |              |             |      |       |       |      | Explanation of Audit Adjustments   | As Reported | Increase (Decrease) | As Adjusted |             |
| Adj. No.   | Audit Report | Cost Report |      |       |       |      |  |             |                     |             |             |
|  |              | Work Sheet  | Part | Title | Line  | Col. |  |             |                     |             |             |
| <b><u>ADJUSTMENTS TO REPORTED POOLED COSTS</u></b> |              |             |      |       |       |      |  |             |                     |             |             |
| 11   | 8            | B           |      |       | 4.00  | 8    | New Capital Related Costs - Buildings and Fixtures   | \$37,447    | \$374               | \$37,821 *  |             |
|  | 8            | B           |      |       | 5.00  | 8    | New Capital Related Costs - Movable Equipment<br>To adjust depreciation to agree with the provider's detail depreciation schedule.<br>CMS Pub. 15-1, Sections 102 and 2304                   | 4,724       | 2,370               | 7,094       |             |
| 12   | 8            | B           |      |       | 4.00  | 8    | New Capital Related Costs - Buildings and Fixtures<br>To adjust the pooled costs of property insurance to agree with the provider's records.<br>CMS Pub. 15-1, Sections 2150, 2161, and 2304 | * \$37,821  | (\$11,009)          | \$26,812 *  |             |
| 13   | 8            | B           |      |       | 4.00  | 8    | New Capital Related Costs - Buildings and Fixtures<br>To adjust pooled cost of property taxes to agree with the provider's records.<br>CMS Pub. 15-1, Sections 2300 and 2304                 | * \$26,812  | (\$19,540)          | \$7,272     |             |
| 14   | 8            | B           |      |       | 14.00 | 8    | Employee Benefits - Payroll Related<br>To reconcile the reported pooled costs to agree with the general ledger and provider's documentation.<br>CMS Pub. 15-1, Section 2304                  | \$48,480    | \$43,916            | \$92,396    |             |
| 15   | 8            | B           |      |       | 18.00 | 8    | Auditing and Accounting Fees<br>To include accounting fees as these costs are related to all chain components.<br>CMS Pub. 15-1, Sections 2304 and 2328                                      | \$3,000     | \$9,617             | \$12,617 *  |             |
| 16   | 8            | B           |      |       | 18.00 | 8    | Auditing and Accounting Fees<br>To adjust consultant costs to agree with the provider's records.<br>CMS Pub. 15-1, Sections 2139 and 2304  | * \$12,617  | (\$670)             | \$11,947    |             |

\*Balance carried forward from prior/to subsequent adjustments

| Provider Name                                      |              |             |      |       |       |      | Fiscal Period   |          |           | Provider Number |                     | Adjustments |
|--|--------------|-------------|------|-------|-------|------|---|----------|-----------|-----------------|---------------------|-------------|
| PROGRESSIVE SUBACUTE CARE, INC.                    |              |             |      |       |       |      | JANUARY 1, 2009 THROUGH DECEMBER 31, 2009   |          |           | LTCHO0075       |                     | 19          |
| Report References                                  |              |             |      |       |       |      | Explanation of Audit Adjustments  |          |           | As Reported     | Increase (Decrease) | As Adjusted |
| Adj. No.   | Audit Report | Cost Report |      |       |       |      |   |          |           |                 |                     |             |
|  |              | Work Sheet  | Part | Title | Line  | Col. |   |          |           |                 |                     |             |
| <b><u>ADJUSTMENTS TO REPORTED POOLED COSTS</u></b> |              |             |      |       |       |      |   |          |           |                 |                     |             |
| 17   | 8            | B           |      |       | 19.00 | 8    | Utilities<br>To adjust pooled cost of utilities expense to agree with the provider's records.<br>CMS Pub. 15-1, Sections 2300 and 2304  | \$20,005 | (\$3,130) | \$16,875        |                     |             |
| 18   | 8            | B           |      |       | 20.00 | 8    | Communications<br>To adjust reported pooled costs of telephone expenses to agree with provider's records and for proper cost finding.<br>CMS Pub. 15-1, Sections 2304 and 2306      | \$10,706 | (\$6,080) | \$4,626         |                     |             |
| 19   | 8            | B           |      |       | 28.00 | 8    | Insurance Premium - Non Capital Related<br>To adjust the pooled costs of general liability insurance to agree with the provider's records.<br>CMS Pub. 15-1, Sections 2300 and 2304 | \$3,537  | (\$689)   | \$2,848         |                     |             |