

Essent Healthcare of Connecticut, Inc. and Affiliates

Independent Auditors' Report,
Combined Financial Statements and
Supplemental Information

As of and for the Years Ended
September 30, 2014 and 2013



Saslow Lufkin & Buggy, LLP
Accounting · Tax · Advisory

Essent Healthcare of Connecticut, Inc. and Affiliates
Independent Auditors' Report, Combined Financial Statements
And Supplemental Information
As of and for the Years Ended September 30, 2014 and 2013

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Independent Auditors' Report

To the Board of Directors of
Essent Healthcare of Connecticut, Inc. and Affiliates:

We have audited the accompanying combined financial statements of Essent Healthcare of Connecticut, Inc. and Affiliates (the Company), which comprise the combined balance sheet as of September 30, 2014 and the related combined statements of operations, comprehensive (loss) income, owner's equity and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

The Company's management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2014 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Essent Healthcare of Connecticut, Inc. and Affiliates as of September 30, 2014, and the results of its combined operations and its combined cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.





Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information listed within the Table of Contents is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and changes in owner's equity of the individual entities and is not a required part of the combined financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Prior Period Financial Statements

The combined financial statements of Essent Healthcare of Connecticut, Inc. and Affiliates as of and for the year ended September 30, 2013, were audited by other auditors whose report dated February 28, 2014, expressed an unmodified opinion on those statements.

Saslow Lufkin & Buggy, LLP

January 30, 2015

Essent Healthcare of Connecticut, Inc. and Affiliates
Combined Balance Sheets
September 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,465	\$ 117,062
Patient accounts receivable, net of allowance for doubtful accounts of \$5,194,063 in 2014 and \$3,560,849 in 2013	6,904,941	7,934,530
Inventories	1,192,492	1,271,046
Due from third-party payors	137,029	-
Prepaid expenses and other receivables	813,147	1,848,189
Deferred income taxes	1,484,938	1,179,591
Total current assets	10,543,012	12,350,418
Property and equipment:		
Land and land improvements	1,677,359	1,797,359
Buildings	39,904,397	39,935,604
Equipment	22,317,314	21,564,142
Construction-in-progress	291,678	-
	64,190,748	63,297,105
Less: accumulated depreciation	(31,083,584)	(28,688,271)
Total property and equipment - net	33,107,164	34,608,834
Deferred income taxes	171,874	-
Other assets	706,549	667,672
Total assets	\$ 44,528,599	\$ 47,626,924
Liabilities and Owners' Equity		
Current liabilities:		
Accounts payable and other liabilities	\$ 1,941,959	\$ 1,739,478
Other accrued expenses	3,439,322	4,264,163
Due to third-party payors	-	291,175
Current portion of capital lease obligations	165,055	54,591
Total current liabilities	5,546,336	6,349,407
Accrued post-retirement benefits	1,450,000	1,268,000
Deferred income taxes	-	309,815
Capital lease obligations, less current portion	508,824	244,489
Amounts due to RegionalCare	20,704,808	21,600,220
Total liabilities	28,209,968	29,771,931
Owners' equity:		
Other comprehensive loss	(497,417)	(371,399)
Equity	16,816,048	18,226,392
Total owners' equity	16,318,631	17,854,993
Total liabilities and owners' equity	\$ 44,528,599	\$ 47,626,924

The accompanying notes are an integral part of these combined financial statements.

Essent Healthcare of Connecticut, Inc. and Affiliates
Combined Statements of Operations
For the Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Net revenues:		
Net patient revenue	\$ 58,761,836	\$ 62,715,428
Provision for doubtful accounts	<u>(2,651,594)</u>	<u>(2,466,684)</u>
Net patient revenue, less provision for doubtful accounts	56,110,242	60,248,744
Electronic health record income	671,529	1,315,411
Other revenues	<u>533,946</u>	<u>429,185</u>
Total net revenues	57,315,717	61,993,340
Operating expenses:		
Salaries and benefits	27,512,332	27,271,346
Professional services	12,419,426	12,098,043
Supplies	6,326,695	6,890,427
Other operating expenses	8,821,965	8,742,480
Depreciation and amortization	<u>2,576,361</u>	<u>2,992,573</u>
Total operating expenses	<u>57,656,779</u>	<u>57,994,869</u>
(Loss) income before interest, intercompany fees and income tax provision	(341,062)	3,998,471
Interest expense (income)	11,263	(5,555)
Intercompany fees	<u>1,752,263</u>	<u>1,623,609</u>
(Loss) income before income tax (benefit) provision	(2,104,588)	2,380,417
Income tax (benefit) provision	<u>(694,244)</u>	<u>856,140</u>
Net (loss) income	<u>\$ (1,410,344)</u>	<u>\$ 1,524,277</u>

The accompanying notes are an integral part of these combined financial statements.

**Essent Healthcare of Connecticut, Inc. and Affiliates
 Combined Statements of Comprehensive (Loss) Income
 For the Years Ended September 30, 2014 and 2013**

	2014	2013
Net (loss) income	\$ (1,410,344)	\$ 1,524,277
Actuarial (loss) gain on post-retirement healthcare benefit, net of income tax of \$65,982 in 2014 and \$47,103 in 2013	(126,018)	87,897
Comprehensive (loss) income	\$ (1,536,362)	\$ 1,612,174

The accompanying notes are an integral part of these combined financial statements.

Essent Healthcare of Connecticut, Inc. and Affiliates
Combined Statements of Owners' Equity
For the Years Ended September 30, 2014 and 2013

	<u>Other Comprehensive Loss</u>	<u>Equity</u>	<u>Total Owners' Equity</u>
Balance at October 1, 2012	\$ (459,296)	\$ 16,702,115	\$ 16,242,819
Net income	-	1,524,277	1,524,277
Actuarial gain on post-retirement healthcare benefit (net of tax expense)	<u>87,897</u>	<u>-</u>	<u>87,897</u>
Balance at September 30, 2013	(371,399)	18,226,392	17,854,993
Net loss	-	(1,410,344)	(1,410,344)
Actuarial loss on post-retirement healthcare benefit (net of tax benefit)	<u>(126,018)</u>	<u>-</u>	<u>(126,018)</u>
Balance at September 30, 2014	<u>\$ (497,417)</u>	<u>\$ 16,816,048</u>	<u>\$ 16,318,631</u>

The accompanying notes are an integral part of these combined financial statements.

Essent Healthcare of Connecticut, Inc. and Affiliates
Combined Statements of Cash Flows
For the Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Net (loss) income	\$ (1,410,344)	\$ 1,524,277
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	2,576,361	2,992,573
Provision for bad debt	2,651,594	2,466,684
Post-retirement benefits - deferred taxes	65,982	(47,103)
Deferred income taxes	(787,036)	(493,860)
Gain on sale of property and equipment	(138,408)	-
Changes in assets and liabilities:		
Account receivable	(1,622,005)	(2,884,364)
Inventories	78,554	(127,970)
Estimated settlement from third-party payors	(428,204)	85,178
Prepaid expenses and other receivables	1,035,042	262,970
Accounts payable and other liabilities	202,481	(97,102)
Other accrued expenses	(834,841)	149,252
Net cash provided by operating activities	1,389,176	3,830,535
Cash flows from investing activities:		
Purchases of property and equipment	(816,977)	(989,191)
Proceeds from the sale of property and equipment	407,797	-
Increase in other assets	(38,877)	(78,541)
Net cash used in investing activities	(448,057)	(1,067,732)
Cash flows from financing activities:		
Net advances to RegionalCare	(895,412)	(2,596,565)
Capital lease principal payments	(152,304)	(49,176)
Net cash used in financing activities	(1,047,716)	(2,645,741)
Net change in cash and cash equivalents	(106,597)	117,062
Cash and cash equivalents at beginning of year	117,062	-
Cash and cash equivalents at end of year	\$ 10,465	\$ 117,062
Supplemental cash flow information:		
Cash paid for interest	\$ 39,491	\$ 26,187
Non-cash investing activities:		
Equipment acquired under capital lease obligations	\$ 527,103	\$ 339,136

The accompanying notes are an integral part of these combined financial statements.

Essent Healthcare of Connecticut, Inc. and Affiliates
Notes to the Combined Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 1 - Organization and Summary of Significant Accounting Policies

Essent Healthcare of Connecticut, Inc. (EHC) is a subsidiary of Sharon Hospital Holding Company, Inc. (the Parent), which in turn is an indirect wholly owned subsidiary of RegionalCare Hospital Partners Holdings, Inc. (RegionalCare). EHC owns and operates Sharon Hospital (the Hospital) and the Parent owns the physician office practices Regional Healthcare Associates, LLC and Tri-State Women's Services, LLC. These combined financial statements include the results of operations of EHC, Regional Healthcare Associates, LLC and Tri-State Women's Services, LLC, collectively (the Company), for the years ended September 30, 2014 and 2013. The Hospital and physician practices provide healthcare services to patients living in Sharon, Connecticut and the surrounding communities.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying combined financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The combined financial statements include the accounts of the Company and of its affiliates. Significant intercompany accounts and transactions have been eliminated in combination. The assets of any member of the combined group may not be available to meet the obligations of other members in the group.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of Combination - The accompanying combined financial statements include the accounts of Essent Healthcare of Connecticut, Inc. and Affiliates. All material intercompany accounts and transactions have been eliminated in combination.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash on hand less an amount for payments that have not cleared the bank (outstanding checks). The Company participates in RegionalCare's cash management system, which provides cash to the Company as outstanding checks clear the bank. Cash and cash equivalents are held in financial institutions that are federally insured. The amount of credit exposure with any one institution is limited.

Net Patient Revenue and Accounts Receivable - The Company has entered into agreements with third-party payors, including government programs and commercial insurers, under which the facilities are paid based upon discounts from established charges, the cost of providing services, predetermined rates per diagnosis, or fixed per diem rates. Revenues are recorded at the time the healthcare services are provided at estimated amounts due from patients and third-party payors. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as interim or final settlements of amounts are determined. Final determination of certain amounts earned under prospective payment and cost-reimbursement activities is subject to review by appropriate governmental authorities or their agents and may take several years for the final settlements to be determined.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a possibility that recorded estimates may change in the future. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company's combined financial statements.

Essent Healthcare of Connecticut, Inc. and Affiliates
Notes to the Combined Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Management recognizes that revenue and receivables from government agencies are significant to its operations, but it does not believe that there is significant credit risks associated with these government agencies. The Company's credit risk relates primarily to its self-pay accounts receivables. The Company performs continual credit evaluations of its accounts receivable and maintains allowances for estimated uncollectible amounts. The Company's determination of uncollectible accounts is based on an assessment of historical and expected net collections, and business and economic conditions prevalent in its market and trends in federal and state governmental healthcare coverage. Upon the culmination of reasonable collection efforts, accounts receivable are written-off based upon specific identification.

The Company's total net patient revenues by payor and percentages of revenues, were as follows, for the years ended September 30, 2014 and 2013:

	2014		2013	
	Amount	Ratio	Amount	Ratio
Net patient service revenue:				
Medicare	\$ 28,146,919	47.9%	\$ 30,855,991	49.2%
Managed care and other insurance	21,624,356	36.8%	23,330,139	37.2%
Medicaid	7,756,562	13.2%	6,459,689	10.3%
Self pay	1,233,999	2.1%	2,069,609	3.3%
Total	\$ 58,761,836	100.0%	\$ 62,715,428	100.0%

The Company provides care to patients who are financially unable to pay for the healthcare services they receive. Because the Company does not pursue collection of amounts determined to qualify as charity care, the related charges are not reported as revenue. The Company estimates the costs of charity care provided were approximately \$340,000 and \$350,000 for the years ended September 30, 2014 and 2013, respectively. The Company estimates the costs of care provided under its charity care policy by calculating a ratio of costs to gross charges and applying this ratio to gross charity care charges.

Electronic Health Record (EHR) Incentive Income - The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 for eligible hospitals and professionals that adopt and meaningfully use certified EHR technology. The Company recognizes income related to Medicare and Medicaid incentive payments as operating income shown in the combined statements of operations.

Medicaid EHR incentive calculations and related payment amounts are based upon prior period cost report information available at the time eligible hospitals adopt, implement or demonstrate meaningful use of certified EHR technology for the applicable period, and are not subject to revision for cost report data filed for a subsequent period. Thus, Medicaid EHR Incentive income recognition occurs at the point eligible hospitals adopt, implement or demonstrate meaningful use of certified EHR technology for the applicable period, as the cost report information for the full cost report year that will determine the final calculation of the incentive payment is known at that time.

Essent Healthcare of Connecticut, Inc. and Affiliates
Notes to the Combined Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Medicare EHR incentive calculations and related initial payment amounts are based upon the most current filed cost report information available at the time the Company demonstrates meaningful use of certified EHR technology for the applicable period. However, unlike Medicaid, this initial payment amount will be adjusted based upon an updated calculation using the annual cost report information for the cost report period that began during the applicable payment year. Thus, Medicare EHR incentive income recognition occurs at the point eligible hospitals demonstrate meaningful use of certified EHR technology for the applicable period and the cost report information for the full cost report year that will determine the final calculation of the incentive payment is available.

The Company recognized EHR incentive income related to the Medicare incentive program of \$671,529 during the year ended September 30, 2014. The Company recognized \$1,315,411 of EHR incentive income related to Medicare - \$1,193,972 and Medicaid - \$121,439 during the year ended September 30, 2013.

Inventories - Inventories, principally medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment - Property and equipment are stated at cost, less accumulated depreciation. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase values, change capacities or extend useful lives are capitalized. Depreciation expense is computed by the straight-line method over the estimated useful lives of the assets, which approximate 3 to 30 years. Depreciation expense, including amortization on assets recorded under capital lease obligations, was \$2,576,361 and \$2,992,573 for the years ended September 30, 2014 and 2013, respectively.

Long-Lived Assets - The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating possible impairment, the Company uses the most appropriate method of evaluation given the circumstances surrounding the particular asset, which generally has been an estimate of the related asset's undiscounted cash flows, as prescribed by the FASB accounting guidance for the impairment or disposal of long-lived assets. The Company incurred no impairment to the long-lived assets in the years ended September 30, 2014 and 2013.

Amounts due to/From RegionalCare - Amounts due to/from RegionalCare represent the net excess or deficit of funds transferred to or paid on behalf of the Company over funds transferred to the centralized cash management account of RegionalCare. Generally, this balance represents funds advanced to acquire the facility, net of the effect of funds used or provided by the Company during the normal daily cash management process, plus any intercompany charges from RegionalCare to the Company for management fees and other costs. Management fees include an allocation of corporate office expense of \$1,752,263 and \$1,623,608 for the years ended September 30, 2014 and 2013, respectively.

Self-Insurance Plan - RegionalCare maintains a self-insured medical and dental plan for employees of the Company. Claims are accrued under this plan by RegionalCare as the incidents that give rise to them occur and are allocated to the Company. Unpaid claim accruals are based on the estimated ultimate cost of the claim, including any related expenses, in accordance with the Company's past experience. RegionalCare has entered into a reinsurance agreement with an independent insurance company to limit its losses on claims and remains liable for these claims to the extent that the re-insurer does not meet its obligations.

Essent Healthcare of Connecticut, Inc. and Affiliates
Notes to the Combined Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Income Taxes - The Company is a corporation subject to federal and state income taxes. In accordance with the FASB's guidance for accounting for income taxes, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. Under the income tax guidance, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the rate change is enacted. The Company is included in the consolidated Federal tax return of RegionalCare. RegionalCare's tax policy is to allocate a provision for income taxes as if the Company filed a separate return. The state income tax provision for the years ended September 30, 2014 and 2013, were based on the Company's allocable share of the consolidated state income tax rate for RegionalCare. Obligations related to income taxes of \$26,808 and \$72,345 at September 30, 2014 and 2013, respectively, are included in amounts due to RegionalCare in the accompanying combined balance sheets. All income tax payments are paid by RegionalCare in connection with the consolidated Federal tax obligation.

The Company accounts for uncertain tax positions in accordance with provisions of FASB ASC 740, "Income Taxes", which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their combined financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company does not have any uncertain tax positions as of September 30, 2014 and 2013. As of September 30, 2014 and 2013, the Company did not record any penalties or interest associated with uncertain tax positions. The Company's prior three tax years are open and subject to examination by the Internal Revenue Service.

Fair Value of Financial Instruments - The carrying amounts reported in the accompanying combined balance sheets for accounts receivable, prepaid expenses and other receivables, accounts payable, other accrued expenses, other current liabilities, and other liabilities approximate fair value. Based on the borrowing rates currently available to the Company, the carrying amounts reported for capital lease obligations approximate fair value.

Professional and General Liability Reserves - The Company is insured for professional and general liabilities under RegionalCare's insurance policies. RegionalCare insures for professional and general liability risks under a combination of "claims-made" policies. Claims are covered up to at least \$2,000,000 per occurrence. The Company paid \$1,156,644 in 2014 and \$701,340 in 2013, respectively, to RegionalCare to insure the \$2,000,000 self-insurance retention. Additionally, RegionalCare has excess liability policies in place to extend coverage to a maximum of \$40,000,000 per occurrence and in the aggregate. RegionalCare reserves for professional and general liability risks, including estimates for incurred but not reported claims, and allocates such costs to the Company. Professional and general liability costs incurred for the years ended September 30, 2014 and 2013, and recorded in other operating expenses in the combined statements of operations totaled \$1,544,958 and \$1,270,339, respectively.

Reclassifications - Certain reclassifications have been made to the prior year presentation to conform to the current year presentation.

Essent Healthcare of Connecticut, Inc. and Affiliates
Notes to the Combined Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 3 - Retirement Benefit Plans

Postretirement Benefit Plan - The Company provides postretirement benefits consisting of supplemental medical and dental coverage to eligible former employees of the Hospital who retired prior to August 1, 1994. Only those employees grandfathered in the postretirement plan are eligible to participate.

Significant disclosures relating to the postretirement benefit plan (measured as of September 30, 2014 and 2013), is as follows:

	<u>2014</u>	<u>2013</u>
Components of net periodic benefit cost:		
Interest cost	\$ 46,000	\$ 39,000
Amortization of actuarial loss	89,000	104,000
	<u>\$ 135,000</u>	<u>\$ 143,000</u>
Change in benefit obligation:		
Accumulated benefit obligation at beginning of year	\$ 1,429,000	\$ 1,564,000
Interest cost	46,000	39,000
Benefits paid	(145,000)	(166,000)
Actuarial loss (gain)	291,000	(8,000)
	<u>\$ 1,621,000</u>	<u>\$ 1,429,000</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	145,000	166,000
Benefits paid	(145,000)	(166,000)
	<u>\$ -</u>	<u>\$ -</u>
Funded status and accrued pension liability	<u>\$ (1,621,000)</u>	<u>\$ (1,429,000)</u>
Amounts recognized in the combined balance sheets consists of:		
Current liabilities	\$ (171,000)	\$ (161,000)
Noncurrent liabilities	(1,450,000)	(1,268,000)
	<u>\$ (1,621,000)</u>	<u>\$ (1,429,000)</u>

Essent Healthcare of Connecticut, Inc. and Affiliates
Notes to the Combined Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 3 - Retirement Benefit Plans (continued)

	2014	2013
Weighted-average assumptions used to determine benefit obligations at September 30:		
Discount rate	3.21%	3.39%
Measurement date	Sept. 30, 2014	Sept. 30, 2013
Medical cost trend rate assumed for next year	6.73%	6.78%
Ultimate rate	4.50%	4.50%
Year that the rate reaches the ultimate rate	2027	2027
	2014	2013
Expected cash flows		
Expected return of assets to employer in next year	\$ -	\$ -
Expected employer contributions for next fiscal year	171,000	161,000
Effect of 1% increase in trend rates		
Effect on total service cost and interest cost	\$ 3,000	\$ 2,000
Effect on benefit obligation	\$ 91,000	\$ 87,000
Effect of 1% decrease in trend rates		
Effect on total service cost and interest cost	\$ (2,000)	\$ (2,000)
Effect on benefit obligation	\$ (84,000)	\$ (82,000)

	Employer Benefit Payment
2015	\$ 171,000
2016	\$ 167,000
2017	\$ 162,000
2018	\$ 156,000
2019	\$ 150,000
Next five years	\$ 627,000

For measurement purposes relating to the postretirement benefit plan for 2014, annual increases in per capita cost of covered healthcare benefits of 6.73% (grading down to 4.5% after 13 years) were assumed.

401(k) Plan - Employees of the Company, who have completed at least a month of service, are eligible to participate in the RegionalCare Hospital Partners Retirement Savings Plan (the Plan), a defined contribution retirement plan sponsored by RegionalCare. The Company makes matching contributions to the Plan on a discretionary basis. For the years ended September 30, 2014 and 2013, the Company recorded \$64,696 and \$336,297, respectively, as an expense related to the employer's matching contribution to participants in the Plan.

Essent Healthcare of Connecticut, Inc. and Affiliates
Notes to the Combined Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 4 - Owners' Equity

EHC issued 19,000 shares of Class A common stock to the Parent at a price of \$0.01 per share. Holders of the Class A common stock outstanding shall be entitled to one vote per share on all matters to be voted on by the stockholders. The Board may declare a dividend on the common stock out of the unrestricted and unreserved surplus of EHC. As and when dividends are declared or paid thereon, the holders of the common stock shall be entitled to receive the balance of such dividends ratably among such holders. This common stock has been reflected in equity of the combined financial statement.

Upon any liquidation of EHC, after payment of all of the Company's debts and obligations, the holders of common stock shall be entitled to participate in all distributions. The holders of the common stock shall be entitled to receive the balance of such distribution ratably among such holders.

In connection with the acquisition of the Hospital, EHC issued 1,000 shares of \$0.01 par value, non-voting Class B common stock (the Shares) to the seller. In accordance with the Stockholders Agreement, EHC has the right to call the Shares at any time on and after April 12, 2012, for a total purchase price of \$250,000. Additionally, under the Stockholders' Agreement, holders of the Shares have no rights to any dividends. Upon liquidation of EHC, the holders of the Shares are entitled to an aggregate maximum amount of \$250,000. For purposes of the combined presentation, the common stock and the \$250,000 minority interest has been reflected within equity.

Note 5 - Capital Lease Obligations

The Company leases various equipment under lease agreements that have been capitalized with a net book value of \$580,778 and \$254,352 at September 30, 2014 and 2013, respectively. Future minimum lease payments and the present value of future minimum lease payments for capital leases as of September 30, 2014, are as follows:

2015	\$	193,559
2016		193,559
2017		193,559
2018		149,153
2019		<u>5,030</u>
Total minimum future payments		734,860
Less amounts representing interest		(60,981)
Less current portion of capital lease obligations		<u>(165,055)</u>
Capital lease obligations, less current portion	\$	<u><u>508,824</u></u>

Essent Healthcare of Connecticut, Inc. and Affiliates
Notes to the Combined Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 6 - Income Taxes

The income tax (benefit) provision for the years ended September 30, 2014 and 2013, includes the following components:

	<u>2014</u>	<u>2013</u>
Federal income tax provision (benefit):		
Current	\$ -	\$ 1,324,760
Deferred	<u>(715,442)</u>	<u>(534,042)</u>
Total federal income tax provision (benefit)	<u>(715,442)</u>	790,718
State income tax provision:		
Current	\$ 26,809	\$ 72,345
Deferred	<u>(5,611)</u>	<u>(6,923)</u>
Total state income tax provision	<u>21,198</u>	<u>65,422</u>
Total income tax provision (benefit)	<u><u>\$ (694,244)</u></u>	<u><u>\$ 856,140</u></u>

Significant components of the Company's deferred tax assets and liabilities consist of the following at September 30, 2014:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Deferred tax assets:			
Accrued expense	\$ 360,412	\$ (16,612)	\$ 343,800
Allowance for doubtful accounts	1,124,526	-	1,124,526
Net operating loss carry forward	-	348,421	348,421
Charitable contribution carry forward	-	5,045	5,045
Post-retirement benefit plan	<u>-</u>	<u>262,600</u>	<u>262,600</u>
Total deferred tax assets	1,484,938	599,454	2,084,392
Deferred tax liabilities:			
Property and equipment	<u>-</u>	<u>(427,580)</u>	<u>(427,580)</u>
Total deferred tax liabilities	<u>-</u>	<u>(427,580)</u>	<u>(427,580)</u>
Deferred tax asset, net	<u><u>\$ 1,484,938</u></u>	<u><u>\$ 171,874</u></u>	<u><u>\$ 1,656,812</u></u>

Essent Healthcare of Connecticut, Inc. and Affiliates
Notes to the Combined Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 6 - Income Taxes (continued)

Significant components of the Company's deferred tax assets and liabilities consist of the following at September 30, 2013:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Deferred tax assets:			
Accrued expense	\$ 418,955	\$ 139,891	\$ 558,846
Allowance for doubtful accounts	760,636	-	760,636
Post-retirement benefit plan	-	196,618	196,618
	<u>1,179,591</u>	<u>336,509</u>	<u>1,516,100</u>
Total deferred tax assets			
Deferred tax liabilities:			
Property and equipment	-	(646,324)	(646,324)
	<u>-</u>	<u>(646,324)</u>	<u>(646,324)</u>
Total deferred tax liabilities			
	<u>-</u>	<u>(646,324)</u>	<u>(646,324)</u>
Deferred tax (liability) asset, net	<u>\$ 1,179,591</u>	<u>\$ (309,815)</u>	<u>\$ 869,776</u>

The Company's effective tax rate differed from the federal statutory rate as set forth below:

	<u>2014</u>	<u>2013</u>
Tax at U.S. statutory rates	\$ (709,065)	\$ 809,342
State taxes, net of federal benefits	8,663	39,817
Other	6,158	6,981
Total	<u>\$ (694,244)</u>	<u>\$ 856,140</u>

Note 7 - Contingencies and Healthcare Regulations

The Company is subject to various claims and lawsuits arising in the normal course of business. In the opinion of management, the ultimate resolution of these matters will not have a material effect on the Company's financial position, results of operations, or cash flows.

Healthcare Regulations - Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Company.

Essent Healthcare of Connecticut, Inc. and Affiliates
Notes to the Combined Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 8 - Operating Leases

The Company leases office facilities and certain equipment under noncancellable operating leases that expire at various dates through 2017. As of September 30, 2014, the future minimum lease commitments under these noncancellable leases are as follows:

2015	\$	279,440
2016		65,515
2017		<u>21,577</u>
Total	\$	<u><u>366,532</u></u>

Total rental expense was \$603,838 and \$489,321 for the years ended September 30, 2014 and 2013, respectively.

Note 9 - Subsequent Events

The Company has evaluated all material events subsequent to the combined balance sheet date through January 30, 2015, for events requiring disclosure or recognition in the combined financial statements. There were no subsequent events requiring disclosure or recognition in the combined financial statements, other than on December 1, 2014, the Parent exercised its right to purchase the Class B Shares of EHC for a purchase price of \$250,000.

Essent Healthcare of Connecticut, Inc. and Affiliates
Combining Balance Sheet
September 30, 2014

	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Tri State Women's Services, LLC	Eliminations	Combined Essent Healthcare of Connecticut, Inc. and Affiliates
Current assets:					
Cash and cash equivalents	\$ (85,599)	\$ 78,613	\$ 17,451	\$ -	\$ 10,465
Patient accounts receivable, net of allowance for doubtful accounts of \$5,194,063 in 2014	6,358,072	348,935	197,934	-	6,904,941
Inventories	1,159,614	16,886	15,992	-	1,192,492
Due from third-party payors	137,029	-	-	-	137,029
Prepaid expenses and other receivables	952,893	60,000	24,660	(224,406)	813,147
Deferred income taxes	1,484,938	-	-	-	1,484,938
Total current assets	<u>10,006,947</u>	<u>504,434</u>	<u>256,037</u>	<u>(224,406)</u>	<u>10,543,012</u>
Property and equipment:					
Land and land improvements	1,677,359	-	-	-	1,677,359
Buildings	39,904,397	-	-	-	39,904,397
Equipment	22,317,314	-	-	-	22,317,314
Construction in progress	291,678	-	-	-	291,678
	<u>64,190,748</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,190,748</u>
Less: accumulated depreciation	(31,083,584)	-	-	-	(31,083,584)
Total property and equipment - net	<u>33,107,164</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,107,164</u>
Deferred income taxes	171,874	-	-	-	171,874
Other assets	535,304	52,245	119,000	-	706,549
Total assets	<u>\$ 43,821,289</u>	<u>\$ 556,679</u>	<u>\$ 375,037</u>	<u>\$ (224,406)</u>	<u>\$ 44,528,599</u>

See accompanying independent auditors' report.

Essent Healthcare of Connecticut, Inc. and Affiliates
Combining Balance Sheet (continued)
September 30, 2014

	<u>Essent Healthcare of Connecticut, Inc.</u>	<u>Regional Healthcare Associates, LLC</u>	<u>Tri State Women's Services, LLC</u>	<u>Eliminations</u>	<u>Combined Essent Healthcare of Connecticut, Inc. and Affiliates</u>
Current liabilities:					
Accounts payable and other liabilities	\$ 1,693,632	\$ 209,184	\$ 39,143	\$ -	\$ 1,941,959
Other accrued expenses	2,929,986	515,531	218,211	(224,406)	3,439,322
Due to third-party payors	-	-	-	-	-
Current portion of capital lease obligations	165,055	-	-	-	165,055
Total current liabilities	<u>4,788,673</u>	<u>724,715</u>	<u>257,354</u>	<u>(224,406)</u>	<u>5,546,336</u>
Accrued post-retirement benefits	1,450,000	-	-	-	1,450,000
Deferred income taxes	-	-	-	-	-
Capital lease obligations, less current portion	508,824	-	-	-	508,824
Amounts due to RegionalCare	4,264,339	15,169,992	1,270,477	-	20,704,808
Total liabilities	<u>11,011,836</u>	<u>15,894,707</u>	<u>1,527,831</u>	<u>(224,406)</u>	<u>28,209,968</u>
Owners' equity:					
Other comprehensive loss	(497,417)	-	-	-	(497,417)
Equity	33,306,870	(15,338,028)	(1,152,794)	-	16,816,048
Total owners' equity	<u>32,809,453</u>	<u>(15,338,028)</u>	<u>(1,152,794)</u>	<u>-</u>	<u>16,318,631</u>
Total liabilities and owners' equity	<u>\$ 43,821,289</u>	<u>\$ 556,679</u>	<u>\$ 375,037</u>	<u>\$ (224,406)</u>	<u>\$ 44,528,599</u>

See accompanying independent auditors' report.

Essent Healthcare of Connecticut, Inc. and Affiliates
Combining Statement of Operations
For the Year Ended September 30, 2014

	<u>Essent Healthcare of Connecticut, Inc.</u>	<u>Regional Healthcare Associates, LLC</u>	<u>Tri State Women's Services, LLC</u>	<u>Eliminations</u>	<u>Combined Essent Healthcare of Connecticut, Inc. and Affiliates</u>
Net revenues:					
Net patient revenues	\$ 52,356,613	\$ 4,652,220	\$ 1,753,003	\$ -	\$ 58,761,836
Provision for doubtful accounts	<u>(2,270,701)</u>	<u>(347,083)</u>	<u>(33,810)</u>	<u>-</u>	<u>(2,651,594)</u>
Net patient revenues less provision for doubtful accounts	50,085,912	4,305,137	1,719,193	-	56,110,242
Electronic health record income	671,529	-	-	-	671,529
Other revenues	<u>420,954</u>	<u>87,948</u>	<u>325,074</u>	<u>(300,030)</u>	<u>533,946</u>
Total net revenues	51,178,395	4,393,085	2,044,267	(300,030)	57,315,717
Operating expenses:					
Salaries and benefits	21,296,655	6,150,974	64,703	-	27,512,332
Professional services	9,035,621	1,339,386	2,344,449	(300,030)	12,419,426
Supplies	5,992,934	217,829	115,932	-	6,326,695
Other operating expenses	8,277,611	380,835	163,519	-	8,821,965
Depreciation and amortization	<u>2,563,946</u>	<u>8,835</u>	<u>3,580</u>	<u>-</u>	<u>2,576,361</u>
Total operating expenses	47,166,767	8,097,859	2,692,183	(300,030)	57,656,779
Income (loss) before interest, intercompany fees and income tax provision	4,011,628	(3,704,774)	(647,916)	-	(341,062)
Interest expense	11,263	-	-	-	11,263
Intercompany fees	<u>1,752,263</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,752,263</u>
Income (loss) before taxes	2,248,102	(3,704,774)	(647,916)	-	(2,104,588)
Income tax benefit	<u>(694,244)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(694,244)</u>
Net income (loss)	<u>\$ 2,942,346</u>	<u>\$ (3,704,774)</u>	<u>\$ (647,916)</u>	<u>\$ -</u>	<u>\$ (1,410,344)</u>

See accompanying independent auditors' report.

Essent Healthcare of Connecticut, Inc. and Affiliates
Summary of Net Patient Revenue for Sharon Hospital
As of and for the Years Ended September 30, 2014 and 2013

Net patient service revenue for the years ended September 30, 2014 and 2013, are summarized below:

	<u>2014</u>	<u>2013</u>
Patient service charges	\$ 145,172,345	\$ 147,441,042
Less: Charges related to charity care	(892,961)	(941,923)
Less: Other contractual adjustments and deductions	<u>(91,922,771)</u>	<u>(90,458,709)</u>
Net patient revenue	<u>\$ 52,356,613</u>	<u>\$ 56,040,410</u>

See accompanying independent auditors' report.