

**SHARON HOSPITAL HOLDING COMPANY, INC.
AND SUBSIDIARY AND AFFILIATES**

**INDEPENDENT AUDITOR'S REPORT,
CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

As of and for the Year Ended
September 30, 2015

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
INDEPENDENT AUDITOR'S REPORT, CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

As of and for the Year Ended September 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Sharon Hospital Holding Company, Inc. and Subsidiary and Affiliates:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Sharon Hospital Holding Company, Inc. and Subsidiary and Affiliates (the Company), which comprise the consolidated balance sheet as of September 30, 2015 and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sharon Hospital Holding Company, Inc. and Subsidiary and Affiliates as of September 30, 2015 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the consolidated financial statements, the October 1, 2014 retained earnings of the Hospital has been restated to correct an error in which the depreciation was not properly calculated for certain property and equipment. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the consolidated financial statements, the Company has elected to change its method of accounting to apply pushdown accounting for the RegionalCare Hospital Partners Holding Inc.'s purchase of the Company that occurred on November 4, 2011. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating balance sheet and consolidating statement of operations are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
June 27, 2016

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
CONSOLIDATED BALANCE SHEET
September 30, 2015

ASSETS

Current assets:

Cash and cash equivalents (variable interest entities restricted - \$123,736)	\$ 317,130
Patient accounts receivable, net of allowance for doubtful accounts of \$6,029,782 (variable interest entities restricted - \$509,668)	6,658,799
Inventories (variable interest entities restricted - \$20,495)	1,342,069
Prepaid expenses and other receivables (variable interest entities restricted - \$84,660)	695,358
Total current assets	9,013,356

Property and equipment:

Land and land improvements	1,103,763
Buildings	11,748,563
Equipment	2,733,889
Construction-in-progress	108,959
	15,695,174
Less accumulated depreciation	-
Total property and equipment - net (variable interest entities restricted - \$19,425)	15,695,174

Due from RegionalCare	4,165,365
Other assets (variable interest entities restricted - \$137,892)	494,622
	4,660,000
Total assets	\$ 29,368,517

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and other liabilities (variable interest entities restricted - \$227,386)	\$ 1,598,775
Other accrued expenses (variable interest entities restricted - \$752,023)	4,342,444
Due to third-party payors	96,881
Current portion of capital lease obligations	174,279
Total current liabilities	6,212,379

Accrued post-retirement benefits	1,304,000
Capital lease obligations, less current portion	338,837
Total liabilities	7,855,216

Stockholders' equity:

Common stock; no par; 1,000 shares authorized; 1,000 shares issued and outstanding	1,000
Additional paid in capital	58,180,727
Other comprehensive loss	154,374
Retained deficit	(36,822,800)
Total stockholders' equity	21,513,301

Total liabilities and stockholders' equity	\$ 29,368,517
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The accompanying notes are an integral part of these consolidated financial statements.

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended September 30, 2015

Net revenues:	
Net patient revenue	\$ 57,185,254
Provision for doubtful accounts	(2,233,479)
Net patient revenue, less provision for doubtful accounts	<u>54,951,775</u>
Electronic health record income	442,663
Other revenue	491,500
Total net revenues	<u>55,885,938</u>
Operating expenses:	
Salaries and benefits	26,094,702
Professional services	11,618,877
Supplies	5,682,283
Other operating expenses	9,480,644
Depreciation and amortization	2,548,585
Total operating expenses	<u>55,425,091</u>
Income before interest, intercompany fees, impairment loss and income tax provision	460,847
Interest (income) expense, net	(50,844)
Management fee from RegionalCare	1,697,387
Impairment loss on long-lived assets	<u>15,331,206</u>
Loss before income tax provision	(16,516,902)
Income tax provision	<u>1,683,460</u>
Net loss	<u><u>\$ (18,200,362)</u></u>

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

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
For the Year Ended September 30, 2015

Net loss	\$ (18,200,362)
Post retirement medical plan	
Net actuarial gain arising during the year	101,000
Amortization of actuarial loss	<u>113,000</u>
Total other comprehensive income	<u>214,000</u>
Comprehensive loss	<u>\$ (17,986,362)</u>

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

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Year Ended September 30, 2015

	Common Stock		Additional Paid In Capital	Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance at October 1, 2014	1,000	\$ 1,000	\$ -	\$ (497,417)	\$ 16,565,048	\$ 250,000	\$ 16,318,631
Prior period adjustment	-	-	-	-	(877,132)	-	(877,132)
Balance at October 1, 2014 (as restated)	1,000	1,000	-	(497,417)	15,687,916	250,000	15,441,499
Cumulative effect of change in accounting principle (Note 2)	-	-	58,180,727	437,791	(34,310,354)	-	24,308,164
Balance at October 1, 2014 (as adjusted for change in accounting principle)	1,000	1,000	58,180,727	(59,626)	(18,622,438)	250,000	39,749,663
Net loss	-	-	-	-	(18,200,362)	-	(18,200,362)
Purchase of Class B Shares of EHC from noncontrolling member	-	-	-	-	-	(250,000)	(250,000)
Actuarial loss on post-retirement healthcare benefit	-	-	-	214,000	-	-	214,000
Balance at September 30, 2015	<u>1,000</u>	<u>\$ 1,000</u>	<u>\$ 58,180,727</u>	<u>\$ 154,374</u>	<u>\$ (36,822,800)</u>	<u>\$ -</u>	<u>\$ 21,513,301</u>

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

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2015

Cash flows from operating activities	
Net loss	\$ (18,200,362)
Adjustments to reconcile loss income to net cash provided by operating activities:	
Depreciation and amortization	2,548,585
Impairment loss	15,331,206
Provision for bad debt	2,233,479
Deferred income taxes	1,656,812
Loss on sale of property and equipment	83,324
Changes in assets and liabilities:	
Account receivable	(1,987,337)
Inventories	(149,577)
Estimated settlement from third-party payors	233,910
Prepaid expenses and other receivables	117,789
Accounts payable and other liabilities	(343,184)
Other accrued expenses	971,122
Net cash provided by operating activities	<u>2,495,767</u>
Cash flows from investing activities	
Purchases of property and equipment	(1,803,774)
Proceeds from the sale of property and equipment	95,706
Increase in other assets	211,927
Net cash used in investing activities	<u>(1,496,141)</u>
Cash flows from financing activities	
Advances to RegionalCare	(57,563,045)
Repayments from RegionalCare	57,280,847
Purchase of Class B Shares of EHC from noncontrolling member	(250,000)
Capital lease principal payments	(160,763)
Net cash used in financing activities	<u>(692,961)</u>
Net change in cash and cash equivalents	306,665
Cash and cash equivalents at beginning of year	<u>10,465</u>
Cash and cash equivalents at end of year	<u><u>\$ 317,130</u></u>
Supplemental cash flow information	
Cash paid for interest	<u><u>26,930</u></u>

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sharon Hospital Holding Company, Inc. (the Company) is an indirect wholly owned subsidiary of RegionalCare Hospital Partners Holdings, Inc. (the Parent). The Company through its subsidiary (Essent Healthcare of Connecticut, Inc.) owns and operates Sharon Hospital (the Hospital).

The Company also has management services agreements with Regional Healthcare Associates - CT, LLC (RHA) and Tri-State Women's Services - CT, LLC (TSW), which are physician practices that are owned by the doctors in each respective practice. Under the management services agreements, the Company has the power to direct the activities of RHA and TWS and the obligation to absorb all losses and the rights to receive benefits, that could be significant to RHA and TSW. As a result, the Company has determined RHA and TSW to be variable interest entities that are required to be consolidated with the Company, the primary beneficiary.

The nature of the restrictions on the consolidated variable interest entities' assets and on the settlement of its liabilities are reported by the Company on the consolidated balance sheet within a parenthetical presentation. The Company's risk of loss is limited to the net operating losses of the variable interest entities for each fiscal year, in accordance with the management services agreements. During the year ended September 30, 2015, the variable interest entities incurred losses of approximately \$3,130,000. As of September 30, 2015, the variable interest entities have \$980,000 of assets and liabilities. Additionally, the variable interest entities have no retained earnings and, accordingly, have no non-controlling interest, as the Company is required to all absorb losses under its management services agreement.

These consolidated financial statements include the results of operations of Essent Healthcare of Connecticut, Inc., RHA and TSW for the year ended September 30, 2015. 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 consolidated 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 consolidated financial statements include the accounts of the Company, and its affiliates, RHA and TSW. Significant intercompany accounts and transactions have been eliminated in consolidation.

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restatement of Stockholders' Equity: The October 1, 2014 stockholders' equity of the Company has been restated to correct an overstatement of \$877,132 of total property and equipment – net. In addition, during 2015 the Company has changed its method of accounting to apply pushdown accounting for the Parent's purchase of the Company that occurred on November 4, 2011 (the Merger Date). The restated October 1, 2014 balance and the cumulative effect of the change in accounting principle is summarized below.

	Additional Paid In <u>Capital</u>	Other Comprehensive <u>Income (Loss)</u>	Retained <u>Earnings (Deficit)</u>	Total Stockholders' <u>Equity</u>
Balance at October 1, 2014	\$ -	\$ (497,417)	\$ 16,565,048	\$ 16,318,631
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(877,132)</u>	<u>(877,132)</u>
Balance at October 1, 2014 (as restated)	-	(497,417)	15,687,916	15,441,499
Cummulative effect of change in accounting principle (Note 2)	<u>58,180,727</u>	<u>437,791</u>	<u>(34,310,354)</u>	<u>24,308,164</u>
Balance at October 1, 2014 (as adjusted for change in accounting principle)	<u>\$ 58,180,727</u>	<u>\$ (59,626)</u>	<u>\$ (18,622,438)</u>	<u>\$ 39,749,663</u>

The prior period adjustment of \$877,132 corrected an error in the historical reporting of fixed assets within its subsidiary ledger, primarily relating to corrections to historical depreciation expense. This correction would have resulted in additional depreciation expense of \$647,997 for the year ended September 30, 2014.

The cumulative effect of the change in accounting principle of \$24,308,164 is a result of the Company electing to apply push down accounting for the Parent's purchase of the Company on the Merger Date, which results in all of the Company's assets and liabilities being reported at fair value as of the Merger Date. Prior to 2015, the Company assets and liabilities were not adjusted to reflect their fair value as of the Merger Date. The Company believes that applying push down accounting for the Parent's purchase of the Company is preferable due to the fact it allows the Company to have one set of financial records related to fixed assets and is consistent with the reporting of the Company in the Parent's financial statements. In addition, the Company believes push down accounting related to the merger, is a more accurate reflection of the assets and liabilities of the Company.

The merger of the Parent and Essent Healthcare, Inc. (Essent) was a stock purchase, whereby the Parent purchased 100% of the stock of Essent. The total consideration allocated to the Company was \$58,180,727.

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SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The major classes of assets and liabilities acquired, at fair value based on a certified appraisal, on the Merger Date, are as follows:

Assets	
Cash overdraft	\$ (669,505)
Accounts receivable	6,362,381
Inventory	1,154,737
Prepaid expenses and other assets	1,449,831
Deferred tax asset, net	835,418
Property and equipment	<u>36,922,364</u>
Total Assets	46,055,226
Liabilities	
Accounts payable and accrued expenses	4,518,904
Due to third-party payors	269,884
Capital lease obligations	427,023
Other liabilities	<u>1,663,000</u>
Total Liabilities	<u>6,878,811</u>
Net Assets Purchased, at Fair Value	<u><u>\$ 39,176,415</u></u>

The merger resulted in the Company recording goodwill in the amount of \$19,255,309. As a result of an impairment analysis, management determined that the goodwill was fully impaired and the entire amount of goodwill was written-off during the year ended September 30, 2014.

Adoption of New Accounting Standard: In November 2015, the FASB amended existing guidance related to the balance sheet classification of deferred taxes. The amendments require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. These amendments are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early application is permitted. The transition provisions allow for either prospective or retrospective application. The Company has elected to early adopt and apply the amendments prospectively; therefore, prior periods were not retrospectively adjusted.

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. The Company's significant estimates relate to the allowance for doubtful accounts and contractual allowances on patient accounts receivable, estimated settlements due to third-party payors, and the post retirement benefit plan liability.

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 the Parent'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.

(Continued)

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income: Comprehensive income consists of net income (loss) and other comprehensive income. Other comprehensive income includes changes in minimum pension liability which are also recognized as separate components of equity.

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 consolidated financial statements.

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.

Net patient service revenue for the year ended September 30, 2015 is summarized below:

Gross patient service charges	\$ 156,550,609
Less: Charges related to charity care	(741,722)
Less: Other contractual adjustments and deductions	<u>(98,623,633)</u>
Net patient service revenue	<u>\$ 57,185,254</u>

Additionally, for the year ended September 30, 2015, the Hospital had gross patient service charges of \$143,606,025, deductions related to charity care of \$741,722, other contractual adjustments and deductions of \$91,448,164 and bad debt expense of \$1,930,565.

(Continued)

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's total net patient revenue by payor and percentages of revenue, were as follows, for the year ended September 30, 2015:

	<u>Amount</u>	<u>Ratio</u>
Net patient service revenue:		
Medicare	\$ 24,441,213	43%
Managed care and other insurance	24,236,831	42%
Medicaid	5,716,499	10%
Self pay	<u>2,790,711</u>	<u>5%</u>
Total	<u>\$ 57,185,254</u>	<u>100%</u>

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 that the cost of charity care provided was approximately \$245,000 for the year ended September 30, 2015. 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 consolidated statements of operations. The Company uses a grant model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized as revenue after the Company has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period and the 12-month cost report period that will be used to determine the final incentive payment has ended. The Company recognizes revenue from Medicare and Medicaid incentive payments after it has demonstrated compliance with the meaningful use criteria.

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.

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 \$442,663 during the year ended September 30, 2015.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Property and Equipment: As of September 30, 2015, as a result of an impairment loss (see long-lived assets section of Note 2), property and equipment is stated at fair value. Prior to September 30, 2015, 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 \$2,548,585 for the year ended September 30, 2015.

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.

During the year ended September 30, 2015, the Company experienced a decline in cash flows from operations, which is an event that indicates that the carrying amount of their long-lived assets may not be recoverable. To determine if property and equipment was impaired, management estimated the undiscounted future cash flows related to its property and equipment and noted that carrying amount of the property and equipment was not recoverable and that the property and equipment was impaired. To determine the amount of the impairment, management engaged an independent appraiser to determine their fair value, as further described in Note 5. Management adjusted the cost basis of the property and equipment to equal their fair value as of September 30, 2015 and recorded an impairment loss in the amount of \$15,331,206 for the year ended September 30, 2015.

Amounts Due From RegionalCare: Amounts due 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 the Parent. Generally, this balance represents the net of the effect of funds used or provided by the Company during the normal daily cash management process, plus any intercompany charges from the Parent to the Company for management fees and other costs. Management fees include an allocation of corporate office expense of \$1,697,387 for the year ended September 30, 2015.

Self-Insurance Plan: The Parent maintains a self-insured medical and dental plan for employees of the Company. Claims are accrued under this plan by the Parent 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. The Parent 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.

(Continued)

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 the Parent. The Parent's tax policy is to allocate a provision for income taxes as if the Company filed a separate return. Obligations related to income taxes of \$26,648 at September 30, 2015, are included in amounts due to RegionalCare in the accompanying consolidated balance sheets. All income tax payments are paid by the Parent 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 consolidated 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, 2015. As of September 30, 2015, 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 consolidated 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 the Parent's insurance policies. The Parent 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 \$1,067,562 in 2015 to the Parent to insure the \$2,000,000 self-insurance retention. Additionally, the Parent has excess liability policies in place to extend coverage to a maximum of \$50,000,000 per occurrence and in the aggregate. The Parent accrues 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 year ended September 30, 2015, and recorded in other operating expenses in the consolidated statement of operations totaled \$1,370,860. The Company does not have any professional and general liability reserves recorded as of September 30, 2015 as the Parent allocation of professional and general liability costs cover all exposures related to the Company and any related liability would be a liability of the Parent.

(Continued)

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2015

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, 2015), is as follows:

Components of net periodic benefit cost	
Interest cost	\$ 49,000
Amortization of actuarial loss	<u>113,000</u>
Net periodic benefit cost	<u><u>\$ 162,000</u></u>
 Change in benefit obligation	
Accumulated benefit obligation at beginning of year	\$ 1,621,000
Interest cost	49,000
Benefits paid	(100,000)
Actuarial gain	<u>(101,000)</u>
Accumulated benefit obligation at end of year	<u><u>\$ 1,469,000</u></u>
 Change in plan assets	
Fair value of plan assets at beginning of year	\$ -
Employer contributions	100,000
Benefits paid	<u>(100,000)</u>
Fair value of plan assets at end of year	<u><u>\$ -</u></u>
Funded status and accrued pension liability	<u><u>\$ (1,469,000)</u></u>
 Amounts recognized in the consolidated balance sheet consists of	
Current liabilities	\$ (165,000)
Noncurrent liabilities	<u>(1,304,000)</u>
Net amount recognized	<u><u>\$ (1,469,000)</u></u>
 Amounts not yet reflected in net periodic benefit cost	
Accumulated gain (loss)	<u><u>\$ (783,000)</u></u>

Due to the application of purchase accounting, as a result of the 2012 merger, the balance reflected in other comprehensive income is \$154,374 at September 30, 2015. The estimated amount that will be amortized from accumulated other comprehensive income during the year ended September 30, 2016 is \$92,000.

(Continued)

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2015

NOTE 3 - RETIREMENT BENEFIT PLANS (Continued)

Weighted-average assumptions used to determine benefit obligations at September 30

Discount rate	3.06%
Measurement date	Sept. 30, 2015
Medical cost trend rate assumed for next year	6.47%
Ultimate rate	4.50%
Year that the rate reaches the ultimate rate	2038

Expected cash flows

Expected return of assets to employer in next year	\$ -
Expected employer contributions for next fiscal year	165,000

Effect of 1% increase in trend rates

Effect on total service cost and interest cost	\$ 3,000
Effect on benefit obligation	91,000

Effect of 1% decrease in trend rates

Effect on total service cost and interest cost	\$ (2,000)
Effect on benefit obligation	(84,000)

	<u>Employer Benefit Payment</u>
2016	\$ 165,000
2017	161,000
2018	155,000
2019	149,000
2020	141,000
Next five years	563,000

For measurement purposes relating to the postretirement benefit plan for 2015, annual increases in per capita cost of covered healthcare benefits of 6.68% (grading down to 4.5% after 23 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 the Parent. The Company makes matching contributions to the Plan on a discretionary basis. For the year ended September 30, 2015, the Company recorded \$260,058 as an expense related to the employer's matching contribution to participants in the Plan.

(Continued)

NOTE 4 - COMMON STOCK

The Company issued 1,000 shares of no par common stock to EHCO, LLC, a subsidiary of the Parent. Holders of the 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 the Company. 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.

Upon any liquidation of the Company, 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.

Essent Healthcare of Connecticut, Inc. (EHC) issued 19,000 shares of Class A common stock to the Company 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.

In connection with the acquisition of the Hospital, the Company through its subsidiary issued 1,000 shares of \$0.01 par value, non-voting Class B common stock (the Shares) of EHC to the seller. In accordance with the Stockholders Agreement, the Company 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. On December 1, 2014, the Company exercised its right to purchase the Class B Shares of EHC for a purchase price of \$250,000.

NOTE 5 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received by the Company for an asset, or paid by the Company to transfer a liability (as exit price), in an orderly transaction between market participants on the measurement date in the Company's principal or most advantageous market for the asset or liability. The fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy places the highest priority on unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and gives the lowest priority to unobservable inputs (Level 3 measurements). The three levels of inputs within the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the plan has the ability to access as of the measurement date.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect the plan's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In some cases, a valuation technique used to measure fair value may include inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurements in the hierarchy.

(Continued)

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2015

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The following is a description of the valuation methodologies for assets and liabilities measured at fair value as of September 30, 2015:

Property and equipment – Land, land improvements, and building are stated at fair value based on prices paid for similar assets (level 2 inputs). Equipment was stated at fair value based on the indirect method of the cost approach (level 3 inputs).

The significant unobservable inputs used in the fair value measurement of equipment were provided by third-party cost indexing information to estimate replacement cost new for equipment less physical depreciation based on age and condition of the asset.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the financial instruments carried at fair value, as measured on a non-recurring basis, as of September 30, 2015, by the valuation hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Property and equipment				
Land and land improvements	\$ -	\$ 1,103,763	\$ -	\$ 1,103,763
Buildings	-	11,748,563	-	11,748,563
Equipment	-	-	2,733,889	2,733,889
	<u>-</u>	<u>-</u>	<u>2,733,889</u>	<u>2,733,889</u>
Total	<u>\$ -</u>	<u>\$ 12,852,326</u>	<u>\$ 2,733,889</u>	<u>\$ 15,586,215</u>

NOTE 6 - CAPITAL LEASE OBLIGATIONS

The Company leases various equipment under lease agreements that have been capitalized with a net book value of \$370,879 at September 30, 2015. Future minimum lease payments and the present value of future minimum lease payments for capital leases as of September 30, 2015, are as follows:

2016	\$ 193,559
2017	193,559
2018	149,153
2019	<u>10,057</u>
Total minimum future payments	546,328
Less amounts representing interest	(33,212)
Less current portion of capital lease obligations	<u>(174,279)</u>
Capital lease obligations, less current portion	<u>\$ 338,837</u>

(Continued)

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2015

NOTE 7 - INCOME TAXES

The income tax (benefit) provision for the year ended September 30, 2015, includes the following components:

Federal income tax provision:	
Current	\$ -
Establishment of valuation allowance on prior year deferred tax asset	1,300,036
Utilization NOL carryforward	<u>308,085</u>
Total federal income tax provision	<u>1,608,121</u>
State income tax provision:	
Current	\$ 26,648
Establishment of valuation allowance on prior year deferred tax asset	40,028
Utilization NOL carryforward	<u>8,663</u>
Total state income tax provision	<u>75,339</u>
Total income tax provision	<u><u>\$ 1,683,460</u></u>

Significant components of the company's deferred tax assets and liabilities consist of the following at September 30, 2015:

Deferred tax assets:	
Accrued expense	\$ 255,716
Allowance for doubtful accounts	1,871,847
Net operating loss carry forward	40,335
Post-retirement benefit plan	266,973
Property and equipment	<u>5,036,393</u>
Total deferred tax assets, before valuation allowance	7,471,264
Valuation allowance	<u>(7,471,264)</u>
Deferred tax asset, net	<u><u>\$ -</u></u>

As of September 30, 2015, the Company has a Connecticut operating loss carryforward of \$4,651,036 that begins to expire in 2026. As of September 30, 2015, the Company has a Federal operating loss carryforward of \$69,448 that will expire on September 30, 2035. During the 2015, the Company utilized \$2,091,889 of the operating loss carryforwards (\$880,653 Federal and \$1,211,236 Connecticut). As of September 30, 2015, the Company established a valuation allowance to fully offset its net deferred tax assets. The valuation allowance was recorded due to the uncertainty of the recognition of any future benefit from this asset.

The Company's effective tax rate differed from the federal statutory rate of 35% primarily due to the valuation allowance of \$7,471,264 established against the deferred tax assets during the year ended September 30, 2015.

(Continued)

NOTE 8 - 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.

NOTE 9 - OPERATING LEASES

The Company leases office facilities and certain equipment under noncancellable operating leases that expire at various dates through 2020. As of September 30, 2015, the future minimum lease commitments under these noncancellable leases are as follows:

2016	\$	388,838
2017		200,244
2018		<u>71,021</u>
Total	\$	<u><u>660,103</u></u>

Total rental expense was \$379,393 for the year ended September 30, 2015.

NOTE 10 - SUBSEQUENT EVENTS

The Company has evaluated all material events subsequent to the consolidated balance sheet date through June 27, 2016, for events requiring disclosure or recognition in the consolidated financial statements. Except as described below, there were no subsequent events requiring disclosure or recognition in the consolidated financial statements.

On December 3, 2015, 100% of the issued and outstanding shares of capital stock of the Parent were purchased by an affiliate of Apollo Global Management, LLC pursuant to terms and conditions of an Agreement and Plan of Merger.

SUPPLEMENTAL INFORMATION

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
CONSOLIDATING BALANCE SHEET
September 30, 2015

	Sharon Hospital Holding Co., Inc.	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Tri State Women's Services, LLC	Eliminations	Consolidated Sharon Hospital Holding Co., Inc.
Current assets:						
Cash and cash equivalents	\$ -	\$ 193,394	\$ 58,221	\$ 65,515	\$ -	\$ 317,130
Patient accounts receivable, net of allowance for doubtful accounts of \$6,029,782	-	6,149,131	250,499	259,169	-	6,658,799
Inventories	-	1,321,574	4,503	15,992	-	1,342,069
Prepaid expenses and other receivables	-	635,358	60,000	24,660	(24,660)	695,358
Total current assets	<u>-</u>	<u>8,299,457</u>	<u>373,223</u>	<u>365,336</u>	<u>(24,660)</u>	<u>9,013,356</u>
Property and equipment:						
Land and land improvements	-	1,103,763	-	-	-	1,103,763
Buildings	-	11,748,563	-	-	-	11,748,563
Equipment	-	2,714,464	-	19,425	-	2,733,889
Construction in progress	-	108,959	-	-	-	108,959
	<u>-</u>	<u>15,675,749</u>	<u>-</u>	<u>19,425</u>	<u>-</u>	<u>15,695,174</u>
Less accumulated depreciation	-	-	-	-	-	-
Total property and equipment - net	<u>-</u>	<u>15,675,749</u>	<u>-</u>	<u>19,425</u>	<u>-</u>	<u>15,695,174</u>
Due (to) from RegionalCare and affiliates	-	4,081,832	188,655	(105,122)	-	4,165,365
Other assets	-	356,730	18,892	119,000	-	494,622
Due from Parent	1,000	-	-	-	(1,000)	-
Total assets	<u>\$ 1,000</u>	<u>\$ 28,413,768</u>	<u>\$ 580,770</u>	<u>\$ 398,639</u>	<u>\$ (25,660)</u>	<u>\$ 29,368,517</u>

See accompanying independent auditor's report.

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
CONSOLIDATING BALANCE SHEET
September 30, 2015

	Sharon Hospital Holding Co., Inc.	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Tri State Women's Services, LLC	Eliminations	Consolidated Sharon Hospital Holding Co., Inc.
Current liabilities:						
Accounts payable and other liabilities	\$ -	\$ 1,371,389	\$ 200,856	\$ 26,530	\$ -	\$ 1,598,775
Other accrued expenses	-	3,615,081	379,914	372,109	(24,660)	4,342,444
Due to third-party payors	-	96,881	-	-	-	96,881
Current portion of capital lease obligations	-	174,279	-	-	-	174,279
Total current liabilities	<u>-</u>	<u>5,257,630</u>	<u>580,770</u>	<u>398,639</u>	<u>(24,660)</u>	<u>6,212,379</u>
Accrued post-retirement benefits	-	1,304,000	-	-	-	1,304,000
Capital lease obligations, less current portion	-	338,837	-	-	-	338,837
Total liabilities	<u>-</u>	<u>6,900,467</u>	<u>580,770</u>	<u>398,639</u>	<u>(24,660)</u>	<u>7,855,216</u>
Stockholders' equity:						
Common stock; no par; 1,000 shares authorized; 1,000 shares issued and outstanding	1,000	1,000	-	-	(1,000)	1,000
Additional paid in capital	-	58,180,727	-	-	-	58,180,727
Other comprehensive loss	-	154,374	-	-	-	154,374
Retained deficit	-	(36,822,800)	-	-	-	(36,822,800)
Total stockholders' equity	<u>1,000</u>	<u>21,513,301</u>	<u>-</u>	<u>-</u>	<u>(1,000)</u>	<u>21,513,301</u>
Total liabilities and stockholders' equity	<u>\$ 1,000</u>	<u>\$ 28,413,768</u>	<u>\$ 580,770</u>	<u>\$ 398,639</u>	<u>\$ (25,660)</u>	<u>\$ 29,368,517</u>

See accompanying independent auditor's report.

SHARON HOSPITAL HOLDING COMPANY, INC. AND SUBSIDIARY AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended September 30, 2015

	Sharon Hospital <u>Holding Co., Inc.</u>	Essent Healthcare of <u>Connecticut, Inc.</u>	Regional Healthcare <u>Associates, LLC</u>	Tri State Women's <u>Services, LLC</u>	<u>Eliminations</u>	Consolidated Sharon Hospital <u>Holding Co., Inc.</u>
Net revenue:						
Net patient revenue	\$ -	\$ 51,416,139	\$ 3,884,807	\$ 1,884,308	\$ -	\$ 57,185,254
Provision for doubtful accounts	-	(1,930,565)	(242,330)	(60,584)	-	(2,233,479)
Net patient revenue, less provision for doubtful accounts	-	49,485,574	3,642,477	1,823,724	-	54,951,775
Electronic health record income	-	442,663	-	-	-	442,663
Other revenue	-	408,893	82,607	300,652	(300,652)	491,500
Total net revenues	-	50,337,130	3,725,084	2,124,376	(300,652)	55,885,938
Operating expenses:						
Salaries and benefits	-	21,456,936	4,572,602	65,164	-	26,094,702
Professional services	-	8,507,102	1,207,651	2,204,776	(300,652)	11,618,877
Supplies	-	5,324,310	235,050	122,923	-	5,682,283
Other operating expenses	-	8,909,766	407,352	163,526	-	9,480,644
Depreciation and amortization	-	2,548,585	-	-	-	2,548,585
Total operating expenses	-	46,746,699	6,422,655	2,556,389	(300,652)	55,425,091
Income (loss) before interest, intercompany fees, impairment loss and income tax provision	-	3,590,431	(2,697,571)	(432,013)	-	460,847
Interest (income) expense, net	-	(50,844)	-	-	-	(50,844)
Intercompany fees	-	3,129,584	(2,697,571)	(432,013)	-	-
Management fee from RegionalCare	-	1,697,387	-	-	-	1,697,387
Impairment loss on long-lived assets	-	15,331,206	-	-	-	15,331,206
Loss before income tax provision	-	(16,516,902)	-	-	-	(16,516,902)
Income tax provision	-	1,683,460	-	-	-	1,683,460
Net loss	\$ -	\$ (18,200,362)	\$ -	\$ -	\$ -	\$ (18,200,362)

See accompanying independent auditor's report.