Consolidated Financial Statements and Other Financial Information

Essent Healthcare of Connecticut, Inc. and Subsidiary
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

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Consolidated Financial Statements
and Other Financial Information

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Contents

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Report of Independent Auditors

The Board of Directors
Essent Healthcare of Connecticut, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Essent Healthcare of Connecticut, Inc. and Subsidiary as of September 30, 2011 and 2010, and the related statements of income, stockholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Essent Healthcare of Connecticut, Inc. and Subsidiary at September 30, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

December 16, 2011

Essent Healthcare of Connecticut, Inc.
and Subsidiary

Consolidated Balance Sheets

	September 30 2011	September 30 2010
Assets		
Current assets:		
Patient accounts receivable, net of allowance for doubtful accounts of $4,447,038 in 2011 and $4,034,864 in 2010	**$ 7,311,670**	$ 6,242,425
Inventories	**1,160,296**	1,162,381
Prepaid expenses and other receivables	**659,267**	598,277
Deferred income taxes	**899,965**	1,640,784
Total current assets	**10,031,198**	9,643,867
Property and equipment:		
Land and land improvements	**1,797,359**	1,797,359
Buildings	**39,497,901**	39,391,598
Equipment	**18,396,724**	17,501,434
Construction in progress	**1,286,396**	242,040
	60,978,380	58,932,431
Less accumulated depreciation	**(22,976,106)**	(19,807,940)
	38,002,274	39,124,491
Amounts due from Essent	**10,247,123**	8,028,726
Other	**764,454**	502,089
Total assets	**$ 59,045,049**	$ 57,299,173

Essent Healthcare of Connecticut, Inc.
and Subsidiary

Consolidated Balance Sheets (continued)

	September 30 2011	September 30 2010
Liabilities and stockholder's equity		
Current liabilities:		
Accounts payable and other liabilities	**$ 1,540,982**	$ 1,370,735
Other accrued expenses	**4,553,440**	3,596,931
Due to third-party payors	**441,349**	322,546
Current portion of capital lease obligations	**310,667**	547,476
Current portion of long-term debt	**350,000**	350,000
Total current liabilities	**7,196,438**	6,187,688
Accrued post-retirement benefits	**1,386,000**	1,502,000
Deferred income taxes	**547,879**	683,645
Capital lease obligations, less current portion	**158,307**	470,384
Long-term debt, less current portion	**33,337,500**	33,687,500
Other	**259,844**	124,844
Stockholder's equity:		
Class A common stock; $0.01 par; 19,000 shares authorized; 19,000 shares issued and outstanding	**190**	190
Class B common stock; $0.01 par; 1,000 shares authorized; 1,000 shares issued and outstanding	**10**	10
Additional paid-in capital	**124,956**	124,956
Other comprehensive loss	**(437,791)**	(456,977)
Retained earnings	**16,471,716**	14,974,933
Total stockholder's equity	**16,159,081**	14,643,112
Total liabilities and stockholder's equity	**$ 59,045,049**	$ 57,299,173

See accompanying notes.

Essent Healthcare of Connecticut, Inc.
and Subsidiary

Consolidated Statements of Income

	Year Ended September 30	
	2011	**2010**
Net revenues:		
Net patient revenue	**$ 59,340,161**	$ 54,034,467
Other revenue	**458,274**	531,371
Total net revenue	**59,798,435**	54,565,838
Operating expenses:		
Salaries and benefits	**24,564,273**	23,095,256
Professional services	**9,638,223**	8,549,413
Supplies	**6,316,079**	5,831,745
Other operating expenses	**6,529,109**	6,022,301
Provision for doubtful accounts	**3,904,445**	2,035,446
Depreciation and amortization	**3,230,817**	3,287,347
	54,182,946	48,821,508
Income before interest, intercompany fees and income tax provision	**5,615,489**	5,744,330
Interest expense	**1,664,350**	1,629,083
Intercompany fees	**1,407,527**	1,536,097
Income before taxes	**2,543,612**	2,579,150
Income tax provision	**1,046,829**	1,006,144
Net income	**$ 1,496,783**	$ 1,573,006

See accompanying notes.

Essent Healthcare of Connecticut, Inc.
and Subsidiary

Consolidated Statements of Stockholder's Equity

	Common Stock – Class A		Common Stock – Class B		Additional	Retained	Other Comprehensive	Total Stockholder's
	Shares	**Amount**	**Shares**	**Amount**	**Paid-In Capital**	**Earnings**	**Loss**	**Equity**
Balance at September 30, 2009	19,000	$ 190	1,000	$ 10	$ 124,956	$ 13,401,927	$ (353,878)	$ 13,173,205
Net income	–	–	–	–	–	1,573,006	–	1,573,006
Actuarial losses on post retirement healthcare benefit (net of tax benefit)	–	–	–	–	–	–	(103,099)	(103,099)
Balance at October 1, 2010	19,000	190	1,000	10	124,956	14,974,933	(456,977)	14,643,112
Net income	**–**	**–**	**–**	**–**	**–**	**1,496,783**	**–**	**1,496,783**
Actuarial gain on post retirement healthcare benefit (net of taxes)	**–**	**–**	**–**	**–**	**–**	**–**	**19,186**	**19,186**
Balance at September 30, 2011	**19,000**	**$ 190**	**1,000**	**$ 10**	**$ 124,956**	**$ 16,471,716**	**$ (437,791)**	**$ 16,159,081**

See accompanying notes.

Essent Healthcare of Connecticut, Inc.
and Subsidiary

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2011	**2010**
Operating activities		
Net income	**$ 1,496,783**	$ 1,573,006
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**3,230,817**	3,287,347
Provision for doubtful accounts	**3,904,445**	2,035,446
Post-retirement benefits	**(96,814)**	(61,210)
Deferred income taxes	**605,053**	(39,605)
Changes in operating assets and liabilities:		
Accounts receivable	**(4,973,690)**	(1,735,701)
Inventories	**2,085**	(21,847)
Prepaid expenses and other current assets	**(60,990)**	928,586
Accounts payable and other liabilities	**1,261,754**	(705,603)
Due to third-party payers	**118,803**	(112,560)
Net cash provided by operating activities	**5,488,246**	5,147,859
Investing activities		
(Increase) decrease in other assets	**(262,365)**	543
Purchases of property and equipment	**(2,108,599)**	(1,316,502)
Net cash used in investing activities	**(2,370,964)**	(1,315,959)
Financing activities		
Net advances to Parent	**(2,218,397)**	(2,800,761)
Payments on debt	**(350,000)**	(350,000)
Capital lease principal payments	**(548,885)**	(681,139)
Net cash used in financing activities	**(3,117,282)**	(3,831,900)
Change in cash and cash equivalents	**–**	–
Cash and cash equivalents, beginning of period	**–**	–
Cash and cash equivalents, end of period	**$ –**	$ –
Supplemental cash flow information		
Cash paid for interest	**$ 1,664,350**	$ 1,629,083
Non-cash investing activities		
Equipment acquired under capital lease obligations	**$ –**	$ 90,648

See accompanying notes.

1. Business and Summary of Significant Accounting Policies

Organization

Essent Healthcare of Connecticut, Inc. (the Company) is a wholly owned subsidiary of Sharon Hospital Holding Company, Inc. (the Parent), which in turn is a wholly owned subsidiary of Essent Healthcare, Inc. (Essent). As of September 30, 2011, the Company owns and operates Sharon Hospital (the Hospital) and physician office practices. These consolidated financial statements include the results of operations of Essent Healthcare of Connecticut, Inc. and Regional Healthcare Associates, LLC for the years ended September 30, 2011 and 2010. The Hospital and physician practices provide healthcare services to patients living in Sharon, Connecticut and the surrounding communities.

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.

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). At September 30, 2011 and 2010, the amount of outstanding checks exceeded the amount of cash on hand. The net balances of $803,784 at September 30, 2011 and $712,917 at September 30, 2010, are included in accounts payable and other liabilities in the accompanying consolidated balance sheets. 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.

1. Business and Summary of Significant Accounting Policies (continued)

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Essent Healthcare of Connecticut, Inc., and of its wholly owned subsidiary. All material intercompany accounts and transactions have been eliminated in consolidation.

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 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 each operating 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.

1. Business and Summary of Significant Accounting Policies (continued)

Approximately 59.2% and 57.2% of the Company's gross charges for the years ended September 30, 2011 and 2010, respectively, were related to patients participating in the Medicare and Medicaid programs.

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 amount of charges forgone for services and supplies furnished under the Company's charity care policy aggregated approximately $942,411 and $767,288 for the years ended September 30, 2011 and 2010, respectively.

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 $3,230,817 and $3,287,347 for the years ended September 30, 2011 and 2010, 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 Financial Accounting Standards Board (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, 2011 and 2010.

1. Business and Summary of Significant Accounting Policies (continued)

Amounts due to/from Essent

Amounts due to/from Essent 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 Essent. Generally, this balance represents funds advanced to acquire the facility, net effect of funds used or provided by the Company during the normal daily cash management process, plus any intercompany charges from Essent to the Company for management fees. Management fees include an allocation of corporate office expense of $1,407,527 and $1,536,097 for the years ended September 30, 2011 and 2010, respectively.

Self-Insurance Plan

The Company maintained a self-insured medical and dental plan for employees. Claims were accrued under this plan as the incidents that give rise to them occurred. 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 Company has entered into a reinsurance agreement with an independent insurance company to limit its losses on claims. The Company remains liable for these claims to the extent that the re-insurer does not meet its obligations.

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 that includes the enactment date. The Company is included in the consolidated Federal tax return of Essent. Essent'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, 2011 and 2010, were based on the Company's allocable share of the consolidated Connecticut income tax rate for Essent Healthcare, Inc. Obligations related to income taxes of $432,962 and $966,539 at September 30, 2011 and 2010 respectively, are included in Amounts due from Essent in the accompanying consolidated balance sheets. All income tax payments are paid by Essent in connection with the consolidated Federal tax obligation.

1. Business and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The carrying amounts reported in the accompanying 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 long-term debt and capital lease obligations approximate fair value.

Professional and General Liability Reserves

The Company is insured for professional and general liabilities under Essent's insurance policies. Essent 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 and are subject to a $2,000,000 self-insured retention. The Company paid $740,177 in 2011 and $820,000 in 2010 to a subsidiary of Essent to insure the $2,000,000 self-insurance retention. Additionally, Essent has excess liability policies in place to extend coverage to a maximum of $40,000,000 per occurrence and in the aggregate. Essent 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, 2011 and 2010, and recorded in other operating expenses in the consolidated statements of income totaled $1,193,381 and $1,381,271 respectively.

Recent Accounting Developments

In August 2010, the FASB issued guidance to amend the insurance claims and related insurance recoveries presentation requirements for health care organizations (insurance claims guidance). Such guidance will require health care organizations to present anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities separately on the balance sheet, unless the criteria for offsetting are met. The insurance claims guidance will become effective for the Company with the annual reporting period beginning after December 15, 2010, the Company's fiscal year 2012, through a cumulative effect adjustment as of the beginning of the period of adoption. Additionally, the Company is permitted to elect to apply the guidance retrospectively, and early adoption is permitted. Adoption of the insurance claims guidance will not have a material impact on the consolidated financial statements.

1. Business and Summary of Significant Accounting Policies (continued)

In August 2010, the FASB issued guidance regarding charity care disclosure requirements for health care organizations (charity care guidance). Such guidance will require health care organizations to disclose the level of charity care provided based on the direct and indirect costs of the charity care services provided. In addition, health care organizations will be required to separately disclose the amount of any cash reimbursements received for providing charity care. The charity care guidance will become effective for the Company with the annual reporting period beginning after December 15, 2010, the Company's fiscal year 2012, through retrospective application to all periods presented. Early adoption is permitted. Other than requiring additional disclosures, adoption of the charity care guidance will not have a material impact on the consolidated financial statements.

In December 2010, the FASB issued updated guidance related to intangibles assets, including goodwill as to when to perform step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The entity is no longer able to assert that a reporting unit is not required to perform Step 2 because the carrying amount of the reporting unit is zero or negative. The goodwill impairment test guidance is effective for Companies with annual reporting periods beginning after December 15, 2011, the Company's fiscal year 2013, and is not expected to have a material impact on the consolidated financial statements.

In July 2011, the FASB issued an accounting standard update addressing the presentation and disclosure of patient service revenue, provision for bad debts, and the allowance for doubtful accounts for certain health care entities. The guidance requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. The guidance is effective for Companies with the annual reporting period ending after December 15, 2012, the Company's fiscal year 2013, and will have a significant impact on the presentation of consolidated financial statements.

2. Retirement Benefit Plans

Postretirement Benefit Plan

The Company provides postretirement benefits to eligible former employees of the Hospital who retired prior to August 1, 1994. The Hospital provides supplemental medical and dental coverage to retirees who retired prior to that date. 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, 2011 and 2010) follow:

	2011	2010
Components of net periodic benefit cost		
Interest cost	**$ 62,000**	$ 74,000
Amortization of actuarial loss	**86,000**	58,000
Net periodic benefit cost	**$ 148,000**	$ 132,000

	2011	2010
Change in benefit obligation		
Accumulated benefit obligation at beginning of year	**$ 1,666,000**	$ 1,571,000
Interest cost	**62,000**	74,000
Benefits paid	**(243,000)**	(260,000)
Actuarial loss	**58,000**	281,000
Accumulated benefit obligation at end of year	**$ 1,543,000**	$ 1,666,000

2. Retirement Benefit Plans (continued)

	2011	2010
Change in plan assets		
Fair value of plan assets at end of prior year	**$ –**	$ –
Employer contributions	**243,000**	260,000
Benefits paid	**(243,000)**	(260,000)
Fair value of plan assets at end of year	**$ –**	$ –
Funded status at year end	**$ (1,543,000)**	$ (1,666,000)

	2011	2010
Amounts recognized in the statement of financial position consists of:		
Current liabilities	**$ (157,000)**	$ (164,000)
Noncurrent liabilities	**(1,386,000)**	(1,502,000)
Net amount recognized in statement of financial position	**$ (1,543,000)**	$ (1,666,000)

	2011	2010
Weighted-average assumptions used to determine benefit obligations at September 30		
Discount rate	**3.72%**	3.94%
Measurement date	**Sept. 30, 2011**	Sept. 30, 2010
Medical cost trend rate assumed for next year	**6.84%**	6.50%
Ultimate rate	**4.5%**	5.00%
Year that the rate reaches the ultimate rate	**2027**	2018-2019

	2011	2010
Expected Cash Flows		
Expected return of assets to employer in next year	**$ –**	$ –
Expected employer contributions for next fiscal year	**164,000**	164,000

2. Retirement Benefit Plans (continued)

	Employer Benefit Payment
Expected benefit payments for fiscal year ending in:	
2012	$ 160,000
2013	158,000
2014	155,000
2015	150,000
2016	145,000
Next 5 years	617,000

	2011	2010
Effect of 1% Increase in Trend Rates		
Effect on total service cost and interest cost	**$ 4,000**	$ 5,000
Effect on benefit obligation	**88,000**	100,000
Effect of 1% Decrease in Trend Rates		
Effect on total service cost and interest cost	**(4,000)**	(4,000)
Effect on benefit obligation	**(80,000)**	(91,000)

For measurement purposes relating to the postretirement benefit plan for 2011, annual increases in per capita cost of covered health care benefits of 6.84% (grading down to 4.5% after 15 years) were assumed.

2. Retirement Benefit Plans (continued)

401(k) Plan

Effective October 1, 1999, Essent adopted the Essent Healthcare, Inc. 401(k) Plan (the Benefit Plan). Each employee employed on the effective date was deemed eligible to participate. Otherwise, to become eligible, participants must be at least 21 years of age and be employed by the Company. The Company makes matching contributions to the Benefit Plan on a discretionary basis. Matching contributions paid during the year ended September 30, 2011, related to the Plan year 2010 were $169,957. During fiscal year 2010, the matching contributions paid related to Plan year 2009 were $133,729. As of September 30, 2011, an accrual for matching contributions in the amount of approximately $186,000 is included in other accrued expenses in the accompanying consolidated balance sheets for matching contributions related to Plan year 2011. For the years ended September 30, 2011 and 2010, the Company recorded $145,228 and $141,504, respectively, as an expense related to the employer's matching contribution to participants in the Benefit Plan.

3. Debt

Credit Facility

On December 20, 2007, Essent entered into a credit facility which consists of two term loans and a revolving credit loan. The proceeds from the loan were used to retire all of Essent's and the Company's then outstanding term and revolver debt and pay the debt issuance costs incurred in connection with the transaction. One of the term loans, in the amount of $35,000,000, is an obligation of the Company. This term loan will be repaid in twenty-two consecutive quarterly installments of $87,500 beginning on March 31, 2008 with a final payment of $33,075,000 on September 30, 2013. The revolving credit loan matures on September 30, 2013. The interest on the loans will accrue at the Company's option at either base rate (prime) or LIBOR plus an applicable margin. On June 2, 2010 Essent entered into an agreement to amend the credit facility. The impact on the Company's term loan was to increase the maximum margin from 3.0% to 3.5% for base rate loans and from 4.0% to 4.5% for LIBOR loans. The margins above the prime rate or LIBOR will decrease depending on Essent's consolidated leverage ratio as defined in the Agreement. At September 30, 2011, the interest rate was 3.75%.

3. Debt (continued)

In accordance with the Credit Agreement, Essent is required to comply with certain covenants including a fixed coverage charge ratio and a leverage ratio. Essent was in compliance with the covenants as of September 30, 2011. The Company's term loan is secured by a collateral interest in substantially all of the Company's assets.

Considering the terms of the Credit Facility, the Company's scheduled principal payments over the next five years are as follows:

For the year ended September 30, 2011	Amount
2012	$ 350,000
2013	33,337,500

4. Common Stock

The Company 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 upon 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.

In connection with the acquisition of the Hospital, the Company 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, the Company has the right to call the Shares at any time on and after April 2, 2012, for a total purchase price of $250,000.

5. Capital Lease Obligations

The Company leases various equipment under lease agreements that have been capitalized with a net book value of $719,537 and $1,187,661 included in equipment at September 30, 2011 and 2010, respectively. Future minimum lease payments and the present value of future minimum lease payments for capital leases as of September 30, 2011, are as follows:

2012	$ 337,382
2013	101,889
2014	74,602
Total future minimum lease payments	513,873
Less amounts representing interest	44,899
	468,974
Less current portion	310,667
Long-term capital lease obligations	$ 158,307

6. Income Taxes

The income tax provision for the year ended September 30, 2011 and 2010 includes the following components:

	2011	2010
Federal income tax provision:		
Current	**$ 287,405**	$ 868,288
Deferred	**620,249**	39,605
	907,654	907,893
State income tax provision (benefit):		
Current	**145,557**	98,251
Deferred	**(6,382)**	–
	137,175	98,251
	$ 1,046,829	$ 1,006,144

6. Income Taxes (continued)

Significant components of the Company's deferred tax assets and liabilities consist of the following at September 30, 2011:

	Current	Noncurrent	Total
Deferred tax assets:			
Accrued expenses	**$ 559,965**	**$ 387,361**	**$ 947,326**
Allowance for doubtful accounts	**340,000**	–	**340,000**
Charitable contribution carryover	**–**	**49,856**	**49,856**
Post retirement	**–**	**244,226**	**244,226**
Total deferred tax assets	**899,965**	**681,443**	**1,581,408**
Deferred tax liabilities:			
Property and equipment	**–**	**(1,229,322)**	**(1,229,322)**
Total deferred tax liabilities	**–**	**(1,229,322)**	**(1,229,322)**
Net deferred tax assets (liabilities)	**$ 899,965**	**$ (547,879)**	**$ 352,086**

Significant components of the Company's deferred tax assets and liabilities consist of the following at September 30, 2010:

	Current	Noncurrent	Total
Deferred tax assets:			
Accrued expenses	$ 582,409	$ 343,988	$ 926,397
Allowance for doubtful accounts	1,058,375	–	1,058,375
Charitable contribution carryover	–	48,606	48,606
Post retirement	–	235,412	235,412
Total deferred tax assets	1,640,784	628,006	2,268,790
Deferred tax liabilities:			
Property and equipment	–	(1,311,651)	(1,311,651)
Total deferred tax liabilities	–	(1,311,651)	(1,311,651)
Net deferred tax assets (liabilities)	$ 1,640,784	$ (683,645)	$ 957,139

6. Income Taxes (continued)

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

	2011	2010
Tax at U.S. statutory rates	**$ 864,828**	$ 876,911
State taxes, net of federal benefits	**91,855**	64,737
Other	**90,146**	64,496
Total	**$ 1,046,829**	$ 1,006,144

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 or results of operations.

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.

7. Contingencies and Healthcare Regulations (continued)

Operating Leases

The Company leases office facilities and certain equipment under noncancellable operating leases that expire at various dates through 2012. As of September 30, 2011, the future minimum lease commitments under these noncancellable leases are as follows:

2012	$ 101,970
2013	77,429
2014	58,798
2015	29,404
Total minimum rental payments	$ 267,601

Total rental expense amounted to approximately $408,770 and $469,551 for the years ended September 30, 2011 and 2010, respectively.

8. Subsequent Events

The Company has evaluated all material events subsequent to the balance sheet date through December 16, 2011, for events requiring disclosure or recognition in the consolidated financial statements. On November 4, 2011, Essent completed a merger transaction with RegionalCare Hospital Partners, Inc. In connection with the transaction, the Company’s outstanding loan balance was paid. There were no other subsequent events requiring disclosure or recognition in the consolidated financial statements.

Other Financial Information

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Report of Independent Auditors on Other Financial Information

The Board of Directors
Essent Healthcare of Connecticut, Inc. and Subsidiary

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating financial information as of and for the year ended September 30, 2011 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

December 16, 2011

Consolidated Essent Healthcare of Connecticut, Inc. and Subsidiary

Consolidating Balance Sheet

Year Ended September 30, 2011

	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Eliminations	Consolidated Essent Healthcare of Connecticut, Inc.
Assets				
Current assets:				
Patient accounts receivable, net of allowance for doubtful accounts of $4,447,038 in 2011	$ 6,874,918	$ 436,752	$ –	$ 7,311,670
Inventories	1,160,296	–	–	1,160,296
Prepaid expenses and other receivables	659,267	–	–	659,267
Deferred income taxes	899,965	–	–	899,965
Total current assets	9,594,446	436,752	–	10,031,198
Property and equipment:				
Land and land improvements	1,797,359	–	–	1,797,359
Buildings	39,143,387	354,514	–	39,497,901
Equipment	17,870,631	526,093	–	18,396,724
Construction in progress	1,251,635	34,761	–	1,286,396
	60,063,012	915,368	–	60,978,380
Less accumulated depreciation	(22,455,088)	(521,018)	–	(22,976,106)
	37,607,924	394,350	–	38,002,274
Amounts due from (to) Parent and Affiliate	16,473,426	(6,226,303)	–	10,247,123
Other	755,451	9,003	–	764,454
Total assets	$ 64,431,247	$ (5,386,198)	$ –	$ 59,045,049

Consolidated Essent Healthcare of Connecticut, Inc. and Subsidiary

Consolidating Balance Sheet (continued)

Year Ended September 30, 2011

	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Eliminations	Consolidated Essent Healthcare of Connecticut, Inc.
Liabilities and stockholder's equity (deficit)				
Current liabilities:				
Accounts payable and other liabilities	$ 1,490,434	$ 50,548	$ –	$ 1,540,982
Other accrued expenses	4,391,197	162,243	–	4,553,440
Due to third-party payors	441,349		–	441,349
Current portion of capital lease obligations	310,667		–	310,667
Current portion of long-term debt	350,000		–	350,000
Total current liabilities	6,983,647	212,791	–	7,196,438
Accrued post-retirement benefits	1,386,000		–	1,386,000
Deferred income taxes	547,879		–	547,879
Capital lease obligations, less current portion	158,307		–	158,307
Long-term debt, less current portion	33,337,500		–	33,337,500
Other	259,844		–	259,844
Stockholder's equity (deficit):				
Class A common stock; $0.01 par; 19,000 shares authorized; 19,000 shares issued and outstanding	190	–	–	190
Class B common stock; $0.01 par; 1,000 shares authorized; 1,000 shares issued and outstanding	10	–	–	10
Additional paid-in capital	124,956	–	–	124,956
Other comprehensive loss	(437,791)	–	–	(437,791)
Retained earnings (deficit)	22,070,705	(5,598,989)	–	16,471,716
Total stockholder's equity (deficit)	21,758,070	(5,598,989)	–	16,159,081
Total liabilities and stockholder's equity (deficit)	$ 64,431,247	$ (5,386,198)	$ –	$ 59,045,049

Consolidated Essent Healthcare of Connecticut, Inc. and Subsidiary

Consolidating Statement of Operations

Year Ended September 30, 2011

	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Consolidated Essent Healthcare of Connecticut, Inc.
Net revenues:			
Net patient revenue	$ 55,537,559	$ 3,802,602	$ 59,340,161
Other revenue	457,560	714	458,274
Total net revenue	55,995,119	3,803,316	59,798,435
Operating expenses:			
Salaries and benefits	20,484,993	4,079,280	24,564,273
Professional services	8,413,845	1,224,378	9,638,223
Supplies	6,151,776	164,303	6,316,079
Other operating expenses	6,228,252	300,857	6,529,109
Provision for doubtful accounts	3,537,228	367,217	3,904,445
Depreciation and amortization	3,122,389	108,428	3,230,817
	47,938,483	6,244,463	54,182,946
Income (loss) before interest, intercompany fees and income taxes	8,056,636	(2,441,147)	5,615,489
Interest expense	1,664,350	–	1,664,350
Intercompany fees	1,407,527	–	1,407,527
Income before taxes	4,984,759	(2,441,147)	2,543,612
Income tax expense (benefit)	2,051,489	(1,004,660)	1,046,829
Net income	$ 2,933,270	$ (1,436,487)	$ 1,496,783

Essent Healthcare of Connecticut, Inc. and Subsidiary

Summary of Net Patient Revenue for Sharon Hospital

Net patient service revenue for the years ended September 30, 2011 and 2010 are summarized below:

	Year Ended September 30	
	2011	**2010**
Patient service charges	$ 129,742,875	$ 121,087,948
Less charges related to charity care	942,411	767,288
Less other contractual adjustments and deductions	73,262,905	69,825,130
Net patient revenue	$ 55,537,559	$ 50,495,530

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