Combined Financial Statements and Supplementary Information

Essent Healthcare of Connecticut, Inc. and Affiliates
Years Ended September 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

Essent Healthcare of Connecticut, Inc. and Affiliates

Combined Financial Statements and
Supplementary Information

Years Ended September 30, 2013 and 2012

Contents

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Report of Independent Auditors

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

We have audited the accompanying combined financial statements of Essent Healthcare of Connecticut, Inc. and Affiliates, which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related combined statements of operations, comprehensive income (loss), owner's equity, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Essent Healthcare of Connecticut, Inc, and Affiliates at September 30, 2013 and 2012, and the combined results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

February 28, 2014

Essent Healthcare of Connecticut, Inc. and Affiliates

Combined Balance Sheets

	September 30, 2013	September 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 117,062**	$ –
Patient accounts receivable, net of allowance for doubtful accounts of $3,560,849 in 2013 and $4,126,629 in 2012	**7,934,530**	7,516,850
Inventories	**1,271,046**	1,143,076
Prepaid expenses and other receivables	**1,848,189**	2,111,159
Deferred income taxes	**1,179,591**	730,076
Total current assets	**12,350,418**	11,501,161
Property and equipment:		
Land and land improvements	**1,797,359**	1,797,359
Buildings	**39,935,604**	40,246,720
Equipment	**21,564,142**	19,989,113
Construction-in-progress	**–**	429,573
	63,297,105	62,462,765
Less accumulated depreciation	**(28,688,271)**	(26,189,685)
	34,608,834	36,273,080
Other	**667,672**	589,131
Total assets	**$ 47,626,924**	$ 48,363,372

Essent Healthcare of Connecticut, Inc. and Affiliates

Combined Balance Sheets (continued)

	September 30, 2013	2012
Liabilities and owners' equity		
Current liabilities:		
Accounts payable and other liabilities	**$ 1,739,478**	$ 1,836,580
Other accrued expenses	**4,264,163**	4,114,911
Net amount due to third-party payors	**291,175**	205,997
Current portion of capital lease obligations	**54,591**	9,120
Total current liabilities	**6,349,407**	6,166,608
Accrued post-retirement benefits	**1,268,000**	1,403,000
Deferred income taxes	**309,815**	354,160
Capital lease obligations, less current portion	**244,489**	–
Amounts due to RegionalCare	**21,600,220**	24,196,785
Owners' equity:		
Other comprehensive loss	**(371,399)**	(459,296)
Equity	**18,226,392**	16,702,115
Total owners' equity	**17,854,993**	16,242,819
Total liabilities and owners' equity	**$ 47,626,924**	$ 48,363,372

See accompanying notes.

Essent Healthcare of Connecticut, Inc. and Affiliates

Combined Statements of Operations

	Year Ended September 30, 2013	2012
Net revenues:		
Net patient revenue	**$ 62,715,428**	$ 59,379,084
Provision for doubtful accounts	**2,466,684**	3,224,489
Net patient revenue, less provision for doubtful accounts	**60,248,744**	56,154,595
Other revenue	**429,185**	482,704
Total net revenue	**60,677,929**	56,637,299
Operating expenses:		
Salaries and benefits	**27,271,346**	26,487,567
Professional services	**12,098,043**	10,565,698
Supplies	**6,890,427**	6,837,410
Other operating expenses	**8,742,480**	9,140,617
Electronic health record incentive income	**(1,315,411)**	(1,853,677)
Depreciation and amortization	**2,992,573**	3,213,579
	56,679,458	54,391,194
Income before interest, intercompany fees and income tax provision	**3,998,471**	2,246,105
Interest (income) expense	**(5,555)**	136,325
Intercompany fees	**1,623,609**	2,042,310
Income before taxes	**2,380,417**	67,470
Income tax provision	**856,140**	88,071
Net income (loss)	**$ 1,524,277**	$ (20,601)

See accompanying notes.

Essent Healthcare of Connecticut, Inc. and Affiliates

Combined Statements of Comprehensive Income (Loss)

	Year Ended September 30, 2013	2012
Net income (loss)	**$ 1,524,277**	$ (20,601)
Actuarial gain (loss) on post retirement healthcare benefit (net of income tax of $47,103 and $505 in 2013 and 2012, respectively)	**87,897**	(21,505)
Comprehensive income (loss)	**$ 1,612,174**	$ (42,106)

See accompanying notes.

Essent Healthcare of Connecticut, Inc. and Affiliates

Combined Statements of Owners' Equity

	Other Comprehensive Income (Loss)	Equity	Total Owners' Equity
Balance at September 30, 2011	$ (437,791)	$ 16,722,716	$ 16,284,925
Net income	–	(20,601)	(20,601)
Actuarial loss on post-retirement healthcare benefit (net of tax benefit)	(21,505)	–	(21,505)
Balance at September 30, 2012	(459,296)	16,702,115	16,242,819
Net income	**–**	**1,524,277**	**1,524,277**
Actuarial gain on post-retirement healthcare benefit (net of tax benefit)	**87,897**	**–**	**87,897**
Balance at September 30, 2013	**$ (371,399)**	**$ 18,226,392**	**$ 17,854,993**

See accompanying notes.

Essent Healthcare of Connecticut, Inc. and Affiliates

Combined Statements of Cash Flows

	Year Ended September 30, 2013	2012
Operating activities		
Net income (loss)	**$ 1,524,277**	$ (20,601)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	**2,992,573**	3,213,579
Post-retirement benefits	**(47,103)**	(4,505)
Deferred income taxes	**(493,860)**	(23,830)
Changes in operating assets and liabilities:		
Accounts receivable	**(417,680)**	(205,180)
Inventories	**(127,970)**	17,220
Prepaid expenses and other current assets	**262,970**	(1,245,895)
Accounts payable and other liabilities	**137,328**	(718,280)
Net cash provided by operating activities	**3,830,535**	1,012,508
Investing activities		
(Increase) decrease in other assets	**(78,541)**	175,323
Purchases of property and equipment	**(989,191)**	(1,484,385)
Net cash used in investing activities	**(1,067,732)**	(1,309,062)
Financing activities		
Net advances (to) from RegionalCare	**(2,596,565)**	34,443,908
Payments on debt	**–**	(33,687,500)
Capital lease principal payments	**(49,176)**	(459,854)
Net cash (used in) provided by financing activities	**(2,645,741)**	296,554
Change in cash and cash equivalents	**117,062**	–
Cash and cash equivalents, beginning of period	**–**	–
Cash and cash equivalents, end of period	**$ 117,062**	$ –
Supplemental cash flow information		
Cash (received) paid for interest	**$ (5,555)**	$ 136,325
Non-cash investing activities		
Equipment acquired under capital lease obligations	**$ 339,136**	$ –

See accompanying notes.

1. Business and Summary of Significant Accounting Policies

Organization

Essent Healthcare of Connecticut, Inc. (EHC) is a subsidiary of Sharon Hospital Holding Company, Inc. (the Parent), which in turn is an indirect wholly owned subsidiary of RegionalCare Hospital Partners Holdings, Inc. (RegionalCare). As of September 30, 2013, EHC owns and operates Sharon Hospital (the Hospital) and the Parent owns the physician office practices Regional Healthcare Associates, LLC and Tri-State Women's Services, LLC. These combined financial statements include the results of operations of EHC, Regional Healthcare Associates, LLC and Tri-State Women's Services, LLC, collectively (the Company), for the years ended September 30, 2013 and 2012. The Hospital and physician practices provide healthcare services to patients living in Sharon, Connecticut and the surrounding communities.

On November 4, 2011, RegionalCare merged with Essent Healthcare, Inc. (Essent) and, on that date, Essent and its subsidiaries became subsidiaries of RegionalCare. On December 9, 2011, Tri-State Women's Services, LLC was formed and began operating in April of 2012.

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, 2012, the amount of outstanding checks exceeded the amount of cash on hand. The net balance of $361,163 at September 30, 2012, is included in accounts payable and other liabilities in the accompanying combined 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 Combination

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

Net Patient Revenue and Accounts Receivable

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

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

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 receivable. 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.

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

The Company's total net patient revenues by payor and approximate percentages of revenues were as follows for the years ended September 30, 2013 and 2012:

	2013		**2012**	
	Amount	**Ratio**	**Amount**	**Ratio**
Medicare	**$ 30,855,991**	**50.9%**	$ 29,630,163	52.3%
Medicaid	**6,459,689**	**10.6**	5,878,529	10.4
Managed care and other insurers	**23,330,139**	**38.5**	21,970,261	38.8
Self-pay	**2,069,609**	**3.4**	1,900,131	3.3
	62,715,428	**103.4**	59,379,084	104.8
Other revenue	**429,185**	**0.7**	482,704	0.9
Revenues before provision for doubtful accounts	**63,144,613**	**104.1**	59,861,788	105.7
Provision for doubtful accounts	**2,466,684**	**4.1**	3,224,489	5.7
Total revenues	**$ 60,677,929**	**100.0%**	$ 56,637,299	100.0%

The Company provides care to patients who are financially unable to pay for the healthcare services they receive. Because the Company does not pursue collection of amounts determined to qualify as charity care, the related charges are not reported as revenue. The Company estimates the costs of charity care provided were approximately $350,000 and $300,000 for the years ended September 30, 2013 and 2012, respectively. The Company estimates the costs of care provided under its charity care policy by calculating a ratio of costs to gross charges and applying this ratio to gross charity care charges.

Electronic Health Record (EHR) Incentive Income

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 for eligible hospitals and professionals that adopt and meaningfully use certified EHR technology. The Company recognizes income related to Medicare and Medicaid incentive payments as operating income shown as a reduction to operating expenses in the combined statements of operations.

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

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 $1,315,411 of EHR incentive income related to Medicaid ($121,439) and Medicare ($1,193,972) incentive programs during the year ended September 30, 2013. The Company recognized $1,853,677 of EHR incentive income related to Medicaid ($354,481) and Medicare ($1,499,196) incentive programs during the year ended September 30, 2012.

Inventories

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

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

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase values, change capacities or extend useful lives are capitalized. Depreciation expense is computed by the straight-line method over the estimated useful lives of the assets, which approximate 3 to 30 years. Depreciation expense, including amortization on assets recorded under capital lease obligations, was $2,992,573 and $3,213,579 for the years ended September 30, 2013 and 2012, 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, 2013 and 2012.

Amounts due to/from RegionalCare

Amounts due to/from RegionalCare represent the net excess or deficit of funds transferred to or paid on behalf of the Company over funds transferred to the centralized cash management account of RegionalCare. Generally, this balance represents funds advanced to acquire the facility, net of the effect of funds used or provided by the Company during the normal daily cash management process, plus any intercompany charges from RegionalCare to the Company for management fees and other costs. Management fees include an allocation of corporate office expense of $1,623,609 and $2,042,310 for the years ended September 30, 2013 and 2012, respectively.

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

Self-Insurance Plan

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

Income Taxes

The Company is a corporation subject to federal and state income taxes. In accordance with the FASB's guidance for accounting for income taxes, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. Under the income tax guidance, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the rate change is enacted. The Company is included in the consolidated Federal tax return of RegionalCare. RegionalCare's tax policy is to allocate a provision for income taxes as if the Company filed a separate return. The state income tax provisions for the years ended September 30, 2013 and 2012, were based on the Company's allocable share of the consolidated state income tax rate for RegionalCare. Obligations related to income taxes of $72,345 and $102,406 at September 30, 2013 and 2012, respectively, are included in Amounts due to RegionalCare in the accompanying combined balance sheets. All income tax payments are paid by RegionalCare in connection with the consolidated Federal tax obligation.

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 capital lease obligations approximate fair value.

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

Professional and General Liability Reserves

The Company is insured for professional and general liabilities under RegionalCare's insurance policies. RegionalCare insures for professional and general liability risks under a combination of "claims-made" policies. Claims are covered up to at least $2,000,000 per occurrence. The Company paid $701,340 in 2013 and $584,450 in 2012 to a subsidiary of RegionalCare to insure the $2,000,000 self-insurance retention. Additionally, RegionalCare has excess liability policies in place to extend coverage to a maximum of $40,000,000 per occurrence and in the aggregate. RegionalCare reserves for professional and general liability risks, including estimates for incurred but not reported claims, and allocates such costs to the Company. Professional and general liability costs incurred for the years ended September 30, 2013 and 2012, and recorded in other operating expenses in the combined statements of operations totaled $1,270,339 and $1,290,329, respectively.

Reclassifications

Certain reclassifications have been made to the prior year to conform to current year presentation. The reclassifications had no effect on net loss as previously reported.

Recent Accounting Developments

In June 2011, the FASB issued an accounting standard update increasing the prominence of items reported in comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Instead, entities must report either one statement of comprehensive income, which includes the components of net income and components of other comprehensive income, or two separate but consecutive statements. As a result of adopting the comprehensive income guidance during the Company's fiscal year 2013, the Company has presented two separate but consecutive combined statements of operations and comprehensive income (loss).

2. 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, 2013 and 2012) follow:

	2013	2012
Components of net periodic benefit cost		
Interest cost	**$ 39,000**	$ 54,000
Amortization of actuarial loss	**104,000**	90,000
Net periodic benefit cost	**$ 143,000**	$ 144,000

	2013	2012
Change in benefit obligation		
Accumulated benefit obligation at beginning of year	**$ 1,564,000**	$ 1,543,000
Interest cost	**39,000**	54,000
Benefits paid	**(166,000)**	(192,000)
Actuarial (gain) loss	**(8,000)**	159,000
Accumulated benefit obligation at end of year	**$ 1,429,000**	$ 1,564,000

	2013	2012
Change in plan assets		
Fair value of plan assets at end of prior year	**$ –**	$ –
Employer contributions	**166,000**	192,000
Benefits paid	**(166,000)**	(192,000)
Fair value of plan assets at end of year	**$ –**	$ –
Funded status at year-end	**$ (1,429,000)**	$ (1,564,000)

2. Retirement Benefit Plans (continued)

	2013	2012
Amounts recognized in the combined balance sheets consists of		
Current liabilities	**$ (161,000)**	$ (161,000)
Noncurrent liabilities	**(1,268,000)**	(1,403,000)
Net amount recognized in statement of financial position	**$ (1,429,000)**	$ (1,564,000)

	2013	2012
Weighted-average assumptions used to determine benefit obligations at September 30		
Discount rate	**3.39%**	2.62%
Measurement date	**Sept. 30, 2013**	Sept. 30, 2012
Medical cost trend rate assumed for next year	**6.78%**	6.84%
Ultimate rate	**4.5%**	4.5%
Year that the rate reaches the ultimate rate	**2027**	2027

	2013	2012
Expected cash flows		
Expected return of assets to employer in next year	**$ –**	$ –
Expected employer contributions for next fiscal year	**161,000**	161,000

	Employer Benefit Payment
Expected benefit payments for fiscal year ending in:	
2014	$ 161,000
2015	157,000
2016	152,000
2017	145,000
2018	138,000
Next 5 years	557,000

2. Retirement Benefit Plans (continued)

	2013	2012
Effect of 1% increase in trend rates		
Effect on total service cost and interest cost	**$ 2,000**	$ 3,000
Effect on benefit obligation	**87,000**	89,000
Effect of 1% decrease in trend rates		
Effect on total service cost and interest cost	**(2,000)**	(3,000)
Effect on benefit obligation	**(82,000)**	(81,000)

For measurement purposes relating to the postretirement benefit plan for 2013, annual increases in per capita cost of covered healthcare benefits of 6.78% (grading down to 4.5% after 14 years) were assumed.

401(k) Plan

Effective October 1, 1999, the Essent Healthcare, Inc. 401(k) Plan (the Benefit Plan) was adopted and each employee employed on the effective date was eligible to participate. Subsequent to October 1, 1999, employees must be at least 21 years of age and be employed by the Company to be eligible to participate in the Benefit Plan. The Company makes matching contributions to the Benefit Plan on a discretionary basis. As of September 30, 2013, an accrued liability for matching contributions of $9,773 is included in other accrued expenses in the accompanying combined balance sheets for unfunded matching contributions related to Plan year 2013. For the years ended September 30, 2013 and 2012, the Company recorded $336,297 and $320,181, respectively, as an expense related to the employer's matching contribution to participants in the Benefit Plan.

3. Owners' Equity

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

3. Owners' Equity (continued)

Upon any liquidation of EHC, after payment of all of its debts and obligations, the holders of Common Stock shall be entitled to participate in all distributions. The holders of the Common Stock shall be entitled to receive the balance of such distribution ratably among such holders.

In connection with the acquisition of the Hospital, EHC issued 1,000 shares of $0.01 par value, non-voting Class B Common Stock (the Shares) to the seller. In accordance with the Stockholders Agreement, EHC has the right to call the Shares at any time on and after April 2, 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, holders of the Shares are entitled to an aggregate maximum amount of $250,000.

4. Capital Lease Obligations

The Company leases various equipment under lease agreements that have been capitalized with a net book value of $254,352 and $317,569 at September 30, 2013 and 2012, respectively. Future minimum lease payments and the present value of future minimum lease payments for capital leases as of September 30, 2013, are as follows:

2014	$	60,340
2015		60,340
2016		60,340
2017		60,340
2018		60,340
Thereafter		20,111
Total minimum future payments		321,811
Less amounts representing interest		(22,731)
Less current portion of capital lease obligations		(54,591)
Capital lease obligations, less current portion	$	244,489

5. Income Taxes

The income tax provision for the years ended September 30, 2013 and 2012, includes the following components:

	2013	2012
Federal income tax provision (benefit):		
Current	**$ 1,324,760**	$ 10,227
Deferred	**(534,042)**	(20,336)
	790,718	(10,109)
State income tax provision:		
Current	**72,345**	102,179
Deferred	**(6,923)**	(3,999)
	65,422	98,180
	$ 856,140	$ 88,071

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

	Current	Noncurrent	Total
Deferred tax assets:			
Accrued expenses	**$ 418,955**	**$ 139,891**	**$ 558,846**
Allowance for doubtful accounts	**760,636**	**–**	**760,636**
Post-retirement benefit plan	**–**	**196,618**	**196,618**
Total deferred tax assets	**1,179,591**	**336,509**	**1,516,100**
Deferred tax liabilities:			
Property and equipment	**–**	**(646,324)**	**(646,324)**
Total deferred tax liabilities	**–**	**(646,324)**	**(646,324)**
Net deferred tax assets (liabilities)	**$ 1,179,591**	**$ (309,815)**	**$ 869,776**

5. Income Taxes (continued)

Significant components of the Company's deferred tax assets and liabilities consist of the following at September 30, 2012:

	Current	Noncurrent	Total
Deferred tax assets:			
Accrued expenses	$ 438,258	$ 207,602	$ 645,860
Allowance for doubtful accounts	291,818	–	291,818
Charitable contribution carryover	–	66,622	66,622
Post-retirement benefit plan	–	243,721	243,721
Total deferred tax assets	730,076	517,945	1,248,021
Deferred tax liabilities:			
Property and equipment	–	(872,105)	(872,105)
Total deferred tax liabilities	–	(872,105)	(872,105)
Net deferred tax assets (liabilities)	$ 730,076	$ (354,160)	$ 375,916

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

	2013	2012
Tax at U.S. statutory rates	**$ 809,342**	$ 22,940
State taxes, net of federal benefits	**39,817**	62,534
Other	**6,981**	2,597
Total	**$ 856,140**	$ 88,071

6. 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.

6. Contingencies and Healthcare Regulations (continued)

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.

Operating Leases

The Company leases office facilities and certain equipment under noncancellable operating leases that expire at various dates through 2017. As of September 30, 2013, the future minimum lease commitments under these noncancellable leases are as follows:

2014	$ 198,718
2015	153,060
2016	54,391
2017	19,913
Total minimum rental payments	$ 426,082

Total rental expense was $489,321 and $443,795 for the years ended September 30, 2013 and 2012, respectively.

7. Subsequent Events

The Company has evaluated all material events subsequent to the balance sheet date through February 28, 2014, the date the financial statements were issued, for events requiring disclosure or recognition in the combined financial statements. There were no subsequent events requiring disclosure or recognition in the combined financial statements.

Supplementary Information

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Report of Independent Auditors on Supplementary Information

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

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying combining financial information as of and for the year ended September 30, 2013 is presented for purposes of additional analysis and is not a required part of the 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 information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

February 28, 2014

Essent Healthcare of Connecticut, Inc. and Affiliates

Combining Balance Sheet

September 30, 2013

	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Tri State Women's Services, LLC	Eliminations	Combined Essent Healthcare of Connecticut, Inc. and Affiliates
Assets					
Current assets:					
Cash and cash equivalents	$ (62,011)	$ 183,882	$ (4,809)	$ –	$ 117,062
Patient accounts receivable, net of allowance for doubtful accounts of $3,560,849 in 2013	7,080,859	373,294	480,377	–	7,934,530
Inventories	1,238,168	16,886	15,992	–	1,271,046
Prepaid expenses and other receivables	1,722,975	–	125,214	–	1,848,189
Deferred income taxes	1,179,591	–	–	–	1,179,591
Total current assets	11,159,582	574,062	616,774	–	12,350,418
Property and equipment:					
Land and land improvements	1,797,359	–	–	–	1,797,359
Buildings	39,867,429	68,175	–	–	39,935,604
Equipment	21,307,149	148,871	108,122	–	21,564,142
Construction-in-progress	–	–	–	–	–
	62,971,937	217,046	108,122	–	63,297,105
Less accumulated depreciation	(28,550,693)	(108,188)	(29,390)	–	(28,688,271)
	34,421,244	108,858	78,732	–	34,608,834
Other	523,669	25,003	119,000	–	667,672
Total assets	$ 46,104,495	$ 707,923	$ 814,506	$ –	$ 47,626,924

Essent Healthcare of Connecticut, Inc. and Affiliates

Combining Balance Sheet (continued)

September 30, 2013

	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Tri State Women's Services, LLC	Eliminations	Combined Essent Healthcare of Connecticut, Inc. and Affiliates
Liabilities and owners' equity					
Current liabilities:					
Accounts payable and other liabilities	$ 1,553,296	$ 178,032	$ 8,150	$ –	$ 1,739,478
Other accrued expenses	3,501,910	544,814	217,439	–	4,264,163
Net amount due to third-party payors	291,175			–	291,175
Current portion of capital lease obligations	54,591	–	–	–	54,591
Total current liabilities	5,400,972	722,846	225,589	–	6,349,407
Accrued post-retirement benefits	1,268,000	–	–	–	1,268,000
Deferred income taxes	309,815	–	–	–	309,815
Capital lease obligations, less current portion	244,489	–	–	–	244,489
Amounts due to Parent	8,826,637	11,679,788	1,093,795		21,600,220
Owners' equity:					
Other comprehensive loss	(371,399)	–	–	–	(371,399)
Equity	30,425,981	(11,694,711)	(504,878)	–	18,226,392
Total owners' equity	30,054,582	(11,694,711)	(504,878)	–	17,854,993
Total liabilities and owners' equity	$ 46,104,495	$ 707,923	$ 814,506	$ –	$ 47,626,924

Essent Healthcare of Connecticut, Inc. and Affiliates

Combining Statement of Operations

Year Ended September 30, 2013

	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Tri State Women's Services, LLC	Eliminations	Combined Essent Healthcare of Connecticut, Inc. and Affiliates
Net revenues:					
Net patient revenue	$ 56,040,410	$ 4,405,107	$ 2,269,911	$ –	$ 62,715,428
Provision for doubtful accounts	2,293,507	154,143	19,034	–	2,466,684
Net patient revenue, less provision for doubtful accounts	53,746,903	4,250,964	2,250,877	–	60,248,744
Other revenue	429,185	–	298,386	(298,386)	429,185
Total net revenue	54,176,088	4,250,964	2,549,263	(298,386)	60,677,929
Operating expenses:					
Salaries and benefits	21,481,158	5,708,753	81,435	–	27,271,346
Professional services	8,977,267	1,071,427	2,347,735	(298,386)	12,098,043
Supplies	6,628,436	152,749	109,242	–	6,890,427
Other operating expenses	8,151,700	390,123	200,657	–	8,742,480
Electronic health record incentive income	(1,315,411)	–	–	–	(1,315,411)
Depreciation and amortization	3,004,141	(33,041)	21,473	–	2,992,573
	46,927,291	7,290,011	2,760,542	(298,386)	56,679,458
Income (loss) before interest, intercompany fees and income taxes	7,248,797	(3,039,047)	(211,279)	–	3,998,471
Interest income	(5,555)	–	–	–	(5,555)
Intercompany fees	1,623,609	–	–	–	1,623,609
Income (loss) before taxes	5,630,743	(3,039,047)	(211,279)	–	2,380,417
Income tax expense	856,140	–	–	–	856,140
Net income (loss)	$ 4,774,603	$ (3,039,047)	$ (211,279)	$ –	$ 1,524,277

Essent Healthcare of Connecticut, Inc. and Affiliates

Summary of Net Patient Revenue for Sharon Hospital

Net patient service revenue for the years ended September 30, 2013 and 2012 are summarized below:

	Year Ended September 30,	
	2013	**2012**
Patient service charges	**$ 147,441,042**	$ 138,431,770
Less: Charges related to charity care	**(941,923)**	(760,089)
Less: Other contractual adjustments and deductions	**(90,458,709)**	(81,595,587)
Net patient revenue	**$ 56,040,410**	$ 56,076,094

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