



COMBINED FINANCIAL STATEMENTS AND  
OTHER SUPPLEMENTARY INFORMATION

Essent Healthcare of Connecticut, Inc. and Affiliates  
Years Ended September 30, 2012 and 2011  
With Report of Independent Auditors

Ernst & Young LLP



Essent Healthcare of Connecticut, Inc. and Affiliates

Combined Financial Statements  
and Other Supplementary Information

Years Ended September 30, 2012 and 2011

**Contents**

Report of Independent Auditors.....	1
Combined Financial Statements	
Combined Balance Sheets.....	2
Combined Statements of Operations .....	4
Combined Statements of Owners' Equity.....	5
Combined Statements of Cash Flows .....	6
Notes to Combined Financial Statements .....	7
Other Supplementary Information	
Report of Independent Auditors on Other Supplementary Information .....	21
Combining Balance Sheet.....	22
Combining Statement of Operations.....	24
Summary of Net Patient Revenue for Sharon Hospital .....	25

## Report of Independent Auditors

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

We have audited the accompanying combined balance sheets of Essent Healthcare of Connecticut, Inc. and Affiliates (collectively, the Company) as of September 30, 2012 and 2011, and the related combined statements of operations, owners' 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 audits 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 combined financial position of Essent Healthcare of Connecticut, Inc. and Affiliates at September 30, 2012 and 2011, 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.

As disclosed in Note 1 to the combined financial statements, the Company changed its presentation of net revenue and provision for doubtful accounts as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2011-07, "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Healthcare Entities."

*Ernst & Young LLP*

January 25, 2013

Essent Healthcare of Connecticut, Inc. and Affiliates

Combined Balance Sheets

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current assets:		
Patient accounts receivable, net of allowance for doubtful accounts of \$4,126,629 in 2012 and \$4,447,038 in 2011	<b>\$ 7,516,850</b>	\$ 7,311,670
Inventories	<b>1,143,076</b>	1,160,296
Net amount due from third-party payors	<b>1,352,960</b>	–
Prepaid expenses and other receivables	<b>552,202</b>	659,267
Deferred income taxes	<b>730,076</b>	899,965
Total current assets	<b>11,295,164</b>	10,031,198
Property and equipment:		
Land and land improvements	<b>1,797,359</b>	1,797,359
Buildings	<b>40,246,720</b>	39,497,901
Equipment	<b>19,989,113</b>	18,396,724
Construction-in-progress	<b>429,573</b>	1,286,396
	<b>62,462,765</b>	60,978,380
Less accumulated depreciation	<b>(26,189,685)</b>	(22,976,106)
	<b>36,273,080</b>	38,002,274
Amounts due from RegionalCare	–	10,247,123
Other	<b>589,131</b>	764,454
Total assets	<b>\$ 48,157,375</b>	<b>\$ 59,045,049</b>

Essent Healthcare of Connecticut, Inc. and Affiliates

Combined Balance Sheets (continued)

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Liabilities and owners' equity</b>		
Current liabilities:		
Accounts payable and other liabilities	\$ <b>1,836,580</b>	\$ 1,540,982
Other accrued expenses	<b>4,114,911</b>	4,553,440
Net amount due to third-party payors	–	441,349
Current portion of capital lease obligations	<b>9,120</b>	310,667
Current portion of long-term debt	–	350,000
Total current liabilities	<b>5,960,611</b>	7,196,438
Accrued post-retirement benefits	<b>1,403,000</b>	1,386,000
Deferred income taxes	<b>354,160</b>	547,879
Capital lease obligations, less current portion	–	158,307
Amounts due to RegionalCare	<b>24,196,785</b>	–
Long-term debt, less current portion	–	33,337,500
Other	–	134,000
Owners' equity:		
Other comprehensive loss	<b>(459,296)</b>	(437,791)
Equity	<b>16,702,115</b>	16,722,716
Total owners' equity	<b>16,242,819</b>	16,284,925
Total liabilities and owners' equity	<b>\$ 48,157,375</b>	\$ 59,045,049

*See accompanying notes.*

Essent Healthcare of Connecticut, Inc. and Affiliates

Combined Statements of Operations

	<b>Year Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
Net revenues:		
Net patient revenue	<b>\$ 59,379,084</b>	\$ 59,340,161
Provision for doubtful accounts	<b>3,224,489</b>	3,904,445
Net patient revenue, less provision for doubtful accounts	<b>56,154,595</b>	55,435,716
Other revenue	<b>482,704</b>	458,274
Total net revenue	<b>56,637,299</b>	55,893,990
Operating expenses:		
Salaries and benefits	<b>26,487,567</b>	24,564,273
Professional services	<b>10,565,698</b>	9,638,223
Supplies	<b>6,837,410</b>	6,316,079
Other operating expenses	<b>9,140,617</b>	6,529,109
Electronic health record incentive income	<b>(1,853,677)</b>	–
Depreciation and amortization	<b>3,213,579</b>	3,230,817
	<b>54,391,194</b>	50,278,501
Income before interest, intercompany fees and income tax provision	<b>2,246,105</b>	5,615,489
Interest expense	<b>136,325</b>	1,664,350
Intercompany fees	<b>2,042,310</b>	1,407,527
Income before taxes	<b>67,470</b>	2,543,612
Income tax provision	<b>88,071</b>	1,046,829
Net income (loss)	<b>\$ (20,601)</b>	\$ 1,496,783

*See accompanying notes.*

Essent Healthcare of Connecticut, Inc. and Affiliates

Combined Statements of Owners' Equity

	<b>Other Comprehensive Loss</b>	<b>Equity</b>	<b>Total Owners' Equity</b>
Balance at September 30, 2010	\$ (456,977)	\$ 15,225,933	\$ 14,768,956
Net income	-	1,496,783	1,496,783
Actuarial gain on post-retirement healthcare benefit (net of tax benefit)	19,186	-	19,186
Balance at September 30, 2011	(437,791)	16,722,716	16,284,925
Net loss	-	(20,601)	(20,601)
Actuarial loss on post-retirement healthcare benefit (net of tax benefit)	(21,505)	-	(21,505)
Balance at September 30, 2012	<u>\$ (459,296)</u>	<u>\$ 16,702,115</u>	<u>\$ 16,242,819</u>

*See accompanying notes.*

Essent Healthcare of Connecticut, Inc. and Affiliates

Combined Statements of Cash Flows

	<b>Year Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating activities</b>		
Net income (loss)	\$ (20,601)	\$ 1,496,783
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,213,579	3,230,817
Post-retirement benefits	(4,505)	(96,814)
Deferred income taxes	(23,830)	605,053
Changes in operating assets and liabilities:		
Accounts receivable	(205,180)	(1,069,245)
Inventories	17,220	2,085
Prepaid expenses and other current assets	(1,245,895)	(60,990)
Accounts payable and other liabilities	(718,280)	1,380,557
Net cash provided by operating activities	<u>1,012,508</u>	<u>5,488,246</u>
<b>Investing activities</b>		
Decrease (increase) in other assets	175,323	(262,365)
Purchases of property and equipment	(1,484,385)	(2,108,599)
Net cash used in investing activities	<u>(1,309,062)</u>	<u>(2,370,964)</u>
<b>Financing activities</b>		
Net advances from (to) Parent	34,443,908	(2,218,397)
Payments on debt	(33,687,500)	(350,000)
Capital lease principal payments	(459,854)	(548,885)
Net cash provided by (used in) financing activities	<u>296,554</u>	<u>(3,117,282)</u>
Change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	<u>\$ -</u>	<u>\$ -</u>
<b>Supplemental cash flow information</b>		
Cash paid for interest	<u>\$ 136,325</u>	<u>\$ 1,664,350</u>

*See accompanying notes.*

# Essent Healthcare of Connecticut, Inc. and Affiliates

## Notes to Combined Financial Statements

September 30, 2012

### **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, 2012, 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, 2012 and 2011. 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 and 2011, the amount of outstanding checks exceeded the amount of cash on hand. The net balances of \$361,163 at September 30, 2012 and \$803,784 at September 30, 2011, are 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.

## Essent Healthcare of Connecticut, Inc. and Affiliates

### Notes to Combined Financial Statements (continued)

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

##### **Principles of Consolidation**

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 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.

## Essent Healthcare of Connecticut, Inc. and Affiliates

### Notes to Combined Financial Statements (continued)

#### 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, 2012 and 2011:

	2012		2011	
	Amount	Ratio	Amount	Ratio
Medicare	\$ 29,630,163	52.3%	\$ 29,729,421	53.2%
Medicaid	5,878,529	10.4	5,399,955	9.7
Managed care and other insurers	21,970,261	38.8	22,608,601	40.4
Self-pay	1,900,131	3.3	1,602,184	2.9
	<b>59,379,084</b>	<b>104.8</b>	59,340,161	106.2
Other revenue	482,704	0.9	458,274	0.8
Revenues before provision for doubtful accounts	<b>59,861,788</b>	<b>105.7</b>	59,798,435	107.0
Provision for doubtful accounts	3,224,489	5.7	3,904,445	7.0
Total revenues	<b>\$ 56,637,299</b>	<b>100.0%</b>	\$ 55,893,990	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 \$300,000 and \$370,000 for the years ended September 30, 2012 and 2011, 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.

## Essent Healthcare of Connecticut, Inc. and Affiliates

### Notes to Combined Financial Statements (continued)

#### **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's eligible hospitals demonstrate 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 \$1,853,677 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.

#### **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 \$3,213,579 and \$3,230,817 for the years ended September 30, 2012 and 2011, respectively.

## Essent Healthcare of Connecticut, Inc. and Affiliates

### Notes to Combined Financial Statements (continued)

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

##### **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, 2012 and 2011.

##### **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 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 \$2,042,310 and \$1,407,527 for the years ended September 30, 2012 and 2011, respectively.

##### **Self-Insurance Plan**

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

##### **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

## Essent Healthcare of Connecticut, Inc. and Affiliates

### Notes to Combined Financial Statements (continued)

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

statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. Under the income tax guidance, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the rate change is enacted. The Company is included in the consolidated Federal tax return of RegionalCare. RegionalCare's tax policy is to allocate a provision for income taxes as if the Company filed a separate return. The state income tax provision for the years ended September 30, 2012 and 2011, were based on the Company's allocable share of the consolidated state income tax rate for RegionalCare. Obligations related to income taxes of \$102,406 and \$432,962 at September 30, 2012 and 2011, 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.

#### **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 \$584,450 in 2012 and \$740,177 in 2011 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, 2012 and 2011, and recorded in other operating expenses in the combined statements of operations totaled \$1,290,329 and \$1,193,381, respectively.

## Essent Healthcare of Connecticut, Inc. and Affiliates

### Notes to Combined Financial Statements (continued)

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

##### **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. The comprehensive income guidance is effective for companies with annual reporting periods ending after December 15, 2012, the Company's fiscal year 2013, and is expected to have an impact on the presentation of the Company's actuarial gain or loss on post-retirement healthcare benefit as reported in other comprehensive income.

In July 2011, the FASB issued an accounting standard update (ASU 2011-07) addressing the presentation and disclosure of patient service revenue, provision for bad debts, and the allowance for doubtful accounts for certain healthcare entities. The guidance requires healthcare 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 Company adopted the provisions of this accounting standard update during fiscal year 2012. As a result, the adoption reduced total net revenue and total operating expenses reported during the years ended September 30, 2012 and 2011 by \$3,224,489 and \$3,904,445, respectively, but had no impact on the Company's previously reported financial position, net loss or cash flows.

#### **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.

Essent Healthcare of Connecticut, Inc. and Affiliates

Notes to Combined Financial Statements (continued)

**2. Retirement Benefit Plans (continued)**

Significant disclosures relating to the postretirement benefit plan (measured as of September 30, 2012 and 2011) follow:

	<u>2012</u>	<u>2011</u>
<b>Components of net periodic benefit cost</b>		
Interest cost	\$ 54,000	\$ 62,000
Amortization of actuarial loss	90,000	86,000
Net periodic benefit cost	<u>\$ 144,000</u>	<u>\$ 148,000</u>
	<u>2012</u>	<u>2011</u>
<b>Change in benefit obligation</b>		
Accumulated benefit obligation at beginning of year	\$ 1,543,000	\$ 1,666,000
Interest cost	54,000	62,000
Benefits paid	(192,000)	(243,000)
Actuarial loss	159,000	58,000
Accumulated benefit obligation at end of year	<u>\$ 1,564,000</u>	<u>\$ 1,543,000</u>
	<u>2012</u>	<u>2011</u>
<b>Change in plan assets</b>		
Fair value of plan assets at end of prior year	\$ —	\$ —
Employer contributions	192,000	243,000
Benefits paid	(192,000)	(243,000)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>\$ —</u>
Funded status at yearend	<u>\$ (1,564,000)</u>	<u>\$ (1,543,000)</u>
	<u>2012</u>	<u>2011</u>
<b>Amounts recognized in the statement of financial position consists of</b>		
Current liabilities	\$ (161,000)	\$ (157,000)
Noncurrent liabilities	(1,403,000)	(1,386,000)
Net amount recognized in statement of financial position	<u>\$ (1,564,000)</u>	<u>\$ (1,543,000)</u>

Essent Healthcare of Connecticut, Inc. and Affiliates

Notes to Combined Financial Statements (continued)

**2. Retirement Benefit Plans (continued)**

	<b>2012</b>	<b>2011</b>
<b>Weighted-average assumptions used to determine benefit obligations at September 30</b>		
Discount rate	<b>2.62%</b>	3.72%
Measurement date	<b>Sept. 30, 2012</b>	Sept. 30, 2011
Medical cost trend rate assumed for next year	<b>6.78%</b>	6.84%
Ultimate rate	<b>4.5%</b>	4.5%
Year that the rate reaches the ultimate rate	<b>2027</b>	2027
	<b>2012</b>	<b>2011</b>
<b>Expected cash flows</b>		
Expected return of assets to employer in next year	\$ —	\$ —
Expected employer contributions for next fiscal year	<b>161,000</b>	164,000
		<b>Employer Benefit Payment</b>
Expected benefit payments for fiscal year ending in:		
2013		\$ 161,000
2014		157,000
2015		153,000
2016		147,000
2017		141,000
Next 5 years		581,000
	<b>2012</b>	<b>2011</b>
<b>Effect of 1% increase in trend rates</b>		
Effect on total service cost and interest cost	\$ <b>3,000</b>	\$ 4,000
Effect on benefit obligation	<b>89,000</b>	88,000
<b>Effect of 1% decrease in trend rates</b>		
Effect on total service cost and interest cost	<b>(3,000)</b>	(4,000)
Effect on benefit obligation	<b>(81,000)</b>	(80,000)

## Essent Healthcare of Connecticut, Inc. and Affiliates

### Notes to Combined Financial Statements (continued)

#### **2. Retirement Benefit Plans (continued)**

For measurement purposes relating to the postretirement benefit plan for 2012, 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, 2012, an accrued liability for matching contributions of \$6,581 is included in other accrued expenses in the accompanying combined balance sheets for unfunded matching contributions related to Plan year 2012. For the years ended September 30, 2012 and 2011, the Company recorded \$320,181 and \$145,228, respectively, as an expense related to the employer's matching contribution to participants in the Benefit Plan.

#### **3. Debt**

##### **Credit Facility**

On November 4, 2011, RegionalCare entered into a credit facility, the proceeds of which paid for the merger with Essent, repaid outstanding debt of Essent and refinanced outstanding debt of RegionalCare. On this date the Company's term loan with a balance of \$33,687,500 was repaid.

#### **4. Owners' Equity**

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

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.

## Essent Healthcare of Connecticut, Inc. and Affiliates

### Notes to Combined Financial Statements (continued)

#### 4. Owners' Equity (continued)

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.

#### 5. Capital Lease Obligations

The Company leases various equipment under lease agreements that have been capitalized with a net book value of \$317,569 and \$719,537 at September 30, 2012 and 2011, 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:

2013	\$	9,276
Less amounts representing interest		156
Current portion of capital lease obligations	\$	<u>9,120</u>

#### 6. Income Taxes

The income tax provision for the year ended September 30, 2012 and 2011 includes the following components:

	<b>2012</b>	<b>2011</b>
Federal income tax provision:		
Current	\$ <b>10,227</b>	\$ 287,405
Deferred	<b>(20,336)</b>	620,249
	<b>(10,109)</b>	907,654
State income tax provision (benefit):		
Current	<b>102,179</b>	145,557
Deferred	<b>(3,999)</b>	(6,382)
	<b>98,180</b>	139,175
	<b>\$ 88,071</b>	\$ 1,046,829

Essent Healthcare of Connecticut, Inc. and Affiliates

Notes to Combined Financial Statements (continued)

**6. Income Taxes (continued)**

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

	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
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	<u>730,076</u>	<u>517,945</u>	<u>1,248,021</u>
Deferred tax liabilities:			
Property and equipment	–	(872,105)	(872,105)
Total deferred tax liabilities	<u>–</u>	<u>(872,105)</u>	<u>(872,105)</u>
Net deferred tax assets (liabilities)	<u>\$ 730,076</u>	<u>\$ (354,160)</u>	<u>\$ 375,916</u>

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

	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
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 benefit plan	–	244,226	244,226
Total deferred tax assets	<u>899,965</u>	<u>681,443</u>	<u>1,581,408</u>
Deferred tax liabilities:			
Property and equipment	–	(1,229,322)	(1,229,322)
Total deferred tax liabilities	<u>–</u>	<u>(1,229,322)</u>	<u>(1,229,322)</u>
Net deferred tax assets (liabilities)	<u>\$ 899,965</u>	<u>\$ (547,879)</u>	<u>\$ 352,086</u>

Essent Healthcare of Connecticut, Inc. and Affiliates

Notes to Combined Financial Statements (continued)

**6. Income Taxes (continued)**

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

	<u>2012</u>	<u>2011</u>
Tax at U.S. statutory rates	\$ 22,940	\$ 864,828
State taxes, net of federal benefits	62,534	91,855
Other	2,597	90,145
Total	<u>\$ 88,071</u>	<u>\$ 1,046,829</u>

**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.

Essent Healthcare of Connecticut, Inc. and Affiliates

Notes to Combined Financial Statements (continued)

**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 2015. As of September 30, 2012, the future minimum lease commitments under these noncancellable leases are as follows:

2013	\$	84,113
2014		65,482
2015		33,559
2016		—
Total minimum rental payments	\$	<u>183,154</u>

Total rental expense was \$443,795 and \$408,770 for the years ended September 30, 2012 and 2011, respectively.

**8. Subsequent Events**

The Company has evaluated all material events subsequent to the balance sheet date through January 25, 2013, for events requiring disclosure or recognition in the combined financial statements. There were no subsequent events requiring disclosure or recognition in the combined financial statements.

## Other Supplementary Information

## Report of Independent Auditors on Other 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 and the Summary of Net Patient Revenue for Sharon Hospital as of and for the year ended September 30, 2012 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 combined 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 combined financial statements as a whole.

*Ernst & Young LLP*

January 25, 2013

Combined Essent Healthcare of Connecticut, Inc. and Affiliates

Combining Balance Sheet

September 30, 2012

	<b>Essent Healthcare of Connecticut, Inc.</b>	<b>Regional Healthcare Associates, LLC</b>	<b>Tri State Women's Services, LLC</b>	<b>Eliminations</b>	<b>Combined Essent Healthcare of Connecticut, Inc.</b>
<b>Assets</b>					
Current assets:					
Patient accounts receivable, net of allowance for doubtful accounts of \$4,126,629 in 2012	\$ 6,927,031	\$ 337,027	\$ 252,792	\$ -	\$ 7,516,850
Inventories	1,127,084	-	15,992	-	1,143,076
Net amount due from third-party payors	1,352,960	-	-	-	1,352,960
Prepaid expenses and other receivables	515,802	-	36,400	-	552,202
Deferred income taxes	730,076	-	-	-	730,076
Total current assets	10,652,953	337,027	305,184	-	11,295,164
Property and equipment:					
Land and land improvements	1,797,359	-	-	-	1,797,359
Buildings	40,178,545	68,175	-	-	40,246,720
Equipment	19,568,446	312,545	108,122	-	19,989,113
Construction-in-progress	381,260	48,313	-	-	429,573
	61,925,610	429,033	108,122	-	62,462,765
Less accumulated depreciation	(26,040,539)	(141,229)	(7,917)	-	(26,189,685)
	35,885,071	287,804	100,205	-	36,273,080
Other	470,131	-	119,000	-	589,131
Total assets	\$ 47,008,155	\$ 624,831	\$ 524,389	\$ -	\$ 48,157,375

Combined Essent Healthcare of Connecticut, Inc. and Affiliates

Combining Balance Sheet (continued)

	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Tri State Women's Services, LLC	Eliminations	Combined Essent Healthcare of Connecticut, Inc.
<b>Liabilities and owners' equity</b>					
Current liabilities:					
Accounts payable and other liabilities	\$ 1,852,707	\$ (9,874)	\$ (6,253)	\$ –	\$ 1,836,580
Other accrued expenses	3,362,358	469,350	283,203	–	4,114,911
Current portion of capital lease obligations	9,120	–	–	–	9,120
Total current liabilities	5,224,185	459,476	276,950	–	5,960,611
Accrued post-retirement benefits	1,403,000	–	–	–	1,403,000
Deferred income taxes	354,160	–	–	–	354,160
Amounts due to Parent	14,897,159	8,758,587	541,039	–	24,196,785
Owners' equity:					
Other comprehensive loss	(459,296)	–	–	–	(459,296)
Equity	25,588,947	(8,593,232)	(293,600)	–	16,702,115
Total owners' equity	25,129,651	(8,593,232)	(293,600)	–	16,242,819
Total liabilities and owners' equity	\$ 47,008,155	\$ 624,831	\$ 524,389	\$ –	\$ 48,157,375

Combined Essent Healthcare of Connecticut, Inc. and Affiliates

Combining Statement of Operations

Year Ended September 30, 2012

	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Tri State Women's Services, LLC	Eliminations	Combined Essent Healthcare of Connecticut, Inc.
Net revenues:					
Net patient revenue	\$ 54,558,825	\$ 3,881,237	\$ 939,022	\$ –	\$ 59,379,084
Provision for doubtful accounts	2,999,367	220,156	4,966	–	3,224,489
Net patient revenue, less provision for doubtful accounts	51,559,458	3,661,081	934,056	–	56,154,595
Other revenue	453,530	29,174	125,766	(125,766)	482,704
Total net revenue	52,012,988	3,690,255	1,059,822	(125,766)	56,637,299
Operating expenses:					
Salaries and benefits	21,448,905	5,003,270	35,392	–	26,487,567
Professional services	8,549,846	1,069,038	1,072,580	(125,766)	10,565,698
Supplies	6,607,624	182,156	47,630	–	6,837,410
Other operating expenses	8,674,570	276,146	189,901	–	9,140,617
Electronic health record incentive income	(1,853,677)	–	–	–	(1,853,677)
Depreciation and amortization	3,051,773	153,889	7,917	–	3,213,579
	46,479,041	6,684,499	1,353,420	(125,766)	54,391,194
Income (loss) before interest, intercompany fees and income taxes	5,533,947	(2,994,244)	(293,598)	–	2,246,105
Interest expense	136,325	–	–	–	136,325
Intercompany fees	2,042,310	–	–	–	2,042,310
Income before taxes	3,355,312	(2,994,244)	(293,598)	–	67,470
Income tax expense (benefit)	88,071	–	–	–	88,071
Net income (loss)	\$ 3,267,241	\$ (2,994,244)	\$ (293,598)	\$ –	\$ (20,601)

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, 2012 and 2011  
are summarized below:

	<b>Year Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Patient service charges	<b>\$ 138,431,770</b>	\$ 129,742,875
Less: Charges related to charity care	<b>(760,089)</b>	(942,411)
Less: Other contractual adjustments and deductions	<b>(81,595,587)</b>	(73,262,905)
Net patient revenue	<b><u>\$ 56,076,094</u></b>	<b><u>\$ 55,537,559</u></b>

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