Prospect CharterCARE RWMC, LLC

Consolidated Financial Statements

Schedule of Expenditures of Federal Awards and Independent Auditor's Reports as Required by Office of Management and Budget (OMB) Circular A-133 and *Government Auditing Standards*

As of September 30, 2015 and 2014, and for the Year Ended September 30, 2015 and for the Period from June 20, 2014 (inception) through September 30, 2014

(With Independent Auditor's Report Thereon)

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

BDO

Prospect CharterCARE RWMC, LLC

Consolidated Financial Statements

Schedule of Expenditures of Federal Awards and Independent Auditor's Reports as Required by Office of Management and Budget (OMB) Circular A-133 and *Government Auditing Standards*

As of September 30, 2015 and 2014, and for the Year Ended September 30, 2015 and for the Period from June 20, 2014 (inception) through September 30, 2014

Prospect CharterCARE RWMC, LLC

Contents

Tel: 714-957-3200
Fax: 714-957-1080
www.bdo.com

600 Anton Blvd., Suite 500
Costa Mesa, CA 92626

Independent Auditor's Report

Board of Directors
Prospect CharterCARE, LLC
Los Angeles, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Prospect CharterCARE RWMC, LLC (the "Company"), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of operations, member's equity, and cash flows for the year ended September 30, 2015, and for the period from June 20, 2014 (inception) through September 30, 2014, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prospect CharterCARE RWMC, LLC and its subsidiary as of September 30, 2015 and 2014, and the results of their operations and their cash flows for the year ended September 30, 2015, and for the period from June 20, 2014 (inception) through September 30, 2014, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the Company is financially dependent on its parent companies which have agreed to provide the financial support necessary for the operations of the Company. The accompanying consolidated financial statements do not reflect any adjustments or disclosures that would be required should the parent company discontinue its financial support.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2016 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

BDO USA, LLP

March 31, 2016

Prospect CharterCARE RWMC, LLC

Consolidated Balance Sheets
(in thousands)

September 30,		2015		2014
Assets				
Current assets				
Cash and cash equivalents	$	140	$	4,220
Restricted cash		970		1,970
Patient accounts receivable, less allowance for doubtful accounts of $3,974 and $7,802		19,244		18,086
Other receivables		5,093		1,942
Due from government payers		306		161
Inventories		4,266		3,052
Prepaid expenses and other current assets		615		857
Total current assets		30,634		30,288
Property, improvements and equipment, net		25,487		25,925
Intangible assets, net		3,377		4,285
Equity method investments		4,242		3,547
Other assets		1,033		831
Total assets	$	64,773	$	64,876

See accompanying notes to consolidated financial statements.

Prospect CharterCARE RWMC, LLC

Consolidated Balance Sheets
(in thousands)

September 30,		2015		2014
Liabilities and Member's Equity				
Current liabilities				
Accounts payable and other accrued liabilities	$	14,635	$	18,094
Accrued salaries, wages and benefits		5,784		7,438
Due to government payers		181		54
Due to affiliated companies, net		5,139		4,382
Current portion of capital leases		206		199
Total current liabilities		25,945		30,167
Capital leases, net of current portion		347		554
Asset retirement obligations		701		675
Other long-term liabilities		759		376
Total liabilities		27,752		31,772
Commitments and contingencies				
Member's equity:				
Member contributions		34,241		34,241
Retained earnings (accumulated deficit)		2,780		(1,137)
Total member's equity		37,021		33,104
Total liabilities and member's equity	$	64,773	$	64,876

See accompanying notes to consolidated financial statements.

Prospect CharterCARE RWMC, LLC

Consolidated Statements of Operations
(in thousands)

	For the Year Ended September 30, 2015	For the Period from June 20, 2014 (inception) through September 30, 2014
Revenues:		
Net patient service revenues	$ 172,689	$ 47,148
Provision for bad debts	(7,672)	(1,569)
Net patient service revenues less provision for bad debts	165,017	45,579
Other revenues	4,965	1,254
Research grant revenues	1,133	709
Total net revenues	171,115	47,542
Operating Expenses:		
Salaries, wages and benefits	82,577	23,950
Supplies	36,325	10,969
Purchased services	12,984	3,782
Taxes and licenses	9,471	2,596
Depreciation and amortization	4,857	1,301
Professional fees	4,140	1,331
Other	3,807	700
Management fees	3,556	889
Utilities	2,813	731
Research grant expense	2,738	951
Insurance	1,670	402
Lease and rental	1,168	403
Repairs and maintenance	1,121	292
Registry	387	91
Total operating expenses	167,614	48,388
Operating income from unconsolidated equity method investments	455	132
Operating income (loss)	3,956	(714)
Other expense:		
Interest expense	39	11
Other expense	-	412
Total other expense	39	423
Net income (loss)	$ 3,917	$ (1,137)

See accompanying notes to consolidated financial statements.

CIIH-006271

Prospect CharterCARE RWMC, LLC

Consolidated Statements of Member's Equity
(in thousands)

	Member Contributions	Retained Earnings (Accumulated Deficit)	Total Member's Equity
Balance at June 20, 2014 (inception)	$ -	$ -	$ -
Member contributions	34,241	-	34,241
Net loss	-	(1,137)	(1,137)
Balance at September 30, 2014	34,241	(1,137)	33,104
Net income	-	3,917	3,917
Balance at September 30, 2015	$ 34,241	$ 2,780	$ 37,021

See accompanying notes to consolidated financial statements.

Prospect CharterCARE RWMC, LLC

Consolidated Statements of Cash Flows
(in thousands)

	For the Year Ended September 30, 2015	For the Period from June 20, 2014 (inception) through September 30, 2014
Operating activities		
Net income (loss)	$ 3,917	$ (1,137)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,857	1,301
Provision for bad debts	7,672	1,569
Undistributed earnings from equity method investments	(32)	(132)
Gain on sale of equity method investment	(296)	-
Change in restricted cash	1,000	(254)
Accretion of interest for asset retirement obligations	26	15
Changes in operating assets and liabilities, net of business combinations:		
Patient accounts receivable and other receivables	(11,981)	(3,909)
Due to/from government payers, net	(18)	(524)
Inventories	(1,214)	180
Prepaid expenses and other current assets	242	(37)
Other assets	(202)	(25)
Accounts payable and other accrued liabilities	(4,730)	3,593
Net cash (used in) provided by operating activities	(759)	640
Investing activities		
Purchases of property, improvements and equipment	(3,511)	(732)
Cash paid for restricted cash	-	(1,716)
Cash paid for acquisitions, net of cash received	-	(32,525)
Cash paid for equity method investments	(1,600)	-
Proceeds from sale of equity method investment	1,233	-
Net cash used in investing activities	(3,878)	(34,973)
Financing activities		
Member contributions	-	34,241
Increase in due to affiliated companies	757	4,382
Repayments of capital leases	(200)	(70)
Net cash provided by financing activities	557	38,553
(Decrease) increase in cash and cash equivalents	(4,080)	4,220
Cash and cash equivalents, beginning of period	4,220	-
Cash and cash equivalents, end of period	$ 140	$ 4,220
Supplemental disclosure of cash flow information		
Interest paid	$ 39	$ 11

See accompanying notes to consolidated financial statements

1. Organization

Prospect CharterCARE RWMC, LLC ("RWMC") is a wholly-owned subsidiary of Prospect CharterCARE, LLC ("PCC"). PCC is owned 85% by Prospect Medical Holdings, Inc. ("Prospect") and 15% by CharterCARE Community Board (formerly known as CharterCARE Health Partners; see Note 2). RWMC operates a 220-bed acute care general hospital which provides healthcare services in Providence, Rhode Island and surrounding communities. New University Medical Group, LLC ("New UMG"), a wholly-owned subsidiary of RWMC (together, the "Company"), was formed during the year ended September 30, 2015 (see Note 2).

Admitting physicians are primarily practitioners in the local area. The hospital has payment arrangements with Medicare, Medicaid and other third party payers, including commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs").

The Company is dependent on Prospect to fund ongoing operations. As of September 30, 2015, the Company had a liability of $8,690,000 to Prospect, which is payable on demand, does not bear interest, and is included in due to affiliated companies, net in the accompanying consolidated balance sheets. Prospect does not intend to have the Company repay the liability in a manner which would impair the Company's ability to maintain sufficient liquidity to sustain ongoing operations.

2. Acquisition

New University Medical Group

Effective December 18, 2014, New UMG entered into an Asset Purchase Agreement, pursuant to which New UMG will acquire substantially all of the assets of University Medical Group ("UMG"), a physician medical practice with approximately 35 primary care and specialist physicians with various specialties. As consideration for the acquisition, New UMG will assume certain liabilities of UMG.

As of December 18, 2014, New UMG acquired certain assets of the practice and assumed certain liabilities related to the administrative functions of UMG ("Initial Close"). At a later date, New UMG will acquire certain additional assets and assume certain additional liabilities ("Second Close"). Concurrent with the Initial Close, UMG and New UMG entered into an Interim Administrative Services Agreement, which is effective until the Second Close occurs. New UMG also entered into the First Amendment to the Interim Administrative Services Agreement effective December 18, 2014. In addition, RWMC and CharterCARE Physicians have receivables from various transactions of $4,345,000 due from UMG as of September 30, 2015, which are included in other assets in the accompanying consolidated balance sheets.

Because Second Close had not occurred as of September 30, 2015, the acquisition of UMG is not reported in the accompanying consolidated financial statements. As a result of the Asset Purchase Agreement, Interim Administrative Services Agreement (as amended), and various transactions, New UMG has the obligation to absorb certain losses of UMG and the right to receive certain benefits from UMG. However, New UMG does not have the power to direct the activities of UMG which most significantly impact its performance based on the terms of the Interim Administrative Services Agreement (as amended) and the governance of UMG. As a result, New UMG is not the primary beneficiary of UMG, and the results of UMG are not consolidated in the accompanying consolidated financial statements.

Prospect CharterCARE

Effective June 20, 2014, PCC acquired substantially all of the assets of CharterCARE Health Partners and its subsidiaries. As consideration, CharterCARE Health Partners was given a 15% interest in PCC and was paid $43,300,000 in cash. As additional consideration, Prospect committed to invest at least $50,000,000 in PCC and its subsidiaries for strategic business development and capital improvements over the next four years.

The acquisition was accounted for as a business combination using purchase accounting. Under the purchase accounting method, the amount of consideration paid is allocated to assets acquired and liabilities assumed based on their estimated fair values. This transaction resulted in a bargain gain of approximately $3,975,000. In accordance with applicable accounting literature, the Company has elected not to push this gain down from PCC to its subsidiaries. PCC and its subsidiaries' assets and liabilities were recorded at fair value as of June 20, 2014. Subsequent to September 30, 2014, PCC received $2,125,000 for a working capital adjustment from CharterCARE Community Board, which has been recorded on PCC's financial statements.

Subsequent to the acquisition on June 20, 2014, PCC's operating subsidiaries include RWMC, Prospect CharterCARE SJHSRI, LLC ("SJHSRI", dba St. Joseph Health Center and Our Lady of Fatima Hospital), Prospect CharterCARE Elmhurst, LLC ("Elmhurst Extended Care") and Prospect CharterCARE Physicians, LLC ("CharterCARE Physicians"), which collectively consist of hospitals, medical centers and a skilled nursing facility located in Rhode Island with 785 licensed beds. PCC provides a comprehensive range of services at Roger Williams Medical Center, St. Joseph's Health Center and Our Lady of Fatima Hospital as well as multiple levels of elder care at Elmhurst Extended Care.

The following table summarizes the fair value of assets acquired and fair value of liabilities assumed in connection with the PCC acquisition of RWMC, as of June 20, 2014 (in thousands):

	Purchase Price Allocation
Restricted cash	$ 1,716
Patient accounts receivable and other receivables	17,688
Prepaid expenses and other current assets	4,053
Property, improvements and equipment	26,233
Intangible assets	4,540
Other long-term assets	4,222
Accounts payable and other liabilities	(22,341)
Capital leases	(823)
Other long-term liabilities	(1,047)
Net assets acquired	34,241

Because the bargain gain was recorded by PCC and not pushed down to RWMC, the purchase consideration from PCC is equal to the net assets acquired of $34,241,000.

3. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of RWMC's wholly-owned subsidiary, New UMG, but do not include the accounts of PCC, Prospect or CharterCARE Community Board.

Operating results of the Company are presented from inception on June 20, 2014 through the Company's fiscal year end of September 30, 2014 and for the year ended September 30, 2015. Operating results for RWMC's subsidiary, New UMG, are consolidated with the Company's financial statements from their inception. All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain reclassifications were made to the consolidated financial statements for the period from June 20, 2014 (inception) through September 30, 2014 in order to conform to the presentation for the year ended September 30, 2015.

Revenues

Net Patient Service Revenues

Operating revenue consists primarily of net patient service revenue. The Company reports net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others in the period in which services are rendered. The Company has agreements with third-party payers, including Medicare, Medicaid, managed care and other insurance programs that are paid at negotiated rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments, as further described below. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The Company accrues for amounts that it believes may ultimately be due to or from the third-party payers. Normal estimation differences between final settlements and amounts accrued in previous years are reported as changes in estimates in the current year. Outstanding receivables, net of allowances for contractual discounts and bad debts, are included in patient accounts receivable in the accompanying consolidated balance sheets.

The remainder of this page intentionally left blank.

The following is a summary of sources of net patient service revenues (net of contractual allowances and discounts) before provision for bad debts (in thousands):

	For the Year Ended September 30, 2015	For the Period from June 20, 2014 (inception) through September 30, 2014
Medicare	$ 81,453	$ 22,008
Medicaid	28,875	7,740
Managed Care	43,863	12,833
Self-Pay/Other	18,498	4,567
Total	$ 172,689	$ 47,148

A summary of the payment arrangements with major third-party payers follows:

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some disabled persons with end-stage renal disease and certain other beneficiary categories. Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are paid based on a blend of prospectively determined rates and cost-reimbursed methodologies. The Company is also reimbursed for various disproportionate share and Medicare bad debt components at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare fiscal intermediary. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue.

Cost report settlement estimates are recorded based upon as-filed cost reports and are adjusted for tentative settlements, if any, and when a final Notice of Program Reimbursement ("NPR") is issued. The latest updated SSI ratios for 2013 were issued on May 14, 2015. To date, the Company has not received any final NPRs.

The Company joined a second round of litigation relating to Medicare's settlement with providers relating to the manner in which the Centers for Medicare and Medicaid Services ("CMS") handled the budget neutrality adjustment associated with the rural floor wage index in setting the Medicare inpatient prospective system rates ("Rural Floor"). The Company entered into a settlement agreement with CMS and, as a result, recognized a net benefit of $996,000 during the year ended September 30, 2015 related to the Rural Floor litigation. There were no amounts recognized related to the Rural Floor litigation for the period from June 20, 2014 (inception) through September 30, 2014.

Medicaid: Medicaid is a joint federal-state funded healthcare benefit program that is administered by states to provide benefits to qualifying individuals who are unable to afford care. The Company receives reimbursements under the Medicaid program at prospectively determined rates for both inpatient and outpatient services. RWMC is a participant in the State of Rhode Island's Disproportionate Share Hospital ("DSH") program, which was established in 1995 to assist hospitals that provide a disproportionate amount of uncompensated care. Under the program, Rhode Island hospitals, including RWMC, receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low income patients. RWMC recognized revenue related to DSH and Upper Payment Limit ("UPL") reimbursement of $7,658,000 and $1,652,000 for the year ended September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014, respectively. DSH and UPL payments received were $7,417,000 and $1,652,000 for the year ended September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014, respectively. The State of Rhode Island also assesses a license fee to all hospitals in Rhode Island based on each hospital's net patient revenue. RWMC recorded license fee expenses of $7,881,000 and $2,094,000 for the year ended September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014, respectively, which is included within taxes and licenses expense within the accompanying consolidated statements of operations.

Managed Care: The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment under these agreements is in accordance with negotiated contracted rates or at the Company's standard charges for services provided.

Self-Pay: Self-pay patients represent those patients who do not have health insurance and are not covered by some other form of third party arrangement. Such patients are evaluated, at the time of services or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid, as well as the Company's indigent and charity care policy.

See "Concentrations of Credit Risks" below for discussion of revenues received from the Medicare and Medicaid programs.

Effective August 29, 2014, CMS provided a simplified process and timely partial payment to settle certain previously denied claims under the Recovery Audit Contractor program with dates of service prior to October 1, 2013 whereby previously disputed claims under appeal that had been retracted by CMS were settled based on a 68% allocation to the provider ("RAC Settlement"). As a result, the Company recognized $161,000 in revenue during the period from June 20, 2014 (inception) through September 30, 2014 related to claims which were previously subject to ongoing Recovery Audit Contractor audits and other similar programs. There were no amounts recognized related to the RAC Settlement in the year ended September 30, 2015.

The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements.

Charity Care

The Company provides charity care to patients whose income level is below 300% of the Federal Poverty Level. Patients without insurance are offered assistance in applying for Medicaid and other programs they may be eligible for, such as state disability. Patient advocates from the Company's Medical Eligibility Program ("MEP") screen patients in the hospital and determine potential linkage to financial assistance programs. They also expedite the process of applying for these government programs. The approximate cost of providing charity care was $432,000 and $160,000 for the year ended September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014, respectively. The Company has estimated the cost of charity care based on a ratio of the cost to charges of operating expenses, excluding depreciation, interest and management fees.

Provisions for Contractual Allowances and Doubtful Accounts

Collection of receivables from third-party payers and patients is the Company's primary source of cash and is critical to its operating performance. The Company closely monitors its historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be materially different from the amounts management estimates and records. The Company's primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. Payments for services may also be denied due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Accounts receivable are reduced by an allowance for doubtful accounts. Valuation of the collectability of accounts receivable and provision for bad debts is based on historical collection experience, payer mix and the age of the receivables. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts, and makes adjustments to the Company's allowances as warranted. For receivables associated with services provided to patients who have third-party coverage, management analyzes contractually due amounts and subsequently calculates an allowance for doubtful accounts and provision for bad debts once the age of the accounts reaches a specific age category based on historical experience. For receivables associated with self-pay patients, management records a significant provision for bad debts beginning in the period services were provided based on past experience that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The allowance for doubtful accounts was 17% and 30% of gross accounts receivable as of September 30, 2015 and 2014, respectively. The decrease was due to a reduction in self-pay admissions and patient days.

Legislation

The Company's hospital facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with EMTALA and is not aware of any pending or threatened EMTALA investigations involving allegations of potential wrongdoing that would have a material effect on the Company's consolidated financial statements.

See Note 7 regarding the Affordable Care Act.

Other Revenues

Other revenues totaled $4,965,000 and $1,254,000 for the year ended September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014, respectively. Management has evaluated the collectability of other receivables consisting primarily of other revenues and grant revenues and determined no allowance is necessary as of September 30, 2015 and 2014.

A summary of the principal components of other revenues is as follows:

Rural Floor settlement: The Company entered into a settlement agreement with CMS and recognized $1,106,000 of revenue during the year ended September 30, 2015 related to the Rural Floor litigation.

Meaningful Use incentives: The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology or adopt or implement such technology. The Medicare incentive payments will be paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR "meaningful use" criteria that become more stringent over three stages.

The Medicaid program requires hospitals to register for the program prior to 2016, to engage in efforts to adopt, implement or upgrade certified EHR technology in order to qualify for the initial year of participation, and to demonstrate meaningful use of certified EHR technology in order to qualify for payment for up to three additional years.

The Company recorded revenues of $547,000 and $291,000 for the year ended September 30, 2015 and from June 20, 2014 (inception) through September 30, 2014, respectively, related to the Medicare and Medicaid programs in the consolidated statements of operations. These incentives have been recognized following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. Subsequent changes to these estimates will be recognized in the statement of operations in the period in which additional information is available. Such estimates are subject to audit by the federal government, the state, or its designee.

Rental Revenue: Rental revenue from operating leases is recorded based on the fixed, minimum required rents (base rents) per the lease agreements. Rental revenue from base rents is recorded on the straight-line method over the terms of the related lease agreements. The

Company recorded rental revenues of $1,828,000 and $495,000 for the year ended September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014, respectively.

Research Grant Revenues

The Company receives grant revenue for direct research from the federal government, other institutions and other sources for a range of research areas including oncology, cardiology, HIV and diabetes. The Company recorded research grant revenue of $1,133,000 and $709,000 for the year ended September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014, respectively.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Building improvements are generally depreciated over seven years, buildings are depreciated over 10 years, equipment is depreciated over three to seven years and furniture and fixtures are depreciated over five to seven years. Equipment capitalized under capital lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

Long-Lived Assets and Amortizable Intangibles

Amortizable intangible assets, consisting of trade names, were $3,377,000 and $4,285,000, net of accumulated amortization at September 30, 2015 and 2014, respectively, and were a result of the PCC acquisition (see Note 2). The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. There were no impairments recorded for the year ended September 30, 2015 or for the period from June 20, 2014 (inception) through September 30, 2014.

Medical Malpractice Liability Insurance

The Company carries professional and general liability insurance to cover medical malpractice claims. The General Liability coverage is occurrence coverage and the Professional Liability coverage is claims-made coverage. Under the Professional Liability policy, insurance premiums cover only those claims actually reported during the policy term. Should the Professional Liability claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. The Company was included in Prospect's consolidated medical malpractice insurance policy effective June 20, 2014 (inception). Assets and liabilities related to malpractice insurance related to events prior to June 20, 2014 (inception) were not assumed by the Company (see Note 2).

GAAP requires that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company recognizes an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience. As of September 30, 2015, the Company's gross claims liability was $393,000, and insurance receivables were $279,000 which are included within long term assets and long term liabilities, respectively, on the accompanying consolidated balance sheets. The Company did not have a gross claims liability or insurance receivable as of September 30, 2014. The gross claims liability and insurance receivables were estimated using a discount factor of 4%.

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of medical malpractice liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential medical malpractice claims whose settlement, if any, would have a material adverse effect on the Company's financial position, results of operations or cash flows.

Workers' Compensation Insurance

The Company was fully insured for workers' compensation claims with no deductible for the year ended September 30, 2015, and for the period from June 20, 2014 (inception) through September 30, 2014. Assets and liabilities related to workers' compensation insurance related to events prior to June 20, 2014 (inception) were not assumed by the Company (see Note 2).

Employee Health Plans

The Company had a low-deductible employee health plan from June 20, 2014 (inception) through December 31, 2014. Effective January 1, 2015, the Company changed to self-insured EPO/HMO and PPO plans for all eligible employees.

Employee health benefits are administered by a third party claims administrator, based on plan coverage and eligibility guidelines determined by the Company, as well as by collective bargaining agreements. Commercial insurance policies cover per occurrence losses in excess of $275,000. An actuarially estimated liability of approximately $762,000 for incurred but not reported claims due to Prospect has been included in due to affiliates, net as of September 30, 2015.

Asset Retirement Obligations

The Company recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. Over time, the liability is accreted to its present value each period. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of operations. The Company has accrued $701,000 and $675,000 related to asbestos remediation as of September 30, 2015 and 2014, respectively.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Restricted Cash

The Company held restricted cash of $970,000 and $1,970,000 as of September 30, 2015 and 2014, respectively, which is restricted for research.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or market. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Income Taxes

For tax reporting purposes, the Company is treated as a Partnership and is a pass-through entity. Therefore, no provision is made in the accompanying consolidated financial statements for liabilities for federal, state or local income taxes since such liabilities are the responsibility of the Company's parent companies. The Company periodically evaluates its tax positions, including its status as a pass-through entity, to evaluate whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on its technical merits.

As of September 30, 2015, the Company has not established a liability for uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and the state of Rhode Island. Generally, the Company is subject to examination by U.S. federal (or state and local) income tax authorities for three to four years from the filing of a tax return.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash, patient and other accounts receivables, accounts payable and accrued expenses, accrued salaries and benefits, amounts due from/to government payers, capital lease obligations, and other liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of $250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare and Medicaid. The Company received revenues from Medicare and Medicaid as follows (in thousands):

	For the Year Ended September 30, 2015	% of Net Patient Services Revenues	For the Period from June 20, 2014 (inception) through September 30, 2014	% of Net Patient Services Revenues
Medicare	$ 81,453	47%	$ 22,008	47%
Medicaid	28,875	17%	7,740	16%
Total	$ 110,328	64%	$ 29,748	63%

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include amounts due from/to government payers, allowances for contractual discounts and doubtful accounts, professional and general liability claims, long-lived assets, intangible assets and asset retirement obligations.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (ASU 2014-09)," as amended by ASU 2015-14. The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services, and attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2018, including interim periods therein. Three basic transition methods are available — full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application (e.g. January 1, 2019) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Early adoption is permitted for fiscal years beginning after December 15, 2016. The Company is currently evaluating the effect of this guidance on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern: Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Specifically, this ASU provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company will apply the provisions of this standard upon adoption.

In February 2016, The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.

4. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

September 30,	2015	2014
Property, improvements and equipment:		
Land and land improvements	$ 2,937	$ 2,900
Buildings and improvements	18,065	17,289
Equipment	9,217	6,612
Furniture and fixtures	194	170
	30,413	26,971
Less: accumulated depreciation	(4,926)	(1,046)
Property, improvements and equipment, net	$ 25,487	$ 25,925

At September 30, 2015 and 2014, the Company had assets under capitalized leases of approximately $284,000 and related accumulated depreciation of $117,000 and $35,000, respectively.

Depreciation expense was $3,949,000 and $1,046,000 for the year ended September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014, respectively.

5. Intangible Assets

As of September 30, 2015 and 2014, the Company's intangible assets consisted of trade names with a gross carrying value of $4,540,000 and $4,540,000, accumulated amortization of $1,163,000 and $255,000, and a net carrying value of $3,377,000 and $4,285,000, respectively. The estimated useful life of the trade names is 5 years, and the remaining useful life as of September 30, 2015 was 3.8 years.

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives. Amortization expense was $908,000 and $255,000 for the year ended September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014, respectively.

Estimated amortization expense for each future fiscal year is as follows (in thousands):

Years ended September 30,	
2016	$ 908
2017	908
2018	908
2019	653
Total	$ 3,377

6. Related Party Transactions

Concurrent with the acquisition of the Company (see Note 2), Prospect East Hospital Advisory Services, LLC ("PEHAS"), a wholly-owned subsidiary of Prospect, entered into a Management Services Agreement ("MSA") with PCC and its Subsidiaries, under which PEHAS provides certain administrative and management services to PCC and its Subsidiaries. Management fees due to PEHAS under the MSA consist of 2% of net revenues monthly. The Company recognized management fees of $3,556,000 and $889,000 for the year ended September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014, respectively, which is included within management fee expense in the accompanying consolidated statements of operations. As of September 30, 2015 and 2014, $4,445,000 and $889,000, respectively, due pursuant to the MSA is included in due to affiliates, net, in the accompanying consolidated balance sheets.

The Company recognized $1,549,000 and $434,000 of rental income from Elmhurst Extended Care for the year ended September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014, respectively, which is included in other revenues in the accompanying consolidated statements of operations.

7. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through June 2017. Capital leases bear interest at rates ranging from 3.0% to 4.0% per annum.

The future minimum annual lease payments (net of anticipated sublease income, see Note 3) required under leases in effect at September 30, 2015, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operatin g Leases
2016	$ 224	$ 522
2017	209	213
2018	152	179
Total minimum lease payments	585	$ 914
Less: amounts representing interest	(32)	
	553	
Less: current portion	(206)	
	$ 347	

Lease and rental expense was $1,168,000 and $403,000 for the year ended September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014, respectively.

Contingent Liability for Borrowings by Prospect

The Company is contingently liable as a guarantor for amounts borrowed by Prospect on senior secured notes and credit facilities at September 30, 2015 and 2014. The obligations and related interest expense related to these credit facilities are not reflected in the Company's consolidated financial statements as of September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014, as the borrowings are reflected in the separate consolidated financial statements of Prospect. Total borrowings outstanding as of September 30, 2015 and 2014, reflected in the consolidated financial statements of Prospect, but for which the Company is contingently liable as a guarantor, were (in thousands):

September 30,	2015	2014
Senior secured 2019 Notes	$ 325,000	$ 325,000
Less: original issue discount, net	(4,950)	(6,339)
	320,050	318,661
Additional 2019 Notes	100,000	100,000
Plus: original issue premium, net	1,110	1,419
	101,110	101,419
	$ 421,160	$ 420,080

On May 3, 2012, Prospect issued $325 million of senior secured notes which accrue interest at 8.375% and are due May 1, 2019 (the "Notes").

Concurrent with the issuance of the Notes, Prospect entered into a five-year $50 million revolving senior secured credit facility ("PMH Senior Secured Credit Facility") which was undrawn at the closing, with any future borrowings bearing interest at (i) LIBOR plus 3.50% or (ii) an alternate base rate, which will be the higher of the administrative agent's prime rate, the federal funds rate plus 0.50%, and the 1-month LIBOR rate plus 1.00%, plus in each case, 2.50%. In August 2013, the PMH Senior Secured Credit Facility limit was increased to $60 million. Prospect had drawn $20 million (net) on the PMH Senior Secured Credit Facility as of September 30, 2015 and 2014. As of September 30, 2015, the interest rate for the PMH Senior Secured Credit Facility was 3.95%.

Prospect, at its option, may, redeem all or part of the notes at redemption price equal to 106.281%, 104.188%, 102.094% and 100.0% on or after May 1, 2015, 2016, 2017 and 2018, respectively. Prior to May 1, 2015, Prospect, at its option, may (i) redeem up to 35% of the original principal amount of the notes with the proceeds of certain equity offerings at a redemption price of 108.375% (ii) redeem the notes, in whole, but not in part, at a redemption price of 100.0% of the aggregate principle plus a make-whole premium.

On November 16, 2012, Prospect closed an offering of $100 million in aggregate principal amount of 8.375% senior secured notes due 2019 (the "Additional Notes") at a price equal to 102% of the principal amount of the Additional Notes. The Additional Notes were issued in a private placement to qualified institutional buyers and form a part of the same series as the Prospect's Notes issued on May 3, 2012.

The Additional Notes were issued under the Indenture, dated May 3, 2012, as supplemented by two supplemental indentures entered into in connection with the issuance of the Additional Notes (the "Supplemental Indentures"). The Additional Notes are treated as a single series with the previously issued Notes for all purposes under the Indenture, including, without limitation, restrictive covenants, waivers, amendments, redemptions and offers to purchase. Following the November 16, 2012 closing, the aggregate principal amount of outstanding Notes was $425 million.

An indenture to the Notes and the Senior Secured Credit Facility contain a number of customary covenants. As of September 30, 2015 and 2014, Prospect was in compliance with the financial covenants.

Other Commitments

The Company has additional commitments for reagents that are based on tests performed. They are non-cancelable agreements but the future dollar commitments are not quantifiable as they are volume-driven.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. The Company may be subject to significant fines and penalties if found not to be compliant with these federal provisions.

Affordable Care Act

The Patient Protection and Affordable Care Act ("PPACA") will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

8. Defined Contribution Plan

PCC sponsors a defined contribution plan (the "Plan") covering substantially all employees of the Company who meet certain eligibility requirements. Under the Plan, employees can contribute up to 100% of their compensation up to the IRS deferred annual maximum. The Company may make discretionary matching contributions to the Plan. The Company's contributions to the Plan were $226,000 for the year ended September 30, 2015. There were no employer contributions to the Plan for the period from June 20, 2014 (inception) through September 30, 2014.

9. Equity Method Investments

RWMC and an unrelated third party are owners of Roger Williams Radiation Therapy ("RWRT") and Southern New England Regional Cancer Center, LLC ("SNERCC"), which provide radiation therapy services. As of September 30, 2014, RWMC owned 29% of RWRT and 20% of SNERCC. On January 6, 2015, RWMC sold a 9% interest in RWRT for $1,233,000, reducing its ownership in RWRT from 29% to 20%. Also on January 6, 2015, RWMC increased its investment in SNERCC by $1,600,000 in connection with SNERCC's acquisition of a radiation oncology business. RWMC's interest in SNERCC remained at 20% after the additional investment as RWMC's additional investment was its pro rata portion of the radiation oncology business purchase price. Roger Williams accounts for these investments using the equity method of accounting.

RWMC is not liable for any obligations insured by RWRT or SNERCC nor is it obligated to make any further capital contributions or lend funds to RWRT or SNERCC. As of September 30, 2015 and 2014, RWMC's investments in RWRT and SNERCC under the equity method were approximately $4,217,000 and $3,522,000 respectively, and are included in equity method investments in the accompanying consolidated balance sheets. For the year ended September 30, 2015, the Company recognized approximately $455,000 as its share of the financial results of RWRT and SNERCC and received $423,000 in distributions. For the period from June 20, 2014 (Roger Williams Medical Center inception) through September 30, 2014 and for the year ended September 30, 2015, the Company recognized $132,000 as its share of the financial results of RWRT and SNERCC and received no distributions.

The remainder of this page intentionally left blank.

Summarized combined unaudited financial information for RWRT and SNERCC as of September 30, 2015 and 2014 and for the year ended September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014 is as follows (in thousands):

September 30,	2015	2014
Cash	$ 1,299	$ 1,165
Receivables	1,547	1,130
Other current assets	274	372
Total current assets	3,120	2,667
Property, improvements and equipment, net	7,432	6,715
Goodwill	7,142	629
Intangible assets	943	-
Other long-term assets	1,663	1,756
Total assets	$ 20,300	$ 11,767
Accounts payable and accrued liabilities	$ 1,618	$ 1,070
Other long-term liabilities	345	336
Equity	18,337	10,361
Total liabilities and partner's capital	$ 20,300	$ 11,767

	For the Year Ended September 30, 2015	For the Period from June 20, 2014 (inception) through September 30, 2014
Revenues	$ 14,626	$ 3,175
Net income	$ 2,000	$ 455
Roger Williams Medical Center's income from equity method investments	$ 455	$ 132

10. Subsequent Events

The Company has evaluated subsequent events through March 31, 2016, the date the Company's consolidated financial statements were available for issuance.

Schedule of Expenditures of Federal Awards

Prospect CharterCARE RWMC, LLC

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2015

Federal grantor/pass-through grantor	CFDA number	Pass-through number	Expenditures
Research and Development Cluster:			
Research and development programs:			
Military Medical Research and Development	12.420	None	$ 94,033
Department of Health and Human Services:			
Food and Drug Administration	93.103	None	7,279
Cancer Research Manpower	93.398	None	169,283
Cardiovascular Diseases Research	93.837	None	441,100
Allergy, Immunology and Transplantation Research - Allergy and Infectious Diseases Research Program	93.855	None	19,697
Allergy and Infectious Diseases Research Program	93.855	None	13,040
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	None	282,044
Total Department of Health and Human Services			932,445
Total direct programs			1,026,477
Passed through from other organizations:			
Research and development program:			
Department of Defense:			
Department of Health and Human Services:			
Passed through Pacific Institute for Research and Evaluation - Drug Abuse and Addiction Research Program	93.279	R01 DA031154	200
Passed through University of Rhode Island - PPHF Geriatric Education Centers	93.969	1UB4HP19208-01-00	1,326
National Center for Advancing Translational Sciences:			
Passed through Trustees of Boston University CTSI - National Center for Advancing Translational Sciences	93.350	1U54TR001012-01	36,441
Total passed-through from other organizations			37,967
Total expenditures of federal awards			$ 1,064,444

See accompanying notes to schedule of expenditures of federal awards.

1. Definition of Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activity of all federal awards of Prospect CharterCARE RWMC, LLC ("RWMC"). All federal awards received directly from federal agencies, as well as federal awards passed through other agencies, are included in this schedule.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Auditing of States, Local Governments, and Non-Profit Organizations*.

Independent Auditor's Reports Required by *Government Auditing Standards* and OMB Circular A-133

BDO

Tel: 714-957-3200
Fax: 714-957-1080
www.bdo.com

600 Anton Blvd., Suite 500
Costa Mesa, CA 92626

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
Prospect CharterCARE RWMC, LLC
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Prospect CharterCARE RWMC, LLC (the "Company"), which comprise the consolidated balance sheet as of September 30, 2015 and the related consolidated statements of operations, member's equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 31, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Company's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

March 31, 2016

BDO

Tel: 714-957-3200
Fax: 714-957-1080
www.bdo.com

600 Anton Blvd., Suite 500
Costa Mesa, CA 92626

Independent Auditor's Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance Required by OMB Circular A-133

Board of Directors
Prospect CharterCARE RWMC, LLC
Los Angeles, California

Report on Compliance for Each Major Federal Program

We have audited Prospect CharterCARE RWMC, LLC's (the "Company") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Company's major federal programs for the year ended September 30, 2015. The Company's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Company's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Each Major Federal Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

March 31, 2016

Schedule of Findings and Questioned Costs

Prospect CharterCARE RWMC, LLC

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	X no
Significant deficiency(ies) identified	_____ yes	X none reported
Noncompliance material to financial statements noted?	_____ yes	X no

Federal Awards Section

Internal control over major programs:		
Material weakness(es) identified?	_____ yes	X no
Significant deficiency(ies) identified	_____ yes	X none reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, section .510(a)?	_____ yes	X no

Identification of major programs:

CFDA Number/Contract Number	*Name of Federal Program or Cluster*
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:		$300,000
Auditee qualified as low-risk auditee?	_____ yes	X no

(Continued)

Section II - Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards (GAGAS).

Section III - Federal Award Findings and Questioned Costs

There were no findings and questioned costs for federal awards (as defined in section .510(a) of the Circular) that were required to be reported.