Case Number: PC-2019-11756
Filed in Providence/Bristol County Superior Court
Submitted: 7/28/2020 10:39 PM
Envelope: 2683499
Reviewer: Zoila C.

STATE OF RHODE ISLAND
PROVIDENCE, SC.

SUPERIOR COURT

In re: CharterCARE Community Board, St. Joseph Health Services of Rhode Island, And Roger Williams Hospital	PC-2019-11756 Hearing Date: July 30, 2020 @ 10:00 a.m.

LIQUIDATING RECEIVER AND PLAN RECEIVER'S SECOND SUPPLEMENT TO THEIR MEMORANDUM OF LAW IN SUPPORT OF MOTION FOR INJUNCTIVE RELIEF AGAINST ADLER POLLOCK & SHEEHAN, PC

Thomas Hemmendinger (the "Liquidating Receiver") and Stephen Del Sesto (the "Plan Receiver") (collectively "the Receivers") file this second supplement, to provide the Court with additional materials to which the Receivers intend to refer at the July 30, 2020 remote hearing concerning their pending motion for injunctive relief against Adler Pollock & Sheehan, PC ("APS").

Attached at Exhibit 16 is the March 18, 2013 Letter of Intent between CharterCARE Community Board[1] and Prospect Medical Holdings, Inc. This document bears bates stamps APS0121476 to APS0121495 and was produced by APS in response to the Plan Receiver's subpoena of January 24, 2018.

Attached as Exhibit 17 is the engagement letter between CharterCARE Community Board and Drinker Biddle & Reath, LLP, dated June 19, 2013 and executed on July 11, 2013.

[1] Formerly known as CharterCARE Health Partners.

This document bears bates stamps APS0019761 to APS0019767 and was produced by APS in response to the Plan Receiver's subpoena of January 24, 2018.

Attached as Exhibit 18 is the Second Interim Report on Compliance by Prospect CharterCARE, CharterCARE Community Board, and CharterCARE Foundation with Conditions of Certification Pertaining to the Acquisition of Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital and Other Entities (without exhibits). This document was produced by the Attorney General's Office to the Plan Receiver.

Attached as Exhibit 19 are the Prospect Medical Holdings, Inc. Consolidated Financial Statements as of and for the Years Ended September 30, 2019 and 2018. This document (bearing bates stamps CIIH16-000942 to CIIH16-001003) was submitted by APS on behalf of the Prospect Entities to the Attorney General's Office and was downloaded from the Attorney General's website.[2]

Attached as Exhibit 20 are the Prospect CharterCARE, LLC Consolidated Financial Statements as of and for the Years Ended September 30, 2019 and 2018. This document (bearing bates stamps CIIH16-001004 to CIIH16-001031) was submitted by APS on behalf of the Prospect Entities to the Attorney General's Office and was downloaded from the Attorney General's website.[3]

Attached as Exhibit 21 are the regulations 216-RICR- 40-10-4.4 *et seq.*

[2] See http://riag.ri.gov/documents/PublicExhibits.zip.

[3] Id.

Respectfully submitted,

Thomas S. Hemmendinger, as Liquidating Receiver
of CharterCARE Community Board,
St. Joseph Health Services of Rhode Island, and
Roger Williams Hospital

/s/ Thomas S. Hemmendinger

Thomas S. Hemmendinger, Esq. (#3122)
Brennan, Recupero, Cascione,
Scungio & McAllister, LLP
362 Broadway
Providence, RI 02909
Tel. (401) 453-2300
Fax (401) 453-2345
themmendinger@brcsm.com

Stephen Del Sesto as Receiver of the St. Joseph
Health Services of Rhode Island Retirement Plan,
By his Attorney,

/s/ Max Wistow

Max Wistow, Esq. (#0330)
Stephen P. Sheehan, Esq. (#4030)
Benjamin Ledsham, Esq. (#7956)
WISTOW, SHEEHAN & LOVELEY, PC
61 Weybosset Street
Providence, RI 02903
401-831-2700 (tel.)
mwistow@wistbar.com
spsheehan@wistbar.com
bledsham@wistbar.com

Dated: July 28, 2020

Case Number: PC-2019-11756
Filed in Providence/Bristol County Superior Court
Submitted: 7/28/2020 10:39 PM
Envelope: 2683499
Reviewer: Zoila C.

CERTIFICATE OF SERVICE

I hereby certify that, on the 28th day of July, 2020, I filed and served the foregoing document through the electronic filing system on the following users of record:

Thomas S. Hemmendinger, Esq.
Sean J. Clough, Esq.
Lisa M. Kresge, Esq.
Ronald F. Cascione, Esq.
Brennan, Recupero, Cascione, Scungio & McAllister, LLP
362 Broadway
Providence, RI 02909
themmendinger@brscm.com
sclough@brcsm.com
lkresge@brcsm.com
rcascione@brcsm.com

Preston Halperin, Esq.
Christopher J. Fragomeni, Esq.
Douglas A. Giron, Esq.
Shechtman Halperin Savage, LLP
1080 Main Street
Pawtucket, RI 02860
phalperin@shslawfirm.com
cfragomeni@shslawfirm.com
dag@shslawfirm.com

Jessica Rider, Esq.
Special Assistant Attorney General
150 South Main Street
Providence, RI 02903
jrider@riag.ri.gov

Steven J. Boyajian, Esq.
Robinson & Cole LLP
One Financial Plaza, Suite 1430
Providence, RI 02903
sboyajian@rc.com

Joseph Avanzato
John A. Tarantino
Patricia K. Rocha
Joseph Avanzato
Leslie D. Parker
ADLER POLLOCK & SHEEHAN P.C.
One Citizens Plaza, 8th Floor
Providence, RI 02903-1345
Tel: 401-274-7200
Fax: 401-351-4607
jtarantino@apslaw.com
procha@apslaw.com
javanazato@apslaw.com
lparker@apslaw.coms

Giovanni La Terra Bellina
Orson and Brusini Ltd.
144 Wayland Avenue,
Providence, RI 02906
Tel: 401-223-2100
jlaterra@orsonandbrusni.com

The document electronically filed and served is available for viewing and/or downloading from the Rhode Island Judiciary's Electronic Filing System.

/s/ Benjamin Ledsham

Exhibit 16

FINAL

PKR

ChartaCARE
HEALTH PARTNERS

WWW.CHARTERCARE.ORG

March 18, 2013

Sam Lee
Chief Executive Officer
Prospect Medical Holdings
10780 Santa Monica Blvd., Suite 400
Los Angeles, CA 90025

LETTER OF INTENT

Dear Mr. Lee:

The purpose of this letter of intent (the "Letter") is to set forth certain non-binding understandings and certain binding agreements by and between CharterCARE Health Partners ("Seller") and Prospect Medical Holdings, Inc. ("Prospect") with respect to the creation of a joint venture ("Newco") whereby Seller will sell certain assets and operations of Seller to Newco, as more particularly described in the attached term sheet (the "Term Sheet"), incorporated herein by reference.

Paragraphs 1 through 24 of the Term Sheet (the "Non-Binding Provisions") reflect our mutual understanding of the matters described in them, but each party acknowledges that the Non-Binding Provisions are not intended to create or constitute any legally binding obligation between Seller and Prospect, and neither Seller nor Prospect shall have any liability to the other party with respect to the Non-Binding Provisions until a definitive agreement and other related documents (the "Definitive Agreement") are prepared, authorized, executed and delivered by and between all parties. If the Definitive Agreement is not prepared, authorized, executed, or delivered for any reason, no party to this Letter shall have liability to any other party to this Letter based upon or relating to the Non-binding Provisions.

Upon execution by all parties of this Letter, Paragraphs 25 to 33 of the Term Sheet (collectively, the "Binding Provisions") will constitute the legally binding and enforceable agreement of the parties in recognition of the significant costs to be borne by the parties in pursuing the transaction and further in consideration of the mutual undertakings as to the matters described herein.

The Binding Provisions may be terminated only by mutual written consent; provided, however, that the termination of the Binding Provisions shall not affect the liability of a party for breach of any of the Binding Provisions prior to the termination. This Letter shall be construed and enforced in accordance with the laws of the State of Rhode Island. No signatory hereto shall assign this Letter to any party, other than to an affiliate of such party.

Notwithstanding the foregoing, this letter is intended to evidence the understandings which have been reached regarding the proposed transactions and the mutual intent of the parties to negotiate in good faith a Definitive Agreement in accordance with the terms contained in the Term Sheet.

The term of this Letter of Intent shall commence as of the Execution Date and shall continue in effect until signing of the Definitive Agreement or the agreement of the parties that , as defined in the term sheet.

Each party recognizes that it is a party to that certain Confidentiality Agreement dated as of August 2, 2012, and that such agreement remains in full force and effect.

The rights and remedies of the parties to this Letter of Intent are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power, or privilege under this Letter of Intent shall operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege shall preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. A waiver shall be applicable only in the specific instance for which it is given. To the maximum extent permitted by law (i) no claim or right arising out of this Letter of Intent can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (ii) no waiver that may be given by a party shall be applicable except in the specific instance for which it is given; and (iii) no notice to or demand on one party shall be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Letter of Intent.

The invalidity or unenforceability of any provision of this Letter of Intent shall not affect the validity or enforceability of any other provisions of this Letter of Intent, which shall remain in full force and effect. If any provision of this Letter of Intent is determined to be unenforceable by reason of its extent, duration, scope or otherwise, then the parties contemplate that the court making such determination shall reduce such extent, duration, scope or other provision and enforce them in their reduced form for all purposes contemplated by this Letter of Intent.

This Letter of Intent may be executed in two or more counterparts, each of which shall be deemed to be an original copy of this Letter of Intent, and all of which, when taken together, shall be deemed to constitute one and the same agreement.

All notices, requests, demands or other communications required or permitted to be given under this Letter of Intent shall be in writing and shall be delivered to the Party to whom notice is to be given, to the notice addresses set forth below, either (i) by personal delivery (in which case such notice shall be deemed given on the date of delivery), (ii) by next business day courier service (e.g., Federal Express, UPS or other similar service) (in which case such notice shall be deemed given on the business day following the date of deposit with the courier service), or (iii) by United States mail, first class, postage prepaid, certified, return receipt requested (in which case such notice shall be deemed given on the third (3rd) day following the date of deposit with the United States Postal Service).

If to CCHP: CharterCARE Health Partners
825 Chalkstone Avenue
Providence, RI 02908

With a simultaneous copy to:

Kimberly O'Connell
CharterCARE General Counsel
825 Chalkstone Avenue
Providence, RI 02908

If to Prospect:

Prospect Medical Holdings, Inc.
10780 Santa Monica Blvd., Suite 400
Los Angeles, CA 90025
Attn.: Sam Lee

With a simultaneous copy to counsel for Prospect:

Prospect Medical Holdings, Inc.
10780 Santa Monica Blvd., Suite 400
Los Angeles, CA 90025
Attn.: Ellen Shin, General Counsel

This Letter of Intent represents an expression of intent only with respect to the consummation of the proposed transaction. Accordingly, unless and until the Definitive Agreement is executed and all other conditions to closing have been satisfied or waived, no party shall be obligated to consummate the proposed transaction. As a result, in the absence of the Definitive Agreement with respect to the proposed transaction, and subject to the Binding Provisions, the failure by either Party to agree to the Definitive Agreement shall not, in and of itself, give rise to any legally enforceable right or claim for damages or injunctive relief or any other form of judicially recognized award or right with respect to the proposed transaction or the consummation thereof. No past or future action, course of conduct, or failure to act relating to the proposed transaction, or relating to the negotiations of the terms of the Definitive Agreement, will give rise to or serve as a basis for any obligation or other liability on the part of any party. The parties acknowledge and agree that this Letter of Intent is an expression made in good faith by Seller regarding Seller's intentions. The omission of certain terms from this Letter of Intent shall not be construed so as to diminish the importance or the materiality of such term, and the parties acknowledge that, in addition to the proposed terms contained in this Letter of Intent, additional material terms remain to be resolved. It shall remain in the sole and absolute discretion of each party whether or not to enter into any definitive agreements or transactions with the other party, or parties, and no party shall have any liability or obligation for failing to do so except as expressly provided in this Letter of Intent.

If the terms herein are acceptable, please sign and date this Letter in the space provided below to confirm the mutual agreements set forth in the Binding Provisions and return a signed copy to the undersigned.

Sincerely:

CHARTERCARE HEALTH PARTNERS

By: _____
Kenneth H. Belcher
President and CEO

Date: 3/18/13

By: _____
Edwin J. Santos
Chairman of the Board

Date: 3/18/13

ACKNOWLEDGED AND AGREED:

PROSPECT MEDICAL HOLDINGS, INC.

By: _____
Sam Lee
Chief Executive Officer

Date: _____

If the terms herein are acceptable, please sign and date this Letter in the space provided below to confirm the mutual agreements set forth in the Binding Provisions and return a signed copy to the undersigned.

Sincerely:

CHARTERCARE HEALTH PARTNERS

By: _____
Kenneth H. Belcher
President and CEO

Date: _____

By: _____
Edwin J. Santos
Chairman of the Board

Date: _____

ACKNOWLEDGED AND AGREED:

PROSPECT MEDICAL HOLDINGS, INC.

By: _____
Sam Lee
Chief Executive Officer

Date: 3/18/13

CharterCARE Health Partners
Term Sheet for a Transaction with Prospect Medical Holdings, Inc.
March 18, 2013

Non-Binding Provisions	
1. Form of Transaction	a) CharterCARE Health Partners, a Rhode Island 501(c)(3) corporation ("Seller"), operates two acute care hospitals and certain related health care businesses in Providence, Rhode Island and surrounding communities (the "Business"). b) A newly established limited liability company ("Newco"), to be owned 85% by Prospect Medical Holdings, Inc. ("Prospect"), and 15% by Seller, will purchase substantially all of the assets, liabilities and operations of the Business, other than the Excluded Assets and Excluded Liabilities (the "Purchased Assets") from Seller. c) Prospect shall serve as the manager ("Manager") of Newco. d) In addition to operating the Business, Prospect's intent as Manager and 85% owner of Newco is to support the growth of Newco through regional development, the deployment of ambulatory locations of care, recruitment and integration of physicians, safety and quality improvement initiatives, efforts to improve financial performance, and building and expanding Newco's care capabilities. e) Prospect will organize Newco. Prospect will also guarantee 85% of the post-closing obligations, covenants, representations and warranties of Newco. f) The purchase of the Purchased Assets is referred to herein as the "Transaction".
2. Commitment to Charity Care, Quality, Safety and Patient Satisfaction	Subsequent to the Transaction, Prospect, as Manager, shall operate Newco consistent with a commitment to charity care, quality, safety and patient satisfaction including maintaining appropriate accreditations necessary to receive reimbursement under CMS and state Medicaid programs as well commitments to maintain and enhance quality of services at the hospitals.
3. Purchase Price	a) In exchange for the Purchased Assets, Newco shall i) Pay to Seller $45 million in cash at closing, $31 million of which will be applied to extinguish Seller's existing long-term debt and other obligations, and $14 million of which will be earmarked to strengthen the cash position of St. Joseph Health Services of Rhode Island's ("SJHSRI") pension plan; ii) Issue to Seller 15% of the equity of Newco; iii) Pay to Seller or receive from Seller the amount by which the net book value of Net Working Capital (as defined in Paragraph 4(b) hereof) is greater or less than the average net working capital (excluding cash and current portion of long term debt and Estimated Final Settlements Due to Third Party Payors) of the Seller for the twelve month period prior to the close of the Transaction; provided however, that if the Net Working Capital is negative, then Seller shall pay to Newco an amount equal to the deficit.

	b) Seller will obtain tail insurance coverage for all of Seller's liabilities prior to the closing date, including malpractice and worker's compensation. Seller shall be solely responsible for the cost of such coverage. c) During the Second Exclusivity Period, Newco shall not propose any reduction of, or other direct or indirect change to, the Purchase Price, except for (i) the determination of Net Working Capital (ii) in the event that Prospect discovers, during confirmatory due diligence, a fact or circumstance, of which Prospect was previously unaware or which occurred after the execution of this Letter of Intent, related to the operation of the Business that may reasonably result in a material adverse effect on the value of the Purchased Assets or future ongoing operation of the Business,; or (iii) a change in federal, state or local laws that would have a material adverse effect on the value of the Purchased Assets or future ongoing operation of the Business.
4. Purchased Assets and Liabilities Assumed	Newco shall purchase the following: a) All of the assets of Seller, excluding certain financial assets identified as "Excluded Assets", including: any associated owned clinical care buildings; ancillary services land and buildings; real property used in connection with the operation of the Business, or acquired for the benefit of the Business, including any other buildings, leaseholds, improvements or fixtures, free and clear of all liens and encumbrances except for those that are typically permitted encumbrances (e.g., easements for utilities) or that Newco otherwise chooses to assume; equipment; patient, medical, personnel and other records of the Business; licenses, permits; and trade names; certain assumable contracts and leases related to the operations of the Business; interests in all property arising or acquired in the ordinary course of the operation of the Business between the date of the Letter and the closing; all other property, whether tangible or intangible, of every kind, character or description owned by the Seller and used or held for use in the operation of the Business; and any other assets owned by Seller which are necessary for the operation of the Business. b) The net working capital ("Net Working Capital") that is comprised of usable inventory and supplies, patient accounts receivable, pledges and grants receivable, other receivables, prepaid expenses and deposits that have continuing value to the operations of the Business, less trade accounts payable, accrued expenses, and employee benefit accruals (including vacation and sick time). For the sake of clarity, Net Working Capital shall exclude the Estimated Final Settlements Due to Third Party Payors as such item shall be an Excluded Liability. c) Seller's interest in Rhode Island PET Services, LLC. d) Seller's interest in Roger Williams Radiation Therapy, subject to the right of Seller's joint venture partner to purchase Seller's interest upon an event of disassociation of Seller. In the event of such sale, then the proceeds of the purchase price received by the Sellers for Roger Williams Radiation Therapy shall be considered a Purchased Asset and shall be transferred to Newco pursuant to paragraph 3. e) Newco shall not purchase, and Seller will retain ownership of, SJHSRI Retirement Plan assets, cash and investments, funds held by the bond trustee under the bond indenture, charitable restricted assets, assets of St. Joseph Health Services Foundation, Inc. and CCHP Foundation, Inc., funds held by

	trustee for insurance, board designated investments, restricted interests in perpetual trusts, donor restricted funds, or funds restricted by spending policy (the "Excluded Assets"). f) Newco shall assume all liabilities of Seller, with the exception of the Excluded Liabilities. Assumed liabilities include: long-term capital leases, deferred gain on joint venture investments, asset retirement obligations. g) Newco will not assume, and Seller will remain liable for, Seller's long-term debt, pension liability, insurance reserves and other reserves (together with the obligations not assumed under Paragraph 4 (h) below, the "Excluded Liabilities") h) Newco shall assume obligations arising after closing under the assigned contracts and leases, including capital leases; provided however, that Newco shall be able to reject certain contracts that are noncompliant. References to classes of assets and liabilities in this Term Sheet refer to assets and liabilities categorized under such headings as shown in the balance sheet analysis attached hereto as Exhibit A.
5. SJHSRI Pension Plan Discharge	a) Seller will work diligently to freeze the SJHSRI pension obligations in an amount equal to $100 million (the "Final Balance"). This process may include creation of a separate fund, and appointment of a small board and investment CEO to manage the Final Balance. The intent of this action is to maintain the pension plan as a "Church Plan". b) The gap between current SJHSRI Retirement Plan assets and the Final Balance will be funded by contributions from the Seller.
6. Capitalization of Newco	a) At closing, Prospect shall contribute $45 million to Newco. At closing Prospect shall have an 85% ownership interest in Newco. Each party shall also contribute, in proportion to their respective ownership interests, an amount equal to expenses payable by Newco at or in connection with closing, and any expenses incurred by Prospect for inspections, studies, tests, review and analysis of the Business and the Purchased Assets for the exclusive benefit of Newco, post-transaction. b) Prospect commits to make $50 million in additional capital contributions over four years pursuant to the capital commitment to be contained in the Definitive Agreement. This amount shall be in addition to the $10 million budgeted annually by the Seller. The Board of Newco (the "Board") shall determine the timing of such additional capital contributions by making a formal request to Prospect for such additional capital contributions; provided however, that each request for capital contribution shall be supported by an ROI calculation acceptable to both parties, or a critical needs assessment. Each additional capital contribution made pursuant to this Paragraph 6(b) shall not reduce Seller's ownership interest in Newco. Under no circumstances shall the Seller's interest be diluted to less than 15% as a result of the provisions of this Paragraph 6(b). c) Subject to the approval of the Newco Board, consideration will be given to expending the funds contributed to Newco pursuant to the capital commitment made in Paragraph 6(b) above on projects that include the following: - Development of physician engagement strategies

	• Expansion of cancer center at Roger Williams Medical Center ("RWMC") • Emergency Department Expansion at RWMC • Emergency Department Renovation/Reconfiguration at Our Lady of Fatima Hospital ("OLF") • Renovation of operating rooms at RWMC • Conversion of all patient rooms to private rooms at RWMC and OLF • Renovation and expansion of ambulatory care center at OLF • New windows at RWMC and OLF • New generator at OLF • Face lift for facades at RWMC and OLF • HP access at front entrances of RWMC and OLF d) Capital calls approved by the Newco Board shall be funded via the following sources in the order listed: i. First, by free cash flow generated by the earnings of Newco; ii. Second, from debt incurred in such amounts as determined by Prospect as Manager, except that any borrowings in excess of a specified amount of the projected EBITDA of Newco shall require the approval of the Newco Board. Borrowings may be from third party lenders or from Prospect or its affiliates. Any borrowings from Prospect or its affiliates will be at market rates, based upon terms that would be generally available from unaffiliated third party lenders. iii. Third by contributions from equity owners, in proportion to their respective ownership interests e) Each party shall have a right not to meet any capital calls. In such event, should the other party provide additional capital to Newco (excluding the commitments made in a) and b) above), proportional ownership interest will be adjusted in accordance with terms to be negotiated in good faith by the parties in the Definitive Agreement. f) Under no circumstances shall the Seller's interest in Newco be diluted to less than 5%.
7. **Put Option/Tag Along Rights**	a) Commencing on the fifth anniversary of closing, Seller shall have a right to put its entire interest in Newco to Prospect using the valuation methodology described in Paragraph 7(b). Such put must be exercised by Seller within 90 days after the fifth anniversary and settled 90 days thereafter. At any time, Seller shall have a right to put its interest in Newco to Prospect, using the valuation methodology described in Paragraph 7, if necessary to protect Seller's tax-exempt status, or due to attempted lender foreclosure, as stated in Paragraph 19 (a). b) Fair market value shall be determined by an appraisal process to be negotiated by the parties.

8. Governance Structure	a) So long as Seller holds its interest in Newco, Newco will establish a Board of Directors (the "Newco Board") composed 50% of members appointed by Seller (the "Seller Block") and 50% by Prospect (the "Prospect Block"), to ensure that a strong local presence is in place to navigate the RI healthcare landscape. The method for selecting physician representatives between Seller Block and Prospect Block shall be defined in the Definitive Agreement. Regular distributions of Newco's profits will be made on a pro rata basis, reflecting the percentage ownership interest in Newco at the time of each distribution. The Seller and Prospect will use commercially reasonable efforts to structure the Newco Board to allow the Seller's distributions from Newco to be tax-exempt while allowing Prospect to consolidate the financial results of Newco with the other financial results of Prospect in accordance with generally accepted accounting principles. b) Most of the issues that the Newco Board will address will require a majority of votes for approval; however, certain Major Decisions will require the affirmative vote of a majority of both the Seller Block and the Prospect Block. "Major Decisions" will include: • Amendments to the governing documents of Newco; • Development of a strategic plan for Newco; • Adopting a corporate vision, mission and values statement and developing policies and monitoring progress toward strategic goals; • Approval of the appointment of Newco's CEO; it being understood that the senior management team of Newco will be Prospect employees and that Prospect, as Manager, will therefore retain the right to terminate the employment of any such employee, subject to the terms of any existing employment contracts. • Approval of the termination of Newco's CEO during the period beginning with the closing of the Transaction and ending two years thereafter. Subsequent to that date, Prospect will consult with the Newco Board before the termination of Newco's CEO. • Capital calls; • Certificate of Need filings or reverse Certificate of Need filings; and • Changes to charity care policy and community benefits standards c) In the event that Seller's ownership interest in Newco is reduced to 5%, the level of control afforded to the Seller Block will be reduced. d) Immediately following the closing of the Transaction, the Newco Board shall collaboratively examine Seller's existing strategic initiatives, with consideration given to: i. Growth and development of clinical centers of excellence a. Cancer b. Geriatric continuum c. Behavioral Health d. Digestive Disease e. Bariatrics f. Diabetes ii. Pursuit of opportunities in

	a. Neurological Sciences b. Dermatology and Wound Care c. Orthopedics iii. Clinical Integration iv. Medical Staff – System Alignment/Engagement Within the first 180 days of joint venture operations, Prospect, as Manager, will prepare for consideration, and the Newco Board will adopt, a three to five year strategic plan addressing the short-term and long-term priorities for Newco, its facilities, and strategic objectives. e) Subject to limitations ensuring that Prospect may consolidate the financial results of Newco as provided above, the Newco Board's responsibilities will include, but not be limited to, oversight, but not necessarily approval, of: • Newco's hospitals Board of Trustees (see (g)); • Periodic evaluations of the CEO; • Operating and capital budgets and facility planning; • Conducting periodic evaluations of the CEO and making recommendations regarding that individual's employment, subject to the terms of any existing employment contract; • Assuring Newco facilities compliance with Joint Commission accreditation and criteria; • Fostering community relationships and identifying service and education opportunities. f) The parties will negotiate in good faith a mechanism to break Newco Board deadlocks. g) A change of control of Prospect will not require a vote of the Newco Board. h) Newco will establish a Board of Trustees for each of its hospitals. The Board of Trustees, generally comprised of ½ physicians and ½ community leaders and the local Chief Executive Officer will be responsible for medical staff credentialing, quality assurance and accreditation of the hospital. The Board of Trustees reviews strategic and capital plans and makes strategic recommendations for the hospital; it also provides guidance and support on local market and community concerns, considerations, strategies, issues and politics. The Trustees will serve terms of three years, up to a maximum of nine years. i) Newco will seek advice from the current Seller for the Hospital Boards of Trustees and would also consider having members of the Board of Seller on the Hospital Boards of Trustees. j) Seller and Prospect agree to take all commercially reasonable efforts required to structure the Transaction such that the SJHSRI pension plan will retain its status as a church plan.

9. Management Agreement	a) Newco shall execute a management services agreement ("MSA") with Prospect. The MSA shall provide for a management fee equal to 2% of Newco's Net Revenues, paid monthly. Under the MSA, Prospect shall provide all corporate services customarily provided to Prospect's wholly or majority owned subsidiaries b) For purposes of the MSA, "Net Revenues" shall mean total operating revenues of Newco reduced by revenue deductions, which deductions shall be comprised of contractual allowances, discounts and charity care amounts (but not bad debt expense) as determined in accordance with generally accepted accounting principles. c) Prospect shall not charge corporate overhead costs to Newco other than those variable costs directly attributable to services provided to Newco and not part of ordinary corporate services provided under the MSA.
10. Preservation of Name	After the closing, Newco will continue operating using the current names of the Business entities.
11. Maintenance of Services	Subject to a determination of ongoing financial viability and efficiency, which shall be defined by the parties in the Definitive Agreement, Newco will contractually agree to maintain the two existing acute care hospitals and the full complement of essential clinical services ("Essential Services") within Newco for a period of five years. The parties acknowledge and agree that the parties intend to create a high quality, cost efficient healthcare delivery network in Rhode Island. Essential Services shall be defined by the parties in the Definitive Agreement and shall include continued choice and access to hospital and non-acute health care service providers. In the event that Newco sells the Business, Newco will require the party that acquires the Business to assume this obligation.
12. Charity Care and Community Obligations	a) Newco acknowledges that Seller has historically provided significant levels of care for indigent and low-income patients and has also provided care through a variety of community-based health programs. Subject to a review of Seller's policies and procedures during confirmatory due diligence and to changes in legal requirements or governmental guidelines or policies, Newco will adopt, maintain, and adhere to Seller's current policy on charity care or adopt other policies and procedures that are at least as favorable to the indigent and uninsured as Seller's policies and procedures. b) Newco will continue to provide care through sponsorship and support of community-based health programs, including cooperation with local organizations that sponsor healthcare initiatives to address identified community needs and improving the health status of the elderly, poor, and at-risk populations in the community. c) Newco shall continue to support nursing and staff education. d) Newco shall maintain a senior executive compliance officer whose responsibilities shall include regulatory compliance, organizational compliance and shall be responsible for establishing and overseeing an ethics committee to include community board members.
13. Medical Staff Matters	a) Physicians shall comprise up to 50% of each Newco hospital's Board of Trustees. Some of these physicians will be appointed by Seller and some by

	Prospect. b) The Manager will work with the Business's medical staff at both hospital campuses to ensure that physicians maintain an active presence at the Business and are kept informed and provided with necessary assistance during the transition planning phase, and are encouraged to maintain their medical practices within the community. Newco will invest in the medical staff to retain existing staff and recruit new staff. In addition, the Manager will commit to properly position the system to compete in Rhode Island (and regionally as necessary), consistent with emerging health care regulatory and reimbursement environments. c) Newco intends to involve physicians in the strategic and capital planning process for each of Newco's hospitals, insuring the critical needs of the medical staff are met and that strategic initiatives and investment into the facility can be prioritized to better meet the needs of physicians practicing in the hospitals. d) Newco will recognize the medical staffs of the hospitals, and agrees for a period of 2 years there will be no change or modification to current medical staff privileges for physicians on staff at the Business or to such Business facility's medical staff by-laws, rules, and regulations unless health care laws and/or regulations require change or modification. e) Prospect will also recognize and sustain as currently configured the medical staff leadership structures including all officers, directors, and chiefs of service, both sitting and elected, at the Business.
14. Employee Matters	a) With the exception of employees under existing employment contracts, whose employment status will reflect the terms of such contracts, Newco will offer at-will employment, at base salaries and wages equal to their base salaries and wages as of the closing date, to substantially all employees of the Business, including management, who are actively employed and in good standing on the closing date. Newco will maintain an FTE to AOB ratio that is consistent with good industry practices. b) Employees will retain their current seniority for purposes of benefits and their salaries as of the closing date will provide the base for future increases. c) Existing employees terminated within the first 12 months after closing will be offered a severance package whose terms are comparable to those of the Seller's existing severance package. d) Employees will retain their current seniority with regard to eligibility to participate in Newco qualified retirement plans and vesting in vacation and sick time. e) Newco will provide eligible employees with vacation, sick leave, holidays, health insurance, life insurance, a 401(k) plan, and other employee benefits consistent with market terms. f) Newco will recognize the existing unions at SJHSRI.

15. Capital Expenditure Commitments	Newco will make available sufficient resources to meet the capital needs of the Business ("Maintenance Cap Ex"), which shall be at least equal to Newco's average annual depreciation expense or an amount reasonably determined by the Newco Board. Maintenance Cap Ex spending shall be in addition to the capital contribution commitments that Prospect makes pursuant to Paragraph 6(b). Seller's current annual capital budget is $10 million. Maintenance Cap Ex shall be funded via the following sources in the order listed: i. First, by free cash flow generated by the earnings of Newco. ii. Second, from debt incurred in such amounts as determined by Prospect, as Manager, except that any borrowings in excess of a specified amount of the projected EBITDA of Newco shall require the approval of the Newco Board. Borrowings may be from third party lenders or from Prospect or its affiliates. Any borrowings from Prospect or its affiliates will be at market rates, based upon terms that would be generally available from unaffiliated third party lenders. iii. Third, by contributions made from equity owners, in proportion to their respective ownership interests.
16. Ethical and Religious Directives and Catholic Identity	Newco shall comply with requests regarding Ethical and Religious Directives for Catholic Health Care Services at all SJHSRI locations and shall maintain the Catholic identity at all SJHSRI locations. In addition, Newco will maintain the current service restrictions at RWMC.
17. Pastoral Care	a) Newco will maintain pastoral care programs at all hospital facilities owned by Newco. b) Newco will provide pastoral care education curriculum sufficient to meet the needs of the hospitals owned by Newco. c) Newco will maintain chapels in all Newco hospital facilities indefinitely.
18. Medical Education	Newco will, at a minimum, continue the current medical education and research programs in place at the Business unless reductions in grants or other government funding that offset the cost of such research and education occur. In such case, reductions shall occur proportionally to reduction in support payments.
19. No Sale	a) Prospect will agree not to sell its interest in Newco to an unaffiliated third party for a period of five years after closing. The foregoing will not prevent Prospect from transferring its interest to an affiliate. The foregoing restriction shall not apply to a change of control (including merger or consolidation) of Prospect. Prospect may pledge the assets of Newco to Prospect's lenders, subject to a right by Seller to put its entire interest to Prospect under the terms outlined in Paragraph 7(a) if any such lender attempts to foreclose on said assets. b) In the event that Prospect agrees to sell its interest in Newco to an unaffiliated third party after the five year period set forth in a) above expires, then Seller shall have the option to sell its interest in Newco to such buyer under the same terms and conditions. If such buyer is not willing to purchase all of the interests offered for sale by the parties, each party will be able to sell a portion of the interest to be sold to the buyer equal to its percentage interest in Newco. The terms of the sale of any party's interest in Newco or any other consolidation, merger or like transaction, shall require such purchaser to

	expressly assume the Definitive Agreements or such successor to reaffirm the respective party's obligations under the Definitive Agreements.
20. Right of First Refusal	The Seller or its designee will maintain a right of first refusal to purchase Prospect's interest in Newco under essentially the same terms and conditions provided to Prospect if Prospect agrees to sell or transfer its interest in Newco to an unaffiliated third party. Seller shall have 60 days to exercise its right and 180 days to close. The foregoing restriction shall not apply to a change of control (including merger or consolidation) of Prospect. Prospect shall have a right of first offer and a right of first refusal identical to Seller's right of first refusal described in this Paragraph 20.
21. Medicare Cost Settlement	To the extent necessary, Newco will provide information to Seller and assist the Seller in the preparation and filing of a terminating cost report. In addition, Newco will provide information to Seller regarding any open cost report matter that relates to a pre-closing time period. Seller will hold Newco and Prospect harmless from any liability arising from or related to this provision.
22. Contracts	Newco shall accept assignment of and assume all obligations arising after closing under contracts, operating leases, physician arrangements and other operating obligations of the Business, with no offset against the Purchase Price; provided, however, that Newco shall not be obligated to assume noncompliant contracts, contracts that raise regulatory concerns, or contracts that it has not expressly assumed under Paragraph 4 (h).
23. Indemnification	a) Seller shall indemnify Newco and Prospect against losses arising from a breach of Seller's representations, warranties and covenants. b) Prospect shall indemnify Seller against losses from breach of Prospect and Newco's representations and warranties. c) Neither party shall be entitled to indemnification for breaches of representations or warranties unless and until the aggregate amount of losses that otherwise would be payable exceeds certain baskets to be agreed upon by the parties. d) Newco will not assume and Seller will remain responsible for, and indemnify Newco and Prospect against, any and all liabilities, indebtedness, commitments or obligations of any kind whatsoever that relate to Seller's operation of the Business prior to the closing, including without limitation, environmental claims or claims associated with alleged violations of environmental laws for acts prior to closing, liabilities for funding any employee benefit plan (including any defined benefits pension plan), cost report liabilities, tax matters and medical malpractice or general liability claims. e) Newco shall be responsible for, and indemnify Seller against, any and all liabilities, indebtedness, commitments, or obligations of any kind whatsoever that relate to the operation of the Business after the closing, including without limitation, environmental claims or claims associated with alleged violations of environmental laws for acts after closing, liabilities for funding any employee benefit that arise after the closing, cost report liabilities, tax matters and medical malpractice or general liability claims for acts occurring after the closing.

24. Conditions	a) This Letter of Intent is subject to and contingent upon execution by the Seller and Newco of a definitive purchase and sale agreement and other related documents (the "Definitive Agreement"). The Definitive Agreement shall contain i) provisions outlined herein and ii) representations, warranties, and other terms and conditions consistent herewith and otherwise customary in this type of transaction and acceptable to the parties hereto, including, without limitation, governance and regulatory approvals, including IRS, anti-trust, hospital licensure, and state attorney general and favorable opinions of counsel acceptable to the parties. b) The representations and warranties to be contained in the Definitive Agreement, the survival of such representations and warranties, and the duration of such survival shall be subject to the mutual agreement of the parties. c) Each party agrees to negotiate in good faith and consistent with this Letter of Intent and Term Sheet with a view toward signing a Definitive Agreement as soon as practicable after approval by both parties. d) Execution of the Definitive Agreement and the closing of the Transaction shall be subject in all respects to approval by the respective Boards of Prospect and Seller and any sponsors of Seller, including the Bishop of Providence, Rhode Island, prior to execution of the Definitive Agreement, and all relevant legal and regulatory approvals and other customary conditions prior to closing. Any material adverse change condition relating to the Purchased Assets or the financial condition of the Business will be spelled out with specificity in the Definitive Agreements. e) The negotiation of the collective bargaining agreement at Prospect's sole and absolute discretion. f) The resolution of property tax issues satisfactory to Prospect, in its sole and absolute discretion. g) Completion and satisfaction of the results of due diligence by Prospect, in its sole and absolute discretion
Binding Provisions	
25. Entire Agreement	Except for the Mutual Nondisclosure and Confidentiality Agreement dated as of August 2, 2012 (the "Confidentiality Agreement"), this Letter of Intent and Term Sheet constitutes the full and complete agreement and understanding between the parties hereto concerning the subject matter hereof and supersedes any prior written and oral agreements with regard to such subject matter. This Letter of Intent and Term Sheet may be modified or waived only by a separate written agreement signed by the parties hereto.
26. Transition	a) Prospect shall be afforded the opportunity to provide input to significant activities of the Business after execution of Definitive Agreements including, but not limited to: • Monitoring of the implementation of the FTI plan; • Development of physician engagement strategies • Capital expenditures exceeding $150,000

	• New contracts exceeding $100,000 b) After closing, Newco will administratively assist Seller, at no additional cost, to dispose/discharge those assets and liabilities retained by Seller.
27. Ordinary Course	Until the earlier of the closing of the proposed Transaction or termination of this Letter of Intent and Term Sheet, Seller and its affiliates shall conduct business in the ordinary course of business and shall not sell or dispose of any asset other than in ordinary course.
28. Confidentiality	Information provided by Seller and Prospect in connection with this proposed Transaction, and the existence of this Letter of Intent and Term Sheet, are subject to the terms and requirements of the Confidentiality Agreement between the parties dated as of August 2, 2012.
29. Due Diligence, Access to Information and Facilities	The parties agree and acknowledge that Prospect's confirmatory due diligence requires access to additional information and Seller's facilities above and beyond that which has been provided to Prospect prior to the execution of this Letter of Intent. Seller and its affiliates will provide Prospect with reasonable access to (i) information and materials related to the Business, the Seller, its affiliates and their respective related assets as requested by Prospect from time to time, and (ii) all real property, facilities and equipment that are part of the proposed transaction. Prospect shall provide Seller with all data, materials and information that Seller may reasonably require from time to time as part of the due diligence process conducted by Seller.
30. Expenses	a) Prospect and Seller shall each bear their respective legal, accounting and other expenses (including the expense of any brokers, agents or finders) in connection with the Transaction contemplated herein whether or not the Transaction is consummated. b) Newco will pay for title costs, title insurance, recording fees, and transfer and other taxes arising from the Transaction contemplated herein. c) Newco will pay for any inspections, studies, tests, review and analysis of the Assets Purchased.

31. Dispute Resolution	a) All disputes, controversies or claims that may arise among the parties hereto, including, without limitation, any dispute, controversy or claim arising out of this agreement, or any other relevant document, or the breach, termination or invalidity thereof (a "Dispute"), shall be settled solely and finally pursuant to the procedures set forth in this Paragraph. Notwithstanding the foregoing, this Paragraph will not apply to the mechanism to be negotiated relative to breaking any Newco Board deadlocks referred to in Paragraph 8 (e). b) The parties shall attempt in good faith to resolve any Dispute of whatever nature arising between the parties, promptly by negotiation. If the Dispute has not been resolved within 30 days after delivery of a notice of a Dispute has been provided by one party to the other party, any of such parties may initiate arbitration of the Dispute as provided below. c) If the Dispute has not been resolved by negotiation as provided above, then, the parties agree that the Dispute shall be submitted to, and determined by, binding arbitration. Such arbitration shall be conducted pursuant to the CPR Rules for Non-Administered Arbitration, by one neutral arbitrator, which shall be selected from a list of 10 potential candidates provided by CPR. The award made by the arbitrator shall be final and binding upon the parties thereto and the subject matter, and judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction thereof. Unless otherwise agreed by the parties, the arbitration shall be held in Providence, Rhode Island. The arbitrator shall not have the authority to award punitive or exemplary damages. The costs and fees of the arbitration shall be borne equally by the parties to the arbitration, except that each party shall be solely responsible for its own attorneys' fees; provided, however, that the prevailing party in any such arbitration shall be entitled to recover its reasonable attorneys' fees, expert witness fees, costs and expenses (including, without limitation arbitration fees) incurred in connection with the arbitration to the extent such recovery is permitted by the law(s) governing the claim(s) asserted.
32. Press Release	Except as required by law, it is understood that all press releases or other public communications of any sort relating to this letter of intent and the method of the release for publication thereof, will be subject to the prior approval of both parties.

33. Exclusivity	a) Seller and Prospect shall enter into exclusive negotiations regarding the proposed transaction. Prospect has 21 days after execution of this Letter of Intent by both parties and complete and full access to requested due diligence materials (the "First Exclusivity Period") to complete sufficient due diligence to confirm the Purchase Price components described in Section 3, Capitalization components described in Section 6 and Capital Commitment components described in Section 15. Prior to expiration of the First Exclusivity Period, Prospect shall confirm agreement with these components in writing. Failure to confirm such agreement will terminate the exclusivity provisions of this Letter of Intent. b) During the First Exclusivity Period and the Second Exclusivity Period (as defined below), neither Seller nor any of its respective representatives, directly or indirectly, shall: (i) offer any of the assets described in this Letter of Intent for sale, lease or other disposition to any person or entity other than Prospect; (ii) merge, or conduct a business combination of any sort involving Seller or any of its affiliates with any other person or entity; (iii) transfer the membership, control, or any ownership interest in Seller or any of its affiliates to any other person or entity; (iv) enter into a partnership or any other joint venture involving Seller or any of its affiliates; (v) enter into any agreement with any person or entity other than Prospect with respect to any of the matters set forth in (i) through (iv) above; (vi) solicit, encourage (by way of furnishing non-public information or otherwise), negotiate, hold discussions regarding, entertain, accept, or take any other actions to facilitate, any offers regarding any of the matters or actions set forth in (i) through (v) above. The "Second Exclusivity Period" shall be the period beginning on the First Expiration Date and ending at 5:00 P.M. Eastern Time sixty (60) days thereafter (the "Second Expiration Date").

Exhibit A
CharterCARE Health Partners
Balance Sheet
1/31/13

	January 2013 Balances	Retained by CharterCARE	Acquired by Newco
Assets			
Current Assets			
Cash and Cash Equivalents	$ 18,900,135	$ 18,900,135	$ -
Investments	$ 1,499,250	$ 1,499,250	$ -
Patient Accounts Receivable, Net of Allowances	$ 35,836,754	$ -	$ 35,836,754
Pledges and Grants Receivable	$ 3,200	$ 3,200	$ -
Supplies Inventory	$ 4,711,270	$ -	$ 4,711,270
Funds Held by Trustee for Insurance	$ 6,550,041	$ 6,550,041	$ -
Prepaid expenses and Other Current Assets	$ 6,138,243	$ -	$ 6,138,243
Current Portion of Funds Held by Trustee Under Bond Indenture	$ 596,293	$ 596,293	$ -
Total Current Assets	$ 74,235,186	$ 27,548,919	$ 46,686,267
Assets Whose Use is Limited or Restricted:			
Funds Held by Trustee Under Bond Indenture	$ 3,209,356	$ 3,209,356	$ -
Board Designated Investments	$ 6,452,635	$ 6,452,635	$ -
Restricted Interests in Perpetual Trusts	$ 10,143,381	$ 10,143,381	$ -
Restricted by Donors	$ 5,361,322	$ 5,361,322	$ -
Restricted by Spending Policy	$ 14,137,731	$ 14,137,731	$ -
Total Assets Whose Use is Limited	$ 39,304,425	$ 39,304,425	$ -
Property and Equipment, Net	$ 68,157,714	$ -	$ 68,157,714
Investment in Joint Ventures	$ 3,001,634	$ -	$ 3,001,634
Other Assets:			
Insurance Reserves	$ 13,370,726	$ 13,370,726	$ -
Other Assets	$ 2,524,333	$ -	$ 2,524,333
Total Other Assets	$ 15,895,059	$ 13,370,726	$ 2,524,333
Total Assets	$ 200,594,017	$ 80,224,069	$ 120,369,948

Exhibit A
CharterCARE Health Partners
Balance Sheet
1/31/13

	January 2013 Balances	Retained by CharterCARE	Acquired by Newco
Liabilities and Net Assets			
Current Liabilities:			
Accounts Payable and Accrued Expenses	$ 45,773,980	$ -	$ 45,773,980
Current Obligations under Capital Lease	$ 760,284	$ -	$ 760,284
Current Portion of Long-Term Debt	$ 1,451,838	$ 1,451,838	$ -
Estimated Final Settlements due to Third-Party Payors	$ 15,600,618	$ 15,600,618	$ -
Current Portion of Malpractice Insurance	$ 8,551,128	$ 8,551,128	$ -
Total Current Liabilities	$ 72,137,848	$ 25,603,584	$ 46,534,264
Long-Term Liabilities			
Capital Lease Obligations, Less Current Portion	$ 635,854	$ -	$ 635,854
Long term Debt, Net of Current Portion	$ 35,699,445	$ 35,699,445	$ -
Deferred Gain on Joint Venture Investment	$ 2,157,508	$ -	$ 2,157,508
Pension Liability	$ 89,536,553	$ 89,536,553	$ -
Asset Retirement Obligations	$ 4,497,068	$ -	$ 4,497,068
Insurance and Other Reserves	$ 22,160,828	$ 22,160,828	$ -
Other Liabilities	$ 316,717	$ -	$ 316,717
Total Long-Term Liabilities	$ 155,003,973	$ 147,396,826	$ 7,607,147
Total Liabilities	$ 227,141,821	$ 173,000,410	$ 54,141,411
Net Balance Sheet Items	$ (26,547,804)	$ (92,776,341)	$ 66,228,537

Exhibit 17

DrinkerBiddle&Reath LLP

Keith R. Anderson
312-569-1278 Direct
312-569-3278 Fax
keith.anderson@dbr.com

COPY

Law Offices
North Wacker Drive
Suite 3700
Chicago, IL
60606-1698
312-569-1000 phone
312-569-3000 fax
www.drinkerbiddle.com
CALIFORNIA
DELAWARE
ILLINOIS
NEW JERSEY
NEW YORK
PENNSYLVANIA
WASHINGTON DC
WISCONSIN

June 19, 2013

VIA E-MAIL

Ms. Kimberly A. O'Connell
Vice President & General Counsel
CharterCARE Health Partners
825 Chalkstone Avenue
Providence, RI 02908

Dear Kim:

We are very pleased that CharterCARE Health Partners (the "Company") has engaged our firm to represent it with respect to the contemplated strategic transaction with Prospect Medical Holdings, Inc. This letter will confirm our discussion in this regard and will describe the basis on which our firm will provide legal services.

Accordingly, we submit for your approval the following provisions governing our engagement. If you are in agreement, please sign a copy of this letter in the space provided and return it to me via email or facsimile. If you have any questions about any of these provisions, or if you would like to discuss possible modifications, do not hesitate to call. Again, we are pleased to have this opportunity to work with you and your colleagues at CharterCARE.

1. *Client and Scope of Representation.* We will represent the Company in connection with the contemplated strategic transaction with Prospect Medical Holdings, Inc. You may limit or expand the scope of our representation from time to time, provided that any significant expansion of such representation must be agreed to by us.

2. *Primary Lawyer; Fees and Expenses.* I will have primary responsibility for this representation and will utilize other firm lawyers and legal assistants as may be appropriate in the circumstances. The principal factors in determining our fees will be the time and effort devoted to the matter and the hourly rates of the lawyers and legal assistants involved. The hourly rates for the firm's partners generally range from $495 to $700, and hourly rates for associates range from $310 to $460. Paralegal rates generally range from $150 to $250 per hour. As you and I discussed, we will provide the Company

with a ten percent (10%) discount off of the standard hourly billing rates of all of the firm's lawyers involved on this project. Based on this discount, the hourly rates of our attorneys working on your matter would be as follows.

Name	Title	Standard Hourly Rate	10% Discounted Hourly Rate
Keith Anderson	Partner	$615	$553
Christine Kong (Employee Benefits)	Partner	$550	$495
Linda Moroney	Of Counsel	$525	$472
William Goldbeck (Real Estate)	Partner	$505	$454
Katherine Miler	Associate	$310	$279

These rates are subject to change annually based on each individual lawyer's advancement in seniority and other factors. In addition, the Company will be billed for disbursements as outlined in the attached exhibit. We will invoice the Company monthly for our time and disbursements, and the Company agrees to pay us for such fees and disbursements immediately upon receipt.

3. *Term of Engagement.* Either of us may terminate this engagement at any time for any reason by written notice, subject on our part to applicable rules of professional conduct. In the event that we terminate the engagement prior to its conclusion, we will undertake such steps as are reasonably practicable to protect the Company's interests in the above matter, including, if so requested, suggesting to the Company possible successor counsel and providing them with whatever papers you have provided us. The Company agrees to pay our fees and reimburse us for expenses in connection with reviewing and/or copying files when they are transferred to successor counsel. If permission for withdrawal is required by a court, we will promptly apply for such permission, and the Company agrees to engage successor counsel.

4. *Conflicts.* As you are aware, our firm represents many other companies and individuals. Although unlikely, it is possible that during the course of this representation one or more of our present or future clients may have a dispute with or engage in a transaction with the Company. Should this occur, we will immediately bring

the matter to your attention and otherwise comply with all applicable ethical requirements.

5. *Records Retention.* The firm's current policy is to retain client files, and the firm's related work product and internal files, for five years or more after the conclusion of the matter, depending on the file type. The firm reserves the right to change its retention policy at any time without notice. The existence of the firm's retention policy, now or in the future, does not create any obligation on the part of the firm to retain files after the completion of a matter unless a separate written agreement is made between the firm and you for retention of certain files for some specified period of time. If you require retention of your files according to your own records retention policy or needs, please request the originals or copies of your files at any time during the course of any matter or upon its conclusion. If you request the firm to transfer your files to you or to a third party, you will pay the firm its standard hourly rates for time spent in reviewing the files for transfer and the firm's charges for copying any portion of the files the firm wishes to retain.

6. *Subsequent Representation.* Any subsequent representation of the Company or an affiliate of the Company shall be governed by the terms hereof unless superseded by a standalone or replacement engagement letter.

Once again, we are pleased to have this opportunity to work with you.

Sincerely,

Keith R. Anderson

KRA/jmp
Enclosures

ACKNOWLEDGED and AGREED:

CharterCARE Health Partners

By: _____
Kimberly A. O'Connell,
Vice President & General Counsel

Date: 7/11/13

CH01/ 26161968.1

February 1, 2012

DrinkerBiddle&Reath LLP

Statement on Charges for Legal Services

The firm's goal is to provide its clients with legal services of high quality, rendered promptly and responsively to each client's needs and in an economical manner. In return, clients are expected to pay the firm's charges for such professional services and for other charges and disbursements in connection with such services promptly upon receipt of statements therefor. The purpose of this memorandum is to set forth the basis upon which the firm bills clients for legal services and charges relating thereto, and the terms on which such statements are rendered. Clients of the firm are expected to pay the firm's statements in accordance with the provisions of this statement, unless different arrangements are set forth in an engagement letter signed by the firm. This statement is delivered to clients in compliance with applicable requirements of the Rules of Professional Conduct as in effect in certain jurisdictions in which attorneys of the firm are admitted to practice law.

1. **THE BASIS FOR FEES.** In most cases, the firm's fees are determined with reference to the time expended on the matter by partners, associates, legal assistants and other staff members recording time on specific matters, in each case at hourly rates established in relation to the experience and skills of the person performing the work. When the size, complexity, difficulty or urgency of a matter, or the result obtained, or similar factors so dictate, our fee may include an additional amount deemed by the firm to be reasonable in light of such factors. The firm's hourly rates are revised periodically to reflect increased skills, costs, and other factors. Clients may obtain information about the range of the rates currently in effect from the attorney in charge of the matter.

For some matters a billing arrangement determined without reference to time can be made. The attorney responsible for the matter in the firm will discuss any such specialized basis for billing with the client on a case-by-case basis. Any such arrangements will be confirmed in writing.

2. **ADVANCES ON FEES, OTHER CHARGES AND DISBURSEMENTS.** For new clients of the firm, and in certain other cases in which it is deemed appropriate, the firm's policy is to require an advance payment to be applied against the cost of legal services and other charges and disbursements expected to be rendered and incurred. The amount advanced will be treated as a security payment retainer. A security payment retainer remains the property of the client until used to pay for services rendered, and the funds will be deposited in our client trust account. The advance will be applied in the manner provided in the engagement letter to which this statement is attached. If the project is concluded or terminated (or at such earlier date as the firm deems appropriate, or as is otherwise agreed at the time of the advance), any portion of the advance not applied by the firm to its fees, other charges and disbursements in respect of services performed prior to such conclusion or termination or such earlier date will be refunded. Absent special arrangements, no interest will be paid to clients on such advances.

3. **OTHER CHARGES AND DISBURSEMENTS.** Clients are billed various charges for ancillary services, including long distance telephone, photocopying, messenger service, computerized research and database management, mailing, outgoing facsimile transmissions, express delivery, overtime secretarial charges specifically related to the matter, and other expenses. To reflect costs associated with providing telephone and computerized research services, we bill clients an amount in excess of our direct out-of-pocket expenses for such services. A summary of the manner in which we currently bill for ancillary services can be obtained from the attorney in charge of the matter. In addition, the firm bills clients for disbursements incurred by the firm on the client's behalf. By way of example, disbursements typically include travel expenses, court stenographer's fees, filing and other fees, and bills rendered to the firm by third party providers of services. Bills for these charges are often transmitted directly to the client for payment and it is expected that these bills will be paid by the client upon receipt.

4. **FREQUENCY OF BILLING.** Statements for services, other charges and disbursements are generally rendered monthly. However, in certain matters of a transactional nature, the firm may render a statement upon the completion of the transaction or, if the transaction is not completed, at the time work is completed.

5. **PAYMENT TERMS.** All statements in respect of professional fees, other charges and disbursements are due upon receipt and the firm expects payment in not more than thirty days. The firm's fees do not include any

factor for delayed payment by clients, but the firm may impose such a charge in respect of any statement unpaid for more than forty-five days. The firm reserves the right to terminate its services if statements are not paid promptly.

February 1, 2012

DrinkerBiddle&Reath LLP

Statement on Charges for Ancillary Services

This schedule summarizes the manner in which the firm currently determines the amount billed to clients for ancillary services provided by the firm or obtained for the client from outside vendors. The amounts set forth in this schedule, like the rates of our lawyers, change from time to time.

Expense Description	Basis of Charges	Current Charge	Client Bill Presentation
MAIL/DELIVERY			
Federal Express Delivery Services	Per Delivery	Invoice Amount	Federal Express
Other Express Delivery Services	Per Delivery	Invoice Amount	Express Delivery Service
Outside Delivery	Per Invoice	Invoice Amount	Delivery Service Charge
COPIES			
Network Copies	Per Page	$.08 over 1000 copies	Network Print
		$.10 under 1000 copies	Network Print
Photocopy	Per Page	$.15	Duplicating
Color Copies	Per Page	$1.00	Duplicating - Color Copies
Document Binding	Per Booklet	Up to $1.00	Bindery
Photocopy (Outside Service)	Per Invoice	Invoice Amount	Outside Photocopying Service
COMMUNICATIONS			
Long Distance Calls	Per Call	$.05/minute	Telecommunication Services
International Calls	Per Call	$.25/minute	Telecommunication Services
Calls from Cell Phones	Per Invoice	Per Invoice	Telecommunication Services
Fax:			
Incoming	--	No Charge	Fax Charges
Outgoing	Per Page	$1.00	

Expense Description	Basis of Charges	Current Charge	Client Bill Presentation
Postage	Destination	Amount Over $2.00	Postage
RESEARCH/DATA MANAGEMENT			
Lexis/Nexis & Westlaw Online Data Bases	Per Hour/ Search	Published Rates less 50%	Computer Assisted Research
Other Online Usage (Dialog etc.)	Per Hour/ Search	Information Cost	Computer Assisted Research
Computer Usage (Litigation Support)	Per Hour	$115.00/$185.00	Database Service
Reports, Searches, Certificates	Per Invoice	Invoice Amount	Searches
Filing, Recordation Fees	Per Invoice	Invoice Amount	Filing/Other Fees
Depositions, Transcripts, Service of Process	Per Invoice	Invoice Amount	Depos., Transc., Service
Computer Tax Preparation	Per Return	$50.00	Computax
TRAVEL			
Travel – Non Auto	Per Invoice	Invoice Amount	Travel Expense
Auto:			
Personal or Firm	Per Actual Mile	Rate established by the IRS from time to time	Mileage
Rental	Per Invoice	Invoice Amount	Auto Rental
OTHER			
Staff Overtime	Per Hour Transportation	$39.00 Actual Charge	Non-Atty OT Transportation
Outside Professional Services	Per Invoice	Invoice Amount	Consultant Fees & Exp.
Minute Books	Per Book	Invoice Amount	Corporate Supplies
Other Misc. Cash Costs as incurred on behalf of the client	Per Invoice	Invoice Amount	Other Miscellaneous Expenses

Exhibit 18

AFFILIATED MONITORS, INC.™
INTEGRITY THROUGH COMPLIANCE

Second Interim Report on Compliance by Prospect CharterCARE, CharterCARE Community Board, and CharterCARE Foundation with Conditions of Certification Pertaining to the Acquisition of Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital and Other Entities.

In the Hospital Conversions Act Decision of the Rhode Island Office of the Attorney General ("Attorney General") dated May 16, 2014 (the "HCA Decision"), Prospect CharterCARE, LLC ("Prospect" or "Prospect CharterCARE"), CharterCARE Community Board ("CCCB"), and CharterCARE Foundation (the "Foundation"), (collectively "the Entities"), were required to meet certain conditions relative to Prospect's acquisition of the facilities now known as Roger Williams Medical Center (RWMC), Our Lady of Fatima Hospital (OLF), Southern New England Rehabilitation Center, St. Joseph Health Center (SJHC), and other entities.[1] One condition requires Prospect to "enter into an additional agreement outlining the terms of its obligations regarding cooperation with the Attorney General and any expert retained to assist the Attorney General with enforcing compliance with these Conditions." Affiliated Monitors, Inc. ("AMI") was engaged to perform the services of the expert that assist the Attorney General with enforcing compliance with the conditions.

Subsequent to the execution of the Retainer Agreement, Prospect notified the Attorney General that it had sold Elmhurst Extended Care Facility in Providence, Rhode Island. In order to comply with Condition 26 of the HCA Decision that requires the sale proceeds to remain with Prospect for the benefit of the Newco hospitals, Moshe Berman, General Counsel for CharterCARE Health Partners, sent a letter (Attachment A1 to this report) to the Attorney General on December 13, 2016 requesting the following:

> *PCC proposes to:*
>
> - *Add the Sale Proceeds to the Capital Commitment which will result in a total Capital Commitment from PMH in the amount of approximately $60 million to $61 million dollars ("Revised Capital Commitment").*
> - *Extend the time period within which to spend the Revised Capital Commitment by two years, through June 20, 2020.*

The Attorney General approved this request on December 16, 2016; a letter to that effect was sent by Assistant Attorney General, Health Care Advocate, Kathryn Enright (Attachment A2) and a copy was provided to AMI. Attorneys Enright and Berman had a subsequent conversation about the planned sale of the former St. Joseph Hospital property located at 21 Peace Street; on December 28, 2016, Attorney Berman sent a letter to Attorney Enright asking to treat the proceeds of the Peace Street sale in the same manner as the Elmhurst sale (Attachment A3). On June 6, 2018,

[1] The Other Entities are Elmhurst Extended Care Facilities, Inc., Roger Williams Realty Corporation, RWGH Physician's Office Building, Inc., Roger Williams Medical Associates, Inc., Roger Williams PHO, Inc., Elmhurst Health Associates, Inc., Our Lady of Fatima Ancillary Services, Inc., The Center for Health and Human Services, SJH Energy, LLC, and Rosebank Corporation (see the HCA Decision, p. 8).

Attorney Berman sent an email to Rebecca Partington, Assistant Attorney General, regarding a third property transaction: the sale of property on Fruit Hill Avenue in North Providence (Attachment A4).

Attorney Enright was succeeded by Special Assistant Attorney General, Health Care Advocate, Jessica Rider, who discussed terms of an Amendment to the Retainer Agreement regarding the monitorship of Prospect with Moshe Berman and Catherine Keyes, Vice President of Operations, AMI via conference call on November 1, 2018. Attorney Rider sent a proposed Amendment to the Retainer Agreement to Prospect and AMI on March 19, 2019. The Amendment was signed and returned to the Attorney General by Catherine Keyes on behalf of AMI on March 26, 2019. The Amendment was not executed by Attorney Berman before he left his position at Prospect and Attorney Rider then raised the matter with Leslie Prizant, Associate General Counsel, Prospect Medical Holdings. On August 19, 2019, Attorney Prizant proposed by email (Attachment A5) the following change to the language of the Amendment:

> *WHEREAS, PROSPECT requested that the time period for the sale proceeds in the amount of $12,041,117.00 of the aforementioned properties be extended beyond the time period pursuant to Capital Commitment Prospect Medical Holdings, Inc. is obligated to contribute to Prospect CharterCARE, LLC pursuant to Section 2.5(b) of the Asset Purchase Agreement by two years, through June 20, 2020.*

The changes were incorporated into the Amendment to the Retainer Agreement and the revised version was signed and submitted by Catherine Keyes on behalf of AMI on September 6, 2019, by Sam Lee, Chief Executive Officer of Prospect Medical Holdings on September 23, 2020, and by Attorney Partington on behalf of the Attorney General, on September 24, 2019 (Attachment A4).[2]

This is the second report generated for the Attorney General relative to this conversion. *See* R.I. Gen. Laws §23-17.14-28(d)(2).

METHODOLOGY

The Attorney General, Prospect and AMI agreed upon an Extended Scope of Work to guide the monitoring process. The Extended Scope of Work is set forth in Schedule A-1 of the Amendment to the Retainer Agreement by and between the Attorney General, Affiliated Monitors, Inc., Prospect Medical Holdings, Inc. ("PMH"), Prospect East Holdings, Inc. ("Prospect East"),

[2] The request for an extension to spend the Revised Capital Commitment, submitted by Attorney Berman on December 13, 2016 and granted by Attorney Enright on behalf of the Attorney General on December 16, 2016, seemed to be intended to extend the deadline for the full long-term, non-routine capital commitment. However, Attorney Prizant's request to edit the proposed language in the Amended Retainer Agreement – and the language subsequently included in the Amended Retainer Agreement – convey the impression that Prospect wanted only to extend the deadline for expenditure of additional capital earned upon the sale of its Elmhurst and Fruit Hill Avenue properties. It is not possible for AMI to determine whether Prospect has met its spending requirements under the APA and HCA Decision without some consensus about which deadlines pertain.

Prospect East Hospital Advisory Services ("Prospect Advisory"), LLC, and Prospect CharterCARE, LLC. Below is that Extended Scope of Work.

Schedule A-1

1. **Obtain information to confirm that the Transaction is implemented by the parties as outlined in the Initial Application, including, but not limited to, all Exhibits and Supplemental Responses and:**

   (a) obtain annual reports from Prospect CharterCARE, LLC for the Attorney General on the proposed form submitted to the Attorney General concerning the funding of its routine and non-routine capital commitments under the Asset Purchase Agreement and as extended and modified pursuant to the agreement as described in this Amendment to Retainer Agreement, until the Revised Capital Commitment has been satisfied;

   (b) obtain information confirming that the charitable assets that remain with the Heritage Hospitals are used in accordance with donor intent. It is anticipated that monitoring of this condition should be done through reconciliation of the accounts and uses until the Revised Capital Commitment has been met.

2. **For the period of time from the end of the third reporting year through June 20, 2020, obtain and provide the Attorney General with a copy of any notices provided to, or received by, a party under the Asset Purchase Agreement.**

3. **Obtain information as requested by the Attorney General that Prospect is acting in compliance with the Asset Purchase Agreement and the Conditions of this Decision as set forth in this Extended Scope of Work.**

4. **Obtain information to confirm that the proceeds of the sale of the Elmhurst Extended Care Facility and the Fruit Street property remain within Prospect CharterCARE, LLC for the benefit of the operation of the Newco hospitals.**

In discussions held in March and April 2019, Prospect, the Attorney General and AMI agreed that Prospect would provide supporting documentation for claimed expenditures of $50,000 and above, with Prospect estimating that this subset would capture approximately 80 percent of its total claimed expenditures. On April 30, 2019, with the approval of the Attorney General, AMI sent a Request for Information (RFI) to Prospect. On May 13, 2019, Prospect sent AMI documentation of its capital expenditures for the period of September 2016 – April 2019 and its expenditures on practice acquisitions for 2017 – 2018. The specific questions submitted via RFI on April 30, 2019 were not addressed in this submission; it was AMI's understanding that preparation of the financial materials had already been underway for some time by Prospect and that the RFI questions would be addressed separately. AMI did not review the materials in depth until negotiations between the Attorney General and Prospect were complete with regard to the terms of the Amendment to the Retainer Agreement and the Extended Scope of Work.

In October 2019, AMI closely reviewed all of the materials submitted by Prospect and requested (via emails of November 5 and November 11) further information about certain recorded entries, as well as responses to the other areas set forth in the April 30, 2019 RFI (Attachments A7 and A8). On November 13, 2019, a meeting was held at the RWMC facility with the following attendees: Jessica Rider; Leslie Prizant, (via telephone); Jeffrey Liebman, Chief Executive Officer, CharterCARE Health Partners; Dan Ison, Vice President of Financial Operations, CharterCARE Health Partners; David Ragosta, Chief Financial Officer, CharterCARE Health Partners; Catherine Keyes; and Oghenekevwe Odima, Compliance Associate, AMI. In follow-up to that meeting, Prospect CharterCARE submitted additional financial materials on January 15, 2020. AMI and its accounting consultant reviewed the additional materials extensively and raised further questions. Another meeting was held at the RWMC facility on February 13, 2020, attended by Jessica Rider, Leslie Prizant (via telephone), Jeffrey Liebman, Dan Ison, David Ragosta, Catherine Keyes, Oghenekevwe Odima, and Jaclyn Reinhard, CPA (with DiCicco, Gulman & Company, LLP, retained by AMI to assist with this matter). At that meeting, Mr. Ison indicated that Prospect might re-submit figures and documentation relative to its Long-Term Capital Commitment expenditures for 2014 – 2016 in order to reflect the expenses incurred by year, as opposed to its previous practice of submitting documentation only when a Long-Term Capital Commitment project had been completed.

On February 18, 2020, the Attorney General directed Prospect to provide a complete response to the RFI of April 30, 2019 on or before February 21, 2020. On February 21, 2020, Prospect submitted responses to all questions and additional materials, including its capital expenditures for 2014 – 2016.[3]

FINDINGS

Extended Scope of Work – Item 1

Obtain information to confirm that the Transaction is implemented by the parties as outlined in the Initial Application, including, but not limited to, all Exhibits and Supplemental Responses …:

AMI sent the following request to Prospect on April 30, 2019:

Items i – xi below were set forth in the Initial Application[4]. Please provide documentation showing Prospect has complied with these terms for the period of November 2017 – December 2018:

i. *Maintain all essential services for 5 years. The essential services listed in the Asset Purchase Agreement ("APA") are:*

   - *Medical/Surgical Services and Intensive/Coronary Care Unit*

[3] On May 6 and 7, 2020, Prospect sent additional materials to AMI and the Office of the Attorney General; these were not evaluated for the purposes of this report but will be incorporated into the next one.

[4] Attachments in this section of the Report are numbered i – xi to correspond with the questions sent to Prospect on April 30, 2019 (Attachment B1) and reiterated herein.

- *Acute Dialysis Services*
- *Inpatient and Outpatient Rehabilitation Services, including Sub-acute and Skilled Nursing facility*
- *Ambulatory Care Services*
- *Emergency Services*
- *Inpatient and Outpatient Psychiatric/Mental Health/Addiction Medicine Services*
- *Diagnostic Imaging and Interventional/Radiology Services, including diagnostic cardiac catheterization*
- *Laboratory/Pathology*
- *Inpatient and Outpatient Cancer Services including Blood and Marrow*
- *Transplantation/Surgical and Radiation Oncology*
- *Sleep Lab*
- *Wound Care/Hyperbaric Services*
- *Dermatology*
- *Health center services (GYN & pediatric clinic, adult and pediatric dentistry, WIC, immunizations)*
- *Homecare/Hospice services (Note: Previous information indicated that homecare was offered through the CharterCARE Home Health Services. Hospice care was not offered at the hospitals at any time during the monitorship – and was not at the time of the conversion – but arrangements for hospice care were facilitated by hospital social workers.)*

On February 21, 2020, Prospect responded to the above question as follows[5]:

> ***Answer:*** *Yes, Prospect has maintained all essential services for 5 years. See "April 2019_Attachment – 1-i" (or Binder Tab 1) for the Directory of Services offered. Please note that with the sale of Elmhurst, the Skilled Nursing Facility no longer applies.[6] Also note that Hospice services are still facilitated by hospital social workers.*

Prospect submitted a photocopy of its Directory of Services for Winter/Spring 2018 (Attachment B2-i). AMI confirmed that the services included corresponded with those listed on the websites of Our Lady of Fatima Hospital and Roger Williams Medical Center.

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[5] On February 21, 2020 Prospect responded to AMI's April 30, 2019 RFI, as well as two follow-up requests for clarification of certain items (sent via email on November 11, 2019 and February 7, 2020) in one document (Attachment B1-i).

[6] On December 16, 2016, the RI Department of Health approved the sale of Elmhurst Extended Care Facility based on the Change in Effective Control regulatory process.

ii. Transferred Employees will get their base salaries and wages equal to their base salaries and wages as of the closing date. Transferred Employees will retain seniority for purposes of benefits, salaries, and wages.

Prospect submitted an Excel spreadsheet showing all employees on the payroll as of May 2014 (prior to the June 2014 closing date), their status as of November 2017, and again as of December 2018. Employee names were not included.

The list indicated that 1,230 individuals who worked for Prospect in May 2014 were active on the payroll as of December 2018. Of these, the base pay rate had decreased for 41 (3.33%); AMI was not able to determine which of these individuals, if any, were Transferred Employees. One hundred forty-three individuals (11.62%) had "seniority dates" which were later than they had been in May 2014. Again, AMI could not determine which, if any, in this set were Transferred Employees. Therefore, based on the information submitted with regard to salaries/wages and seniority, AMI could not determine whether Prospect complied with the terms of this condition.

iii. Prospect will provide benefits at benefit levels comparable to benefits provided under the Existing Hospitals' plans, benefits including vacation, sick leave, holiday, health insurance, 401K, life insurance, and continued COBRA coverage.

Prospect submitted a copy of its "Employee Benefits Guide 2018" ("2018 Benefits Guide") (Attachment B2-iii(a)) and a summary page pertaining to its 2014 CCHP Benefits (Attachment B2-iii(b)). The 2018 Benefits Guide describes the health insurance, life insurance, and continued COBRA coverage offered to employees in 2018; it does not contain information relating to vacation, sick leave, holidays, or 401K benefits. The 2014 CCCHP Benefits summary lists only the cost to employees of health insurance, dental, vision and legal insurance offered, with no further details about the nature and extent of these benefits. AMI was not able to ascertain from the documents submitted the extent of vacation, sick leave, holiday and 401k benefits offered a) at the time of the conversion or b) in 2018. Neither were we able to determine whether the overall benefit levels (that is, including health, dental, vision and legal coverage) were comparable to those provided in 2014. Based on the information submitted with regard to benefits, AMI could not determine whether Prospect complied with the terms of this condition.

iv. Any Transferred Employee who is terminated without cause within the 12-month period following the closing date will be offered a severance package on terms comparable to the severance package in effect with respect to the Existing Hospitals' employees prior to the closing date.

In response to this question, Prospect submitted a copy of its Human Resources Policy on Reduction in Staff with effective date of 1/1/2014. No additional documents were provided to allow for comparison between the pre- and post-closing severance packages. AMI was therefore not able to determine whether the severance package available to transferred employees whose employment was terminated without cause within the 12-month period post-closing was on comparable terms to the severance package in effect with respect to the Existing Hospitals'

employees pre-closing. Based on the information submitted with regard to terminated employees, AMI could not determine whether Prospect complied with the terms of this condition.

v. *Prospect will continue to provide care through sponsorship and support of community-based health programs, including cooperation with local organizations that sponsor healthcare initiatives to address identified community needs and improve the health status of the elderly, poor and at-risk populations in the community.*

Prospect submitted a list of 56 Community organizations and events it had supported financially and/or partnered with to provide health education and services (Attachment B2-v). Because the list did not include dates of any specific events nor descriptions of any programs, AMI was not able to confirm the information nor determine whether the organizations and events included those intended to identify community needs and improve the health status of the elderly, poor and at-risk populations. Based on the information submitted with regard to sponsorship and support of community-based health programs, AMI could not determine whether Prospect complied with the terms of this condition.

vi. *Continue to support nursing and staff education.*

Prospect submitted copies of training materials and attendance sheets (Attachment B2-vi)[7] to demonstrate compliance with this condition. AMI reviewed the materials and determined that Prospect has continued to support nursing and staff education in compliance with this requirement. The materials indicate that this condition has been met.

vii. *Maintain a Senior Executive Compliance Officer whose responsibilities will include regulatory compliance, organizational compliance and will be responsible for establishing and overseeing an ethics committee to include community board members.*

Prospect identified Timothy Sullivan as the Senior Executive Compliance Officer who has served in this capacity since November 2016 and provided a job description for the position (Attachment B2-vii) which included the qualifications and skills required. AMI viewed Timothy Sullivan's LinkedIn profile, which indicated he that he served as CharterCARE Health Partners Vice President of Compliance and Privacy from November 2016 – January 2020. The materials indicate that this condition has been met.

viii. *Adopt the Existing Hospitals' Charity Care Guidelines and continue to provide all medically necessary services to patients regardless of their ability to pay.*

[7] Prospect submitted course materials and attendance sheets for 33 nursing and staff education programs. The materials are on file with the Attorney General and AMI; a list of all programs (prepared by AMI) is included with this report as Attachment B2-vi.

The question sent in the April 30, 2019 RFI and Prospect's response pertaining to this aspect of the condition follow:

> ***Question:*** *Has Prospexct CharterCARE adopted the Existing Hospitals' Charity Care Guidelines and continued to provide all medically necessary services to patients regardless of their ability to pay?*
>
> ***Answer:*** *Yes, see "April2019_Attachment-1-viii" (or Binder Tab 8) for the guidelines utilized.*

Prospect submitted a copy of the SJHSRI Financial Assistance Policy (Attachment B2-viii(a)) which states that "(i)t is the policy of St. Joseph Health Services of Rhode Island to provide medically necessary/essential services to any person regardless of his/her ability to pay in full or in part for those services provided by the Hospital." This SJHSRI policy was issued on March 9, 2011 and updated yearly until 2018. In addition, Prospect submitted the Free Care Program Guidelines and sample Financial Aid Application Form (undated) for Roger Williams Hospital (Attachment B2-viii(b)). The materials submitted support the assertion that Prospect met this condition with regard to care rendered through the SJHSRI facility. Because the RWH materials are undated, however, it was not possible for AMI to determine whether Prospect complied with the condition as it pertains to care delivered at RWH.

ix. Maintain a ratio of full-time equivalent employees to average occupied beds that is consistent with accepted industry practices.

The question sent in the April 30, 2019 RFI and Prospect's response follow:

> ***Question:*** *Has Prospect CharterCARE maintained a ratio of full-time equivalent employees to average occupied bed that is consistent with accepted industry practices?*
>
> ***Answer:*** *Yes*

Although Prospect answered this question in the affirmative, it did not provide any data regarding its ratio of full-time equivalent employees to average occupied bed nor any comparative industry data. Based on the material submitted, it was not possible for AMI to determine whether Prospect complied with the terms of this condition.

x. Post-conversion, the Existing Hospitals will continue to utilize productivity targets to assist with determining appropriate staffing levels.

Prospect CharterCARE asserted that it continued to utilize productivity targets in determining appropriate staffing levels. Prospect submitted Excel spreadsheets of the Daily Productivity Model for the month of December 2018 for RWMC and SJHS, which AMI reviewed. The models appear to be valid. From these files alone, however, AMI was not able to verify that Prospect continued to utilize productivity targets for the full period of the condition. Based on the material submitted, AMI could not determine whether Prospect complied with the terms of this condition.

xi. *Maintain the Catholic identity of all legacy SJHSRI locations and "ensure that all services at SJHSRI locations are rendered in full compliance with the Ethical and Religious Directives for Catholic Health Care Services, as promulgated by the United States Conference of Catholic Bishops and adopted by the Bishop of the Roman Catholic Diocese of Providence, Rhode Island, as the same may be amended from time to time (the ERDs)." (see APA, Exhibit M)*

The question sent in the April 30, 2019 RFI and Prospect's response follow:

> ***Question:*** *Has the Catholic identity of all legacy SJHSRI locations been maintained and ensure that all services at SJHSRI locations are rendered in full compliance with the Ethical and Religious Directives for Catholic Health Care Services, as promulgated by the United States Conference of Catholic Bishops and adopted by the Bishop of the Roman Catholic Diocese of Providence, Rhode Island, as the same may be amended from time to time (the ERDs)?*
>
> ***Answer:*** *Yes, see "April2019_Attachment-1-xi" (or Binder Tab 10) for supporting documents.*

Prospect submitted a copy of its Priest Compensation Allowances and Benefit Program for the 2017 – 2018 fiscal year (Attachment B2-xi(a)). The first paragraph of the document indicates that the compensation of Priests who work at the SJHSRI locations was updated in December 2015 and again in July 2017. It says:

> *Approved December, 2015 were changes to the Priest Compensation and Benefit Policy. The changes established a new compensation and Benefit Policy. The changes established a new compensation structure with a base of $31,000 plus $250 for each year of ordination. Increase to the base would be determined by using the same percentage adjustment as provided to both lay Employees and Religious. Approved for 7/1/2017 is a 2% increase changing the base from $31,000 to $31,620.*

Prospect also sent a redacted copy of its Priest Salary Structure for the 2017 – 2018 fiscal year with respect to the Catholic Chaplain of SJHS and OLF (Attachment B2-xi(b)). In addition, AMI noted that as of March 2020, the webpage on CharterCARE Health Partners' Governance described the Catholic identity of Our Lady of Fatima Hospital in these terms:

> *Our joint venture company embraces Rogers Williams Medical Center's status as a secular teaching hospital, while Our Lady of Fatima Hospital continues its adherence to the religious and ethical teachings of the Catholic Church as promulgated by the United States Council of Bishops.*
>
> *Both Roger Williams and Fatima maintain separate hospital licenses and each has an advisory board that monitors patient care and quality, credentialing of medical staff members and related responsibilities.*

As noted in the First Report of Compliance by Prospect CharterCARE, CharterCARE Community Board, and CharterCARE Foundation with Conditions of Certification Pertaining to the Acquisition of Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital and Other Entities, dated December 20, 2018 ("the December 20, 2018 Report"), there has been no indication that the SJHSRI locations have deviated from this commitment. The materials submitted support Prospect's assertion that this condition has been met.

Extended Scope of Work – Item 1 (a)

Obtain annual reports from Prospect CharterCARE, LLC for the Attorney General on the proposed form submitted to the Attorney General concerning the funding of its routine and non-routine capital commitments under the Asset Purchase Agreement and as extended and modified pursuant to the agreement as described in this Amendment to Retainer Agreement, until the Revised Capital Commitment has been satisfied.

AMI made the following request from Prospect CharterCARE on April 30, 2019:

Please provide an updated, detailed accounting of the routine and non-routine capital commitments for the period of October 2016 – December 2018. Please provide documentation of commitments greater than or equal to $50,000.[8]

i) Please provide a break-down of routine capital commitments, indicating which matters have already been paid and which are committed via contractual agreement. Provide copies of checks for matters already paid and copies of contracts for matters committed via contractual agreement.

ii) Please provide a list and description of practice acquisitions, indicating which matters have already been paid and which are committed via contractual agreement. Provide copies of checks for matters already paid and copies of contracts for matters committed via contractual agreement. Note: AMI has a complete copy of the standard Asset Purchase Agreement used for the practice acquisitions; therefore, only the sheets with personalized data and signatures for each newly acquired physician practice are needed.

iii) Please provide a breakdown of non-routine capital commitments, indicating which matters have already been paid and which are committed via contractual agreement. Provide copies of checks for matters already paid and copies of contracts for matters committed via contractual agreement.

Overview of Materials Received

On May 13, 2019, Prospect sent documentation to the Attorney General and AMI pertaining to expenditures for the period of October 2016 – April 2019. The documentation included

[8] Attachments from this section of the Report onward are numbered to correspond with the Extended Scope of Work (ESW) questions sent to Prospect on April 30, 2019 (Attachment B1) and reiterated herein.

spreadsheets, copies of checks, invoices, journal entries, equipment schedules, requests to disburse proceeds, and assignment of invoices. AMI reviewed all supporting documents thoroughly and provides its findings for each year below. In addition, a chart summarizing all the submissions and indicating which amounts have been confirmed is included below in the section entitled "Matters for Follow-up."

Preliminarily, AMI determined that Prospect did not distinguish between routine and non-routine capital expenditures in its submission and AMI was, therefore, unable to determine whether Prospect's expenditures were in compliance with the HCA Decision. The issue was raised at the November 2019 and February 2020 meetings held at RWMC, and on February 21, 2020 Prospect submitted a revised General Ledger identifying which expenditures were routine and which were non-routine (Attachment ESW 1(a)(i)(a)).[9] No changes were made pertaining to routine expenditures for 2014 – 2016.

Years 2014 – 2016

In the December 20, 2018 Report, AMI noted that Prospect had commenced many of the Long-Term Capital expenditure projects contained in the HCA Application, while others were at the planning stages. The listed projects represented $35.6 million of Long-Term Capital expenditures; however, documentation for many projects was not provided to AMI because Prospect's accounting method did not record the projects as fiscal entries until they were completed. The renovation of the corridor/central registration area at OLF, with a cost of $629,800, was the only project completed by September 2016 and captured in the December 20, 2018 Report.

After discussions with AMI and Attorney Rider in November 2019 and February 2020, in order to demonstrate its compliance with the terms of the HCA Decision for the current report, Prospect submitted documentation identifying all projects based on the year payments were made. The materials included amended submissions pertaining to Long-Term Capital expenditures for 2014 – 2016. These materials were reviewed by AMI, but there has not been an opportunity for AMI and Prospect to confer about matters requiring clarification. Therefore, the Long-Term Capital expenditures of $5,075,351 which Prospect has attributed to 2014 – 2016 have not been confirmed by AMI. It is AMI's assumption that this amount includes the $629,800 spent on the corridor/central registration area at OLF, but this is one of the matters requiring clarification.

Other Matters

Prospect asserts that its parent company made a capital infusion of $6,000,000 in working capital to fund the operations of the entity shortly after the conversion (Attachment ESW 1(a)(i)(b)). Prospect provided the following explanation of that infusion on February 21, 2020:

> *Section 4.2(c) of the Amended and Restated Limited Liability Agreement of Prospect CharterCare, LLC states in part:*

[9] AMI's review of the material submitted by Prospect indicates that it may be a subset of the full General Ledger, representing only the expenses for Property, Plant and Equipment (PPE).

> *"In the event that, during the period commencing as of the date hereof and continuing for a period of up to three (3) months following the effective date hereof, the Company (including the Company Subsidiaries, for purposes of this Section 4.2(c)) requires cash to fund operations and the Prospect Member determines to provide such cash, then: (x) such amount shall not exceed Ten Million Dollars ($10,000,000); (y) the aggregate amount of cash provided by the Prospect Member (Initial Working Capital Amount) shall be treated as partial satisfaction of the Long-Term Capital Commitment…"*

In accordance with this section 4.2(c)(ii), within 3 months of the effective of the Amended and Restated Limited Liability Agreement, Prospect provided an Initial Working Capital Amount of Six Million Dollars ($6,000,000). It should be noted that the Company and Company subsidiaries did not in the four years following the effective date of the Amended and Restated Limited Liability Agreement of Prospect CharterCare, LLC accrue $6 million in cash above and beyond their collective budgeted operating and capital needs, including Reserves (as such term is defined in the Amended and Restated Liability Agreement of Prospect CharterCare, LLC).

Prospect did not provide any documentation to support this response. Based on the response above, AMI was not able to confirm the capital infusion of $6,000,000 during the first three (3) months following the effective date of the LLC Agreement, claimed as a non-routine expenditure.

Year 2017

Prospect submitted the following summary of its routine and non-routine expenditures for 2017:

2017			
Corp & Type	**Total Debits**	**Total Credits**	**Total Net**
SJH PPE	11,169,112.89	5,784,804.97	5,384,307.92
SJH CIP	2,773,501.54	3,298,632.00	(525,130.48)
CCHP PPE	955,776.53	2,452.89	953,323.64
CCHP CIP	680,587.29	733,686.99	(53,099.70)
BVS PPE	814,142.01	-	814,142.01
RWMC PPE	24,935,722.57	21,096,187.70	3,839,534.87
RWMC CIP	3,139,906.95	5,276,499.29	(2,136,592.34)
CCMA PPE	261,765.24	6,755.37	255,009.87
CCMA CIP	177,140.22	198,832.21	(21,691.99)
Total FY2017	**44,907,655.24**	**36,397,851.44**	**8,509,803.80**

In support of this summary, Prospect submitted spreadsheets for each of the entities identified in the table. The expenditures in these spreadsheets covered the period of October 2016 – September

2017 (Prospect FY2017). The following number of line items were included in the spreadsheet for the respective entities:

SJH PPE	–	184
SJH CIP	–	186
CCHP PPE	–	17
CCHP CIP	–	27
BVS PPE	–	3
RWMC PPE	–	160
RWMC CIP	–	221
CCMA PPE	–	14
CCMA CIP	–	50

Long-Term Capital (Non-Routine) Expenditures

On February 21, 2020, Prospect included a Summary Sheet (Attachment ESW 1(a)(i)(a)) with its General Ledger materials that designated $6,995,265.54 as its non-routine expenditures for FY2017 (non-routine expenditures are also called Splash expenditures by Prospect). Of this amount, supporting documentation was provided to AMI for $6,826,583.88, representing 98% of the Long-Term Capital expenditures claimed by Prospect for FY2017. The documentation included checks, invoices, equipment schedules, journal entries, assignment of invoices, delivery and acceptance certificates, requests to disburse proceeds, and invoice records for all expenditures equal to or greater than $50,000. The projects covered by these expenditures include RWMC Upgrade of HVAC System, RWMC Pharmacy Extension, RWMC Pharmacy USP 800 Alterations, RWMC Main Entrance, RWMC Emergency Department expansion, and purchase of Omnicell Equipment.

AMI reviewed the documentation and determined that appropriate documents were provided in most cases. In three instances, AMI had additional questions which were answered in Prospect's subsequent submission. Projects that were financed through leaseback arrangements were appropriately supported by equipment schedules (Attachment ESW 1(a)(i)(c)).

One set of 12 expenditures supported by equipment schedules did not include evidence of payment by check or wire transfer. Of the 12 line-items, only one had an e-mail confirming wire transfer. On January 15, 2020, in response to AMI's November 14, 2019 email, Prospect explained these entries as follows:

> *At the beginning of the Splash capital construction projects, invoices were paid directly by Prospect CharterCARE (PCC RWMC or PCC SJHSRI) with the understanding that the PCC entities would be reimbursed by PMH. Paid invoices were accumulated and submitted to PMH's financing company, First American (a City National Bank Company). First American would prepare the financing document (sale/leaseback agreement) with PMH as the named lessee on the*

agreements. Upon approval and execution of the agreement, PCC RWMC and/or PCC SJHSRI would receive reimbursement funds directly from First American. The offsetting accounting entry would be an entity Member Contribution from PMH. PMH would record the lease liability on its books with an offsetting accounting entry to investments (in PCC). PMH would be responsible for payments on this financing.

Subsequent to this initial period, Splash invoices were not first paid by PCC RWMC or PCC SJHSRI but instead sent directly to First American for payment. First American would prepare the financing in the same way as above, but name the individual vendors as recipients of invoice payments. Upon execution of the financing: 1) PCC RWMC and/or PCC SJHSRI would record the Splash capital project additions (charging Construction In Progress capital accounts) with the same offsetting accounting entry to equity Member Contribution from PMH 2) PMH would record these financing transactions in the same manner above, and 3) vendors would receive direct payments from First American.

Prospect provided the signed copies of most of the equipment schedules and, in some instances, the invoices from the vendors as well. The equipment schedule with respect to a line item for $120,437.30, described as "171 BOOK 880012-030 CL," was not signed, but on February 21, 2020, Prospect submitted a signed copy. AMI observed a slight difference between the figure on the spreadsheet/the unsigned equipment schedule and the signed equipment schedule. Specifically, the unsigned spreadsheet listed the expense as $120,437.30 whereas the signed equipment schedule listed it as $120,428.44 (see Attachment ESW 1(a)(i)(c), Equipment Schedule 880012-030 Redacted).

Supplemental documentation for two payments to Honeywell International Inc. in the amounts of $36,000 and $15,000 respectively indicated that both payments were actually made in FY2018. In fact, one of the invoices was issued in 2018. AMI ascertained, however, that there was no double counting of these sums in the 2018 expenditures and accepted these as recorded expenses for FY2017.

Based on the documentation submitted, Prospect will have demonstrated Long-Term Capital expenditures for FY2017 of **$6,995,257.00**.

Routine Expenditures

In its January 15, 2020 submission, Prospect indicated that all line items in the 2017 spreadsheet not designated as "Splash" were considered routine expenditures. In its February 21, 2020 submission, Prospect claimed $1,514,538.26 as its FY2017 routine expenditure. This figure is at variance with the amount contained in the summary sheet attached to the May 13, 2019 submission ($7,145,868). This difference may be related to the fact that Prospect's fiscal year runs from October – September, whereas the "monitoring" year runs from June 20 – June 19. It is possible that if the expenditures were aligned with the monitoring year, there would be a different result.

AMI notes, however, that neither figure indicates that Prospect satisfied the requirement to spend $10,000,000 on routine expenditures.

Supporting documentation was provided to AMI for claimed expenditures of $50,000 and above. AMI's initial review of the materials identified 31-line items for which no documentation was provided. In its February 21, 2020 submission, Prospect provided satisfactory explanations and documents in response to AMI's observations. The documentation provided consisted of invoices, checks and journal entries.

Prospect has demonstrated routine expenditures of **$1,514,538.26** for FY2017. AMI notes, however, that the materials submitted do not indicate that Prospect satisfied the requirement to spend $10 million annually on routine expenditures.

Year 2018

Prospect submitted the following summary as its routine and non-routine capital expenditures for 2018:

2018			
Corp & Type	**Total Debits**	**Total Credits**	**Total Net**
SJH PPE	3,871,025.27	141,636.89	3,729,388.38
SJH CIP	6,196,328.04	2,212,930.32	3,983,397.72
CCHP PPE	1,397,122.86	1,096,106.05	301,016.81
CCHP CIP	362,636.93	-	362,636.93
BVS PPE	178,912.34	5,458.60	173,453.74
CCH PPE	21,527.96	-	21,527.96
RWMC PPE	5,356,677.10	929,422.49	4,427,254.61
RWMC CIP	9,546,380.68	3,536,887.15	6,009,493.53
CCMA PPE	253,102.28	-	253,102.28
CCMA CIP	42,303.85	196,471.67	(154,167.82)
Total FY2018	**27,226,017.31**	**8,118,913.17**	**19,107,104.14**

In support of the figures state above, Prospect submitted spreadsheets for each of the entities identified in the table. (Attachment ESW 1(a)(i)(a)). The expenditures in these spreadsheets covered the period of October 2017 – September 2018 (Prospect FY2018). AMI tallied the figures in the spreadsheets and obtained the same totals as those listed in the summary table. The following number of line items were submitted for the respective entities:

SJH PPE – 128
SJH CIP – 384
CCHP PPE – 48
CCHP CIP – 21
BVS PPE – 10
RWMC PPE – 182

RWMC CIP – 227
CCMA PPE – 14
CCMA CIP – 23

Long-Term Capital (Non-Routine) Expenditures

Prospect asserted Long-Term Capital expenditures of $10,421,838.08 in FY2018. Prospect submitted supporting documentation, in the form of checks, equipment schedules and invoices, for expenditures of $50,000 and above. AMI received supporting documentation for $8,603,976.78, representing 82% of Prospect's claimed total for non-routine expenditures in FY2018.

AMI found a problem with the supporting documentation for two line items:

$1,300,772.52 described as "80 REC SPLASH CAP DIR PAY FROM FA," and
$798,486.00 described as "18 CORRECT SEPT SPLASH DIRECT PAY."

For these two line items, the total amount of the corresponding invoices covered by the relevant equipment schedule (880012-038) was only $328,464.62, leaving a balance of $1,770,793.9 that was not supported by documentation. This discrepancy represents 17% of Prospect's Long-Term Capital expenditure in this period.

Prospect provided satisfactory responses to the issues raised in AMI's November 11, 2019 email pertaining to FY2018 Long-Term Capital expenditures. AMI determined that sufficient documentation was provided for the remaining line items.

The Long-Term Capital expenditures during this period included SJHC Emergency Department Renovation and Upgrade, OLF HVAC System, SJHC Pharmacy USP Alterations, RWMC Main Entrance, RWMC Emergency Department Expansion, RWMC Curtain Wall Replacement, and RWMC Pharmacy Expansion.

If the outstanding matters described above are resolved satisfactorily, Prospect will have demonstrated Long-Term Capital expenditures of **$10,421,838.08** for FY2018. Based on the documentation Prospect has provided to date, AMI has confirmed **$8,651,044.18** of Long-Term Capital expenditures for FY2018.

Routine Expenditures

In its January 15, 2020 submission, Prospect indicated that all line items not designated as "Splash" are considered routine expenditures. In its February 21, 2020 submission, Prospect claimed $8,685,266.06 in FY2018 routine expenditures. Prospect provided supporting documentation, in the form of checks and invoices, for expenditures of $50,000 and above. At this threshold, the supporting documentation was provided for expenditures totaling $5,550,470.06, representing 64% of Prospect's claimed routine expenditures for this period.

AMI reviewed all documents and determined that Prospect provided sufficient documentation to support most of the routine expenditures claimed for FY2018. AMI found that a $73,038.53 payment to Stryker Instrument/Sales was not sufficiently supported by documentation. On

February 21, 2020, in response to AMI's query about this expenditure, Prospect explained it was a purchase order accrual, and submitted an invoice which totaled $89,228.53 net of taxes, but did not provide a check or wire transfer indicating when this payment was made.

If the outstanding matter described above is resolved satisfactorily, Prospect will have demonstrated routine expenditures of **$8,685,266.06** for FY2018. Based on the documentation Prospect has provided to date, AMI has confirmed **$8,612,227.53** of routine expenses for FY2018. AMI notes, however, that the materials submitted do not indicate that Prospect satisfied the requirement to spend $10 million annually on routine expenditures.

Year 2019

Prospect submitted the following summary of its 2019 routine[10] and non-routine expenditures:

Corp & Type	Total Debits	Total Credits	Total Net
SJH PPE	892,776.20	33,157.46	859,618.74
SJH CIP	2,800,058.93	13,357.02	2,786,701.91
CCHP PPE	2,071.35	-	2,071.35
CCHP CIP	5,617.50	155,250.00	(149,632.50)
BVS PPE	37,428.38	19,007.61	18,420.77
RWMC PPE	1,351,556.89	104,592.25	1,246,964.64
RWMC CIP	5,759,535.95	112,562.09	5,646,973.86
CCMA PPE	17,081.33	3,493.55	13,587.78
CCMA CIP	179,053.10	-	179,053.10
Total FY2018	**11,045,179.63**	**441,419.98**	**10,603,759.65**

In support of the figures state above, Prospect submitted spreadsheets for each of the entities identified in the table. (Attachment ESW 1(a)(i)(a)). The expenditures in these spreadsheets covered the period of October 2018 – September 2019 (Prospect FY2019). AMI tallied the figures in the spreadsheets and obtained the same totals as those listed in the summary table. The following number of line items were submitted for the respective entities:

SJH PPE – 47
SJH CIP – 113
CCHP PPE – 1
CCHP CIP – 2
BVS PPE – 8
RWMC PPE – 57
RWMC CIP – 154
CCMA PPE – 6

[10] There was no indication that Prospect intended to, or received approval to, extend its requirement to spend $10 million per year on routine expenditures; therefore AMI did not address this aspect of Prospect's submission.

CCMA CIP – 25

The spreadsheet contains Prospect's non-routine and routine expenditures for period of October 2018 – April 2019.

Long-Term Capital (Non-Routine) Expenditures

Prospect identified 159 line items totaling $7,549,346.15 in Long-Term (non-routine) Capital expenditures for this period of FY2019. As for the previous periods, Prospect submitted invoices, supporting documentation in the form of checks, journal entries, leases and equipment schedules for expenditures of $50,000 and above. The line items for which documents were provided totaled $6,436,097.24, representing 85% of Prospect's claimed 2019 Long-Term Capital expenditures.

AMI reviewed the spreadsheets and supporting documents prior to the November 2019 meeting and had some follow-up questions about certain entries, which were noted in the email of November 11, 2019. Prospect provided sufficient explanations and documents in response to all issues raised regarding its 2019 non-routine expenditures. AMI found that sufficient documentation was provided to support all listed expenditures.

Some of the projects executed during this period included SJHC Emergency Department Renovation and Upgrade, OLF HVAC System, SJHC Pharmacy USP Alterations, RWMC Emergency Department Expansion, RWMC Curtain Wall Replacement, and RWMC HVAC system, RWMC Pharmacy Expansion, and RWH Pharmacy USP 800 Alteration.

Based on the documentation Prospect has provided, AMI has confirmed **$7,549,346.15** of Long-Term Capital expenditures for FY2019.

Long-Term Capital Expenditures – Practice Acquisitions

AMI indicated in its December 20, 2018 Report that Prospect had spent $4,491,526 on practice acquisitions for 2015 ($4,117,749) and 2016 ($373,777). Prospect made the following submission with regards to its Practice Acquisitions for 2017 – 2018.

Physicians A, B, C, D, E: **$2,056,000**

Prospect provided appropriate documentation to support these acquisitions. The unredacted physician contracts and checks were provided to AMI but are not included in this report, as these documents were deemed confidential pursuant to R.I. Gen Laws § 23-17.14-32 by the Attorney General. AMI determined that the total cumulative practice acquisition expenditure for 2015 – 2018 is **$6,547,526.00**, which was attributed to Prospect's Long-Term Capital Commitment requirement under the HCA Decision.

In its May 13, 2019 submission, Prospect classified $3,277,526 of the practice acquisitions as routine expenditures. AMI asked Prospect to explain the rationale for such classification in light of the fact that all other expenditures relating to Business Development were attributed to Long-Term Capital expenditures. In its February 21, 2020 letter, Prospect stated:

Shortly after the joint venture transaction involving CharterCARE entities, Prospect CharterCare, LLC and its affiliates entered into a transaction to purchase two urgent care centers with associated physician practices in order to expand service areas of Roger Williams Medical Center and Our Lady of Fatima hospital. These were the only acquisitions that involved the purchase of urgent care centers as opposed to individual or group physician practices. Given the size of the transaction and purchase of healthcare facilities (i.e. urgent care centers), it was deemed appropriate to include such purchase in Long-Term Capital commitment of Prospect. None of the other practice acquisitions involved the acquisition of urgent care centers.

In its May 13, 2019 submission, Prospect claimed these amounts associated with its acquired practices as Long-Term Capital expenditures:

Radiation Therapy Joint Venture	$ 367,000
Black Valley Surgicare	$1,567,000
University Medical Group	$7,451,602
Total:	**$7,974,000**

It was not possible for AMI to evaluate the categorization of these practice expenses without further information.

Practice Acquisition Losses

In its May 13, 2019 submission, Prospect provided a summary sheet attributing $14,580,133 to Acquired Practice Losses (See Attachment ESW 1(a)(i)(b)). AMI requested documentation to support these losses. On January 15, 2020, Prospect submitted a revised figure of $14,411,243 as its Physician Acquisition Practice Losses for 2015 – 2018. Prospect also provided Excel spreadsheets detailing the incurred losses for its physician practices. In addition, on February 21, 2020, Prospect submitted its audited Consolidated Financial Statements for 2017 and 2018 (Attachment ESW 1(a)(ii)(a)) as a means of further validating its data.

Prospect stated that the acquired physician practices incurred the following cumulative losses:

2015:	$1,961,763
2016:	$5,917,889
2017:	$4,444,987
2018:	$2,086,604
Total:	**$14,411,243**

AMI tallied the figures in the Excel spreadsheets and confirmed they combined to the stated totals. However, there were no details pertaining to the 2017 incurred loss of $269,769 by Apple Valley Treatment Center.[11]

Prospect classified these Acquired Practice Losses as Long-Term Capital expenditures. The Attorney General's February 18, 2020 letter to Prospect requested an "explanation and interpretation for attributing acquisition losses to the Long-Term Capital Commitment requirement identified in Section 2.5(b) of the Asset Purchase Agreement." On February 21, 2020, Prospect responded as follows:

> *Section 2.5(b) of the APA states that the Long-Term Capital Commitment is to be used for, among other things, development and implementation of physician engagement strategies. Prior to the closing of the joint venture transaction, CharterCARE Health Partners could not effectively engage in physician development or engagement activities because of anticipated losses ensuing from practice acquisitions. Prospect under the APA had an obligation to pursue physician development and implementation activities. Prospect entered into these transactions with the full intention to ultimately support the losses that the joint venture would incur from these practice losses.*

The Long-Term Capital Commitment requirement falls upon the corporate parent company, of which CharterCARE Health Partners is a subsidiary. Therefore, in order for Prospect to categorize these expenses as Long-Term Capital Commitments, it must show that its parent company bore these costs. To that end, Prospect explained that the parent company had written off its two percent management fee for five years to offset the practice losses. Prospect did not provide any documentation in support of this assertion. However, AMI found reference to a large, non-cash contribution by the parent company on page 30 of the Consolidated Financial Statements:

> *In May 2019, Prospect East, which owns 85% of the Company, made a non-cash capital contribution in the amount of approximately $24.7 million, which consisted of converting unpaid management fees due to PEHAS of approximately $20.0 million and approximately $4.7 million of unpaid invoices that Prospect paid on behalf of the Company at April 30, 2019, into equity.*

While the audited Consolidated Financial Statement is consistent with Prospect's assertion, it does not fully address all the questions which arise from this claimed expenditure. Based on the information submitted, AMI could not confirm the expenditure by the parent company of $14,411,243 which Prospect claims as a Long-Term Capital expenditure in the category of Practice Acquisitions.

[11] Apple Valley Treatment Center of Smithfield, RI was acquired in 2015.

Extended Scope of Work – Item 1(b)

Obtain information confirming that the charitable assets that remain with the Heritage Hospitals are used in accordance with donor intent. It is anticipated that monitoring of this condition should be done through reconciliation of the accounts and uses until the Revised Capital Commitment has been met.

On April 30, 2019, AMI made the following request to Prospect:

The Cy Pres Order called for "dedicated funds in the aggregate amount of $300,349.75 . . . to enhance surgical oncology physician and fellow training and education over and above the routine budgeted costs of necessary academic and research programs at RWMC to the extent that RWH is satisfied that such expenditures provide a community benefit." It also granted cy pres approval for RWH to use "[c]ontinuing medical education funds in the amount of $26,310.29 to support continuing medical education for the medical staff at RWMC over and above the routine budgeted cost of necessary continuing medical education at RWMC to the extent that RWH is satisfied that such expenditure provides a community benefit."

i) Please provide:

- *Information as to whether Prospect CharterCARE requested funds from the CCCB to enhance surgical oncology physician and fellow training and education for the period of November 2017 – December 2018;*
- *If applicable, whether such requests were granted; and*
  - *If requests were granted, please provide details of the initiatives, including but not limited to a copy of the fund requests and any other correspondence with the CCCB pertaining to the applications; copies of the relevant check(s) issued by CCCB to the RWMC for the funded initiatives; and copies of any reports issued to CCCB by RWMC or the grant applicants pertaining to the effectiveness of the grants.*

In response to the above question, Prospect stated that it did not request any funds to enhance Surgical Oncology or continuing medical education. AMI notes that Prospect may use the funds for this purpose, but is not required to do so in any given period. Therefore, the response was satisfactory.

ii) Please provide:

- *Information as to whether Prospect CharterCARE requested funds from the CCCB to support continuing medical education (CME) for the medical staff at RWMC for the period of November 2017 – December 2018;*
- *If applicable, whether such requests were granted;*
- *If requests were granted, please provide details of the CME programs, including but not limited to a copy of the fund requests and any other correspondence with the CCCB pertaining to the applications; copies of the relevant check(s) issued by CCCB to the RWMC or to other Prospect entities relative to the funded courses; and copies of any*

attendance lists or other documentation that indicates the programs were presented as planned.

Prospect's response to this question was, "Not Applicable." AMI was not able to determine whether Prospect is asserting that this fund is not available/ exhausted or that the entity simply did not request any funds for the purpose of supporting continuing medical education for the medical staff "at RWMC over and above the routine budgeted cost of necessary continuing medical education at RWMC to the extent that RWH is satisfied that such expenditure provides a community benefit." Based on the information submitted, AMI was unable to determine whether Prospect satisfied the condition as it pertained to continuing medical education for staff at RWMC for the period of November 2017 – December 2018.

Extended Scope of Work – Item 2

For the period of time from the end of the third reporting year through June 20, 2020, obtain and provide the Attorney General with a copy of any notices provided to, or received by, a party under the Asset Purchase Agreement.

AMI posed the following request to Prospect on April 30, 2019:

Please provide a copy of any notices out of the ordinary course provided to or received by a party under the Asset Purchase Agreement in the period from November 2017 – March 2019.

Prospect's response to this request was:

Answer: *Copies of notices out of the ordinary course provided to or received by a party under the Asset Purchase Agreement*

It appears that the remainder of the reply was cut off and AMI was, therefore, unable to determine whether Prospect satisfied the terms of this condition.

Extended Scope of Work – Item 3

Obtain information as requested by the Attorney General that Prospect is acting in compliance with the Asset Purchase Agreement and the Conditions of this Decision as set forth in this Extended Scope of Work.

On April 30, 2019, AMI posed the following request to Prospect:

In correspondence dated December 19, 2016 to Assistant Attorney General Kathryn Enright, Prospect CharterCARE had indicated that the Oldco entity's 15% ownership in Prospect CharterCARE has not been diluted. Please confirm if there is any development in this regard.

Prospect stated its February 21, 2020 letter that there is no change in Oldco entity's 15% ownership in Prospect CharterCARE.

Extended Scope of Work – Item 4

Obtain information to confirm that the proceeds of the sale of the Elmhurst Extended Care Facility and the Fruit Street property[12] remain within Prospect CharterCARE, LLC of the benefit of the operation of the Newco hospitals.

AMI posed the following request to Prospect on April 30, 2019:

Please provide documentation of the sale of the Fruit Street property and the Elmhurst Extended Care Facility. Include evidence of the sale prices, taxes and fees for each, as well as a clear explanation of the net proceeds for each property.

Consider sharing documentation of Prospect's plans for use of these sale proceeds, which may assist in demonstrating Prospect's compliance with this Item.

Prospect stated that the total sale proceeds for the Fruit Hill Avenue property were $434,337.41. The property consists of a building and subdivided land. The net proceeds from the sale of the building were $207,404.41 and net proceeds from sale of the subdivided land were $226,933. Prospect submitted the Settlement statements for the building and the subdivided land (Attachment ESW 4(a)). In addition, transactional expenses with respect to the subdivided land were supported with invoices. However, no documents were provided for the transactional costs associated with the building sale.

With respect to the Elmhurst property, on January 15, 2020 Prospect claimed $12,041,107 as the total net proceeds. In addition, Prospect submitted a breakdown of the transaction expenditures and the Settlement Statement signed by both parties (Attachment ESW 4(b)). AMI reviewed the documents and sought further clarification with regard to the leaseback agreement and the legal expenses. At the meeting of February 13, 2020, AMI raised questions about the particulars of the transactions, and the Attorney General's letter of February 18, 2020 also asked for more information. In response, on February 21, 2020 Prospect explained:

> *As a result of arms-length-negotiations between unrelated parties, the assets of EEC was sold to a third party. As a part of the negotiations of the transaction, the seller engaged the services of a law firm to negotiate and draft definitive documents. The legal fees are directly related to the transaction.*
>
> *Also, as part of the transaction, we agreed to lease excess space on the property purchased by the third party for 10 years for Prospect CharterCare LLC's overall operations in Rhode Island. The rent includes payment to the purchaser for deferred maintenance on the premises which would ordinarily reduce the purchase price of the assets. As an accommodation, instead of reducing the purchase price at the time [of the] sale, purchaser agreed to allow seller to pay for such deferred maintenance over time.*

[12] The address of the property discussed herein is 577 Fruit Hill Avenue, North Providence, RI.

The Purchase Agreement for the Peace Street property was also provided (Attachment ESW 4(c)). The total sale proceeds for this property were $100,000.

Prospect asserts that the total proceeds for the sale of Fruit Hill, Elmhurst and Peace Street properties would be calculated as **$12,575,444.41**. However, AMI does not have enough information to confirm the accuracy of the asserted sales proceeds.

MATTERS FOR FOLLOW-UP

Additional information is needed in order for AMI to determine whether Prospect has fully complied with the HCA Decision. In particular, responses relative to these conditions should be supplemented:

- *Transferred Employees will get their base salaries and wages equal to their base salaries and wages as of the closing date. Transferred Employees will retain seniority for purposes of benefits, salaries, and wages.*

- *Prospect will provide benefits at benefit levels comparable to benefits provided under the Existing Hospitals' plans, benefits including vacation, sick leave, holiday, health insurance, 401K, life insurance, and continued COBRA coverage.*

- *Any Transferred Employee who is terminated without cause within the 12-month period following the closing date will be offered a severance package on terms comparable to the severance package in effect with respect to the Existing Hospitals' employees prior to the closing date.*

- *Prospect will continue to provide care through sponsorship and support of community-based health programs, including cooperation with local organizations that sponsor healthcare initiatives to address identified community needs and improve the health status of the elderly, poor and at-risk populations in the community.*

- *Adopt the Existing Hospitals' Charity Care Guidelines and continue to provide all medically necessary services to patients regardless of their ability to pay.*

- *Maintain a ratio of full-time equivalent employees to average occupied beds that is consistent with accepted industry practices.*

- *Post-conversion, the Existing Hospitals will continue to utilize productivity targets to assist with determining appropriate staffing levels.*

Supplemental information and documentation are also needed with regard to Prospect's Long-Term Capital and Routine expenditures.

- The question of what was intended when Prospect asked for an extension to spend the Revised Capital Commitment bears on the issue of timely compliance and should therefore be resolved. Even if all materials submitted pertaining to routine expenditures are fully

supported, they do not demonstrate that Prospect spent $10 million per year in FY2016 – 2018. It is possible that Prospect has taken a narrower view of what expenditures qualify under this condition than the HCA Decision intended. This matter too should be resolved.

- Difficulties pertaining to the submissions are described above, leading to AMI's determination that many of the figures provided could not be confirmed. The tables below summarize AMI's findings to date.

Long-Term Capital Expenditures (Projects)

YEAR	SUBMITTED FIGURES	CONFIRMED FIGURES
2014 – 2016	$ 5,075,351.01	~$650,000.00
2017	$ 6,995,265.54	$ 6,995,256.68
2018	$10,421,838.08	$ 8,651,044.18
2019	$ 7,549,346.15	$ 7,549,346.15
Total	**$30,041,800.78**	**$23,195,647.01**

Long-Term Capital (Other Expenditures)

EXPENDITURES	SUBMITTED FIGURES	CONFIRMED FIGURES
Practice Acquisitions 2015 – 2018	$ 6,547,526.00	$6,547,526.00
Capital Infusion	$ 6,000,000.00	-
Practice Losses 2015 – 2018	$14,411,243.00	-
Radiation Therapy Joint Venture	$ 367,000.00	-
Black Valley Surgicare	$ 1,567,000.00	-
University Medical Group	$ 7,451,602.00	-
Total	**$36,344,371.00**	**$6,547,526.00**

Routine Expenditures

YEAR	SUBMITTED FIGURES	CONFIRMED FIGURES
2014 – 2016	$24,513,737.00	$24,513,737.00
2017	$ 1,514,538.26	$ 1,514,538.26
2018	$ 8,685,266.06	$ 8,612,227.53
Total	**$37,767,954.82**	**$37,694,916.29**

With regard to the Extended Scope of Work items, additional information is needed on:

- Permitted use of charitable asset funds for continuing education programs;
- Reporting of notices provided to, or received by, a party under the Asset Purchase Agreement; and
- The sale of the Elmhurst, Peace Street and Fruit Hill Avenue properties.

CONCLUSION

AMI found that, while the individual Prospect employees we spoke with were pleasant and willing to help, the entity did not seem to be focused on collecting and organizing the information necessary to demonstrate its compliance with the conditions set forth in the HCA Decision until pressed by the Attorney General. We noticed a steep drop in reporting activity once Moshe Berman left as General Counsel for CharterCARE Health Partners; it appears that the reporting role was not assigned to someone with both the local knowledge and the corporate leverage to pull together the materials needed.

AMI was not able determine whether Prospect complied with several conditions; we will follow up with a request for clarification in all of these areas so that the final report of Prospect's compliance activities through June 20, 2020 will accurately reflect the extent of the investment Prospect has made in its facilities and services to the community.

Respectfully submitted,

Donald K. Stern
Managing Director of Corporate Monitoring
& Consulting Services

Catherine Keyes
Vice President of Operations

Exhibit 19

PROSPECT MEDICAL HOLDINGS, INC.

Consolidated Financial Statements

As of and for the Years Ended
September 30, 2019 and 2018

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 Medical Holdings, Inc.

Contents

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

Board of Directors
Prospect Medical Holdings, Inc.
Los Angeles, California

We have audited the accompanying consolidated financial statements of Prospect Medical Holdings, Inc. (the "Company"), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations, statements of comprehensive loss, statements of stockholder's deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prospect Medical Holdings, Inc. and its subsidiaries as of September 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 20, 2019

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 52,091	$ 7,694
Cash held in escrow	70,000	-
Restricted cash	1,485	1,742
Restricted investments	29,540	23,779
Patient accounts receivable, net of allowance for doubtful accounts of $165,719 and $151,279 at September 30, 2019 and 2018, respectively	306,587	317,412
Due from government payers	20,270	21,409
Other receivables, prepaid expenses and other current assets	118,000	117,026
Income tax receivable	-	2,737
Inventories	34,229	32,624
Hospital fee program receivable	167,530	211,454
Current assets held for sale	37,277	60,990
Total current assets	837,009	796,867
Property, improvements and equipment, net	538,471	513,690
Deferred income taxes, net	823	1,975
Goodwill	302,377	301,988
Intangible assets, net	25,545	31,822
Other assets	118,022	56,922
Long term assets held for sale	44,120	115,369
Total assets	$ 1,866,367	$ 1,818,633

See accompanying notes to the consolidated financial statements.

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	2019	2018
Liabilities and Stockholder's Deficit		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	$ 72,508	$ 62,887
Accounts payable and other accrued liabilities	264,252	298,996
Accrued salaries, wages and benefits	179,997	167,705
Hospital fee program liability	24,362	65,966
Due to government payers	28,606	29,137
Income taxes payable	7,395	-
Revolving line of credit, net	70,000	207,645
Current portion of capital leases	10,238	12,933
Current portion of long-term debt	18,983	18,429
Current portion of MPT liabilities	43,145	-
Other current liabilities	25,249	27,831
Current liabilities held for sale	33,939	42,224
Total current liabilities	778,674	933,753
Long-term debt, net of current portion	187,367	1,098,441
Malpractice reserves	133,300	73,532
Capital leases, net of current portion	30,372	29,230
Asset retirement obligations	5,602	6,179
Other long-term liabilities	48,706	32,949
Pension obligations	302,372	254,121
MPT liabilities, net of current portion	1,338,040	-
Long term liabilities held for sale	11,994	12,777
Total liabilities	2,836,427	2,440,982
Commitments and contingencies		
Stockholder's deficit:		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding at September 30, 2019 and 2018	1	1
Additional paid-in capital	64,961	23,961
Accumulated other comprehensive (loss) income	(23,236)	21,303
Accumulated deficit	(1,019,073)	(676,930)
Total stockholder's deficit attributable to Prospect Medical Holdings, Inc.	(977,347)	(631,665)
Non-controlling interests	7,287	9,316
Total stockholder's deficit	(970,060)	(622,349)
Total liabilities and stockholder's deficit	$ 1,866,367	$ 1,818,633

See accompanying notes to the consolidated financial statements.

Prospect Medical Holdings, Inc.

Consolidated Statements of Operations
(in thousands)

For the Years Ended September 30,	2019	2018
Revenues:		
Net Hospital Segment patient services revenues	$ 2,487,156	$ 2,576,844
Provision for bad debts	(98,306)	(100,026)
Net Hospital segment patient services revenues less provision for bad debts	2,388,850	2,476,818
Other non-patient Hospital revenues	49,377	45,828
Net Hospital Segment revenues	2,438,227	2,522,646
Medical Group revenues	353,954	334,408
Global Risk Management revenues	49,696	33,863
Corporate revenues	7,321	2,971
Total net revenues	2,849,198	2,893,888
Operating Expenses:		
Hospital operating expenses	1,966,380	2,029,219
Medical Group cost of revenues	259,631	267,376
Global Risk Management cost of revenues	33,444	20,430
General and administrative	501,586	486,543
Depreciation and amortization	92,011	85,051
Total operating expenses	2,853,052	2,888,619
Operating income from unconsolidated joint ventures	5,889	2,599
Operating income	2,035	7,868
Other expense:		
Interest expense and amortization of deferred financing costs, net	127,835	100,190
Loss on early extinguishment of debt	30,052	18,422
Goodwill impairment	-	14,228
Other expense, net	2,858	2,231
Total other expense, net	160,745	135,071
Loss before income taxes	(158,710)	(127,203)
Income tax provision	16,455	62,786
Net loss from continuing operations	(175,165)	(189,989)
Loss from discontinued operations:		
Loss from discontinued operations	(141,539)	(59,914)
Income tax benefit	18,234	1,289
Loss on discontinued operations, net of taxes	(123,305)	(58,625)
Loss before allocation to non-controlling interests	(298,470)	(248,614)
Net loss attributable to non-controlling interests	(734)	(4,449)
Net loss attributable to Prospect Medical Holdings, Inc.	$ (297,736)	$ (244,165)

See accompanying notes to the consolidated financial statements.

Prospect Medical Holdings, Inc.

Consolidated Statements of Comprehensive Loss
(in thousands)

For the Years Ended September 30,	2019	2018
Net loss attributable to Prospect Medical Holdings, Inc.	**$ (297,736)**	$ (244,165)
Other comprehensive (expense) income, net of tax:		
Pension obligation and other post-retirement benefits adjustment (net of $251 and $6,833 tax)	**(45,796)**	12,995
Debt and equity securities, unrealized gain	**1,257**	160
Total other comprehensive (loss) income, net of tax	**(44,539)**	13,155
Total comprehensive loss	**$ (342,275)**	$ (231,010)

See accompanying notes to the consolidated financial statements.

Prospect Medical Holdings, Inc.

Consolidated Statements of Stockholder's Deficit
(in thousands, except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Prospect Medical Holdings, Inc. Stockholder's (Deficit) Equity	Non-controlling Interests	Total Stockholder's (Deficit) Equity
Balance at October 1, 2017	100	$ 1	$ 22,398	$ 8,148	$ 24,165	$ 54,712	$ 12,604	$ 67,316
Options exercised	-	-	853	-	-	853	-	853
Stock-based compensation	-	-	710	-	-	710	-	710
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	1,161	1,161
Net loss	-	-	-	-	(244,165)	(244,165)	(4,449)	(248,614)
Dividend paid to stockholder	-	-	-	-	(456,930)	(456,930)	-	(456,930)
Other comprehensive income, net of tax	-	-	-	13,155	-	13,155	-	13,155
Balance at September 30, 2018	100	1	23,961	21,303	(676,930)	(631,665)	9,316	(622,349)
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	(1,295)	(1,295)
Net loss	-	-	-	-	(297,736)	(297,736)	(734)	(298,470)
Capital contribution from stockholder	-	-	41,000	-	-	41,000	-	41,000
Dividend paid to stockholder	-	-	-	-	(44,407)	(44,407)	-	(44,407)
Other comprehensive loss, net of tax	-	-	-	(44,539)	-	(44,539)	-	(44,539)
Balance at September 30, 2019	100	$ 1	$ 64,961	$ (23,236)	$ (1,019,073)	$ (977,347)	$ 7,287	$ (970,060)

See accompanying notes to the consolidated financial statements.

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	2019	2018
Operating activities		
Net loss	$ (298,470)	$ (248,614)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	92,011	85,051
Amortization of deferred financing costs, net	4,484	2,702
Goodwill impairment	-	14,228
Write-off of deferred financing costs	13,444	11,411
Amortization of original issue discount and premium, net	3,478	2,976
Write-off of original issue discount and premium	16,608	6,713
Provision for bad debts	98,306	100,026
Pension obligation net periodic benefit cost	17,411	12,403
Excess contribution to pension plan	(15,939)	(41,667)
Deferred income taxes, net	1,152	97,782
Stock-based compensation	-	710
Undistributed earnings from unconsolidated joint ventures	(5,889)	(2,599)
Gain on sale of equity method investments	-	280
Loss (gain) on disposal of assets	3,398	(976)
Changes in operating assets and liabilities, net of business combinations:		
Patient accounts receivable	(87,481)	(93,310)
Due to/from government payers, net	608	11,668
Other receivables, prepaid expenses and other current assets	(974)	57,185
Hospital fee program receivable	43,924	(152,242)
Hospital fee program liability	(41,604)	63,999
Inventories	(1,605)	(93)
Income taxes payable/receivable, net	10,132	(45,530)
Other assets	(36,325)	1,580
Accrued medical claims and other healthcare costs payable	9,621	8,175
Accounts payable, other accrued liabilities and other long term liabilities	2,399	51,482
Net cash and cash equivalents used in operating activities from discontinued operations	99,863	50,698
Net cash and cash equivalents used in operating activities	(71,448)	(5,962)
Investing activities		
Purchases of property, improvements and equipment	(52,075)	(70,543)
Cash paid for acquisitions, net of cash received and working capital adjustments	(390)	(5,780)
Proceeds from sale of property and improvements	-	726
Distribution received from equity and cost method investments	2,355	2,150
Increase in investments	(4,253)	(7,315)
Net cash and cash equivalents used in investing activities from discontinued operations	(11,224)	(28,037)
Net cash and cash equivalents used in investing activities	(65,587)	(108,799)

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows (Continued)
(in thousands)

For the Years Ended September 30,	2019	2018
Financing activities		
Borrowings on Senior Secured Notes, net of original issue discount	-	1,097,600
Repayments on Senior Secured Notes	(1,114,400)	(622,788)
Borrowings on line of credit	290,000	385,000
Repayments on line of credit	(429,000)	(176,000)
Repayments on retired line of credit, net	-	(115,300)
Proceeds of other long-term debt	175,538	-
Repayments of long-term debt	(7,346)	(1,380)
Repayment of financing leases	(2,082)	(2,450)
Repayments of capital leases	(14,509)	(11,318)
Proceeds from exercise of stock options	-	853
Cash paid for deferred financing costs	(526)	(19,536)
Change in restricted cash	257	29,019
Change in cash held in escrow	(70,000)	-
Capital contribution from stockholder	41,000	-
Dividend paid to stockholder	(44,407)	(456,930)
Repayments of insurance premium financing	(37)	(10,026)
Cash paid for deferred financing costs related to MPT liability transaction	(21,781)	-
Proceeds from MPT liability transactions	1,385,796	-
Repayment of MPT liability transactions	(5,447)	-
Net cash and cash equivalents used in financing activities from discontinued operations	(1,624)	(1,398)
Net cash and cash equivalents provided by financing activities	181,432	95,346
Increase (decrease) in cash and cash equivalents	44,397	(19,415)
Cash and cash equivalents, beginning of year	7,694	27,109
Cash and cash equivalents, end of year	$ 52,091	$ 7,694
Supplemental disclosure of cash flow information		
Interest paid (including cash paid on debt extinguishment)	$ 101,251	$ 53,070
Income taxes received	$ 343	$ 3,485
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	$ 15,213	$ 16,849
Accrual of property, improvements and equipment	$ 47,113	$ 19,249
Insurance premium financed	$ -	$ 9,900
Partial satisfaction of long-term liability assumed from acquisition of PCC	$ -	$ 1,195
Acquisition of NUMG	$ -	$ 7,452

See accompanying notes to the consolidated financial statements.

1. Organization

Prospect Medical Holdings, Inc. ("Prospect" or the "Company" or the "Parent Entity") is a Delaware corporation and a wholly-owned indirect subsidiary of Ivy Holdings Inc. ("Ivy Holdings").

The Company's operations are currently organized into four primary reportable segments: Hospital Services, Medical Group, Global Risk Management and Corporate, as discussed below.

Hospital Services Segment

As of September 30, 2019, through its subsidiaries, the Company owns 16 acute care and behavioral hospitals and multi-level elder care facilities in Southern California, Rhode Island, Pennsylvania and Connecticut with approximately 3,100 licensed beds, and a network of specialty and primary care clinics. The Hospital Services segment subsidiaries are wholly-owned by Prospect, except for the facilities in Rhode Island, in which Prospect has an 85% interest in the subsidiary that owns such facilities.

Additionally, at September 30, 2019, through its subsidiaries the Company owns 4 acute care and behavioral health hospitals in Texas and New Jersey, which are in the process of being closed or sold. According, and as further discussed in Note 5, for all periods presented the assets and liabilities of these businesses have been classified as "held for sale," and the operations (as it relates to revenues and expenses that will no longer continue post sale) have been shown within discontinued operations. All of the footnotes in these financial statements refer to continuing operations unless otherwise stated.

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

Medical Group Segment

The Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups" or "IPAs"). The affiliated physician organizations enter into agreements with HMOs to provide HMO enrollees with a full range of medical services in exchange for fixed monthly fees ("Capitation"). The Medical Groups contract with physicians (primary care and specialist) and other healthcare providers to provide enrollees with medical services. Prospect currently manages the provision of healthcare services for its affiliated physician organizations in California, Texas, Rhode Island, Connecticut, Pennsylvania and New Jersey. The California network consists of various IPAs that are generally wholly-owned by Prospect Medical Group, Inc. ("PMG") and managed by the two medical management company subsidiaries that are wholly-owned by Prospect. The Company's networks in its other states consist of IPA subsidiaries of Prospect Provider Groups, Inc. The Medical Group segment also owns clinic facilities in California, Rhode Island, Pennsylvania and Connecticut that operate by employing physicians to serve their patients. In California, the clinic facilities are owned through New Genesis Medical Association ("NGMA"). PMG and NGMA are owned by a nominee physician shareholder pursuant to an assignable option agreement, under which Prospect has an assignable option, obtained for a nominal amount from PMG and the nominee shareholder, to designate the purchaser (successor physician) for all or part of PMG's issued and outstanding stock held by the nominee physician shareholder (the "Stock Option") in its sole discretion.

Most of the physician organizations in California and Texas have entered into Management Service Agreements ("MSA") with Prospect Medical Systems Inc., ("PMS"), and have agreed to pay a management fee to PMS, which is based in part on the costs to the management company and on a percentage of revenues. In Rhode Island, Pennsylvania, Connecticut and New Jersey, the physician organizations have entered into Administrative Services Agreements ("ASA") with PMS pursuant to which they have agreed to reimburse PMS for the costs of certain administrative services provided by PMS on their behalf. In return for payment of the management fee, PMS has agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, and administrative support, including for utilization review and quality of care. At its cost, PMS has assumed the obligations for all facilities and employs physician and non-physician personnel for administrative services. The management fee is earned based on a combination of percentage of revenue and share of pre-tax income. The management fees fluctuate based on the revenue and profitability of each physician organization. The MSAs are not terminable by the physician organization except in the case of gross negligence, fraud or other illegal acts, or bankruptcy, of PMS. The services provided under an ASA are more limited than those provided under an MSA and each ASA is terminable by either party upon the delivery of 90 days prior written notice thereof.

Prospect consolidates the revenues and expenses of all the physician organizations (except for one entity that is a 50/50 joint venture, which is accounted for under the equity method) from the respective dates of execution of the Management Agreements. All significant inter-entity balances have been eliminated in consolidation. In the case of the joint venture, only that portion of the results which are contractually identified as Prospect's are recognized in the consolidated financial statements, together with the management fee that the Company charges the joint venture for managing the other owners' share of the joint venture operations.

Prospect has also entered into management services agreements with unaffiliated third parties to manage services to their HMO enrollees. These management agreements do not have characteristics that give rise to the consolidation of the entities under current accounting literature. These management services agreements are terminable in accordance with the agreements.

The affiliated physician organizations provided medical services to a combined total of approximately 445,000 and 442,000 enrollees as of September 30, 2019 and 2018, respectively. The enrollees include approximately 237,000 and 255,000 enrollees that the Company manages for the economic benefit of certain independent third parties, and for which the Company earns management fee income as of September 30, 2019 and 2018, respectively. The total paid member months including managed enrollees, for the years ended September 30, 2019 and 2018 was approximately 5,435,000 and 5,360,000, respectively.

Global Risk Management Segment

The Global Risk Management segment exists in pursuit of the Company coordinated regional care ("CRC") operating model and risk management platform. CRC has subsidiaries in California, Texas, Rhode Island, Pennsylvania, Connecticut and New Jersey, and has accountable care organizations operating in Rhode Island, Pennsylvania and New Jersey. These entities contract with third-party health plans and the Centers for Medicare and Medicaid Services ("CMS") on progressive risk reimbursement models leading to global risk contracts for physicians, other medical services and institutional services including hospital inpatient and outpatient services, home health, skilled nursing facility and other institutional services. In turn, the global risk management entities contract with owned and third-party independent physician associations, owned and third-party hospitals and other health care providers to assume and manage this global risk. Through these contracts, the Company manages health plan member populations with a focus

on delivering coordinated care to members across our network of physicians and providers under risk and value-based contracts. This segment also includes Coordinated Regional Care Group, Inc. ("CRCG"). CRCG incurs development and operating costs related to the Global Risk Management segment for new markets and strategic initiatives.

Corporate Segment

The Company has two captive insurance companies, Prospect Medical Holding Risk Retention Group, Inc. ("RRG"), based in Vermont, and Connecticut Healthcare Insurance Company ("CHIC"), based in the Cayman Islands. RRG was formed to provide primary insurance coverage for hospital and physician professional and general liability risks for the Company's subsidiary health care organizations located in Pennsylvania on a claims-made basis. CHIC provides hospital and physician professional and general liability coverage to all of the Company's hospitals and affiliated subsidiaries except for Prospect Crozer, LLC ("Crozer") and its Pennsylvania subsidiaries. CHIC is an exempted Company with limited liability under the Companies Law of the Cayman Islands and it holds a Class "B(i)" Insurer's License under Section 4(3)(b) of the Cayman Islands Insurance Law 2010. CHIC's principal activity is to issue primary policies for hospital liabilities covering Prospect, its subsidiaries and employees, on a claims-made basis. The Company procured excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employer's liability, helipad liability and non-owned aircraft liability of the Company and its affiliates. This excess coverage is purchased entirely from unrelated commercial insurers. CHIC also provides a deductible reimbursement policy for workers compensation to the Company's facilities all of which have high deductible program structures or are qualified self-insureds.

On January 1, 2018, CHIC began providing an employee benefit stop-loss policy to all Company subsidiaries. Unlimited excess coverage is purchased from unrelated reinsurance companies.

The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

2. Significant Accounting Policies

Principles of Consolidation and 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 all controlled subsidiaries, of which control is effectuated through ownership of voting common stock or by other means, but do not include the accounts of the parent companies, Ivy Holdings Inc. and Ivy Intermediate Holding Inc. The Company has a variable interest in various entities under the Medical Group segment due to the existence of two call options, under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price ($1,000) to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that limits the returns that could be earned by the equity holders. In addition, the Company has management agreements with the physician organizations under the Medical Group segment which allows the Company to direct the activities of such physician organizations that most significantly impact their economic performance, retain the right to receive expected residual returns and assume the obligation to absorb losses. Accordingly, the Company is considered to be the primary beneficiary and these entities are consolidated within the accompanying consolidated financial statements.

Operating results for acquisitions are consolidated with the Company's financial statements from their acquisition dates. All significant intercompany balances and transactions have been eliminated in consolidation. Non-controlling interests in less-than-wholly-owned consolidated subsidiaries of the Company are presented as a component of total equity to distinguish between the interests of the Company and the interests of the non-controlling owners.

The consolidation of these entities does not change any legal ownership, and does not change the assets or the liabilities and equity of the Parent Entity as a stand-alone entity. These entities had total revenues of approximately $330,930,000 and $310,720,000 and total net income of approximately $14,245,000 and net loss of approximately $2,184,000 for the years ended September 30, 2019 and 2018, respectively. The assets and liabilities of the variable interest entities are as follows (in thousands):

September 30,	2019	2018
Assets		
Total current assets	$ 86,966	$ 89,882
Total non-current assets	89,049	90,465
Total assets	$ 176,015	$ 180,347
Liabilities		
Total current liabilities	$ 52,120	$ 69,097
Total long-term liabilities	730	730
Total liabilities	$ 52,850	$ 69,827

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Revenues

Revenues by reportable segment are comprised of the following amounts (in thousands):

For the Years Ended September 30,	2019	2018
Net Hospital Services		
Inpatient	$ 1,392,340	$ 1,497,923
Outpatient	926,645	902,122
Capitation	148,800	157,968
Other	19,371	18,831
Total Hospital Segment patient service revenues	2,487,156	2,576,844
Less: Provision for bad debts	(98,306)	(100,026)
Total Net Hospital Segment patient service revenues less provision for bad debts	2,388,850	2,476,818
Other non-patient revenues	49,377	45,828
Total Hospital Segment revenues	2,438,227	2,522,646
Medical Group		
Capitation	302,734	297,965
Management fees	15,044	10,501
Other	36,176	25,942
Total Medical Group revenues	353,954	334,408
Global Risk Management		
Capitation	37,018	23,095
Other	12,678	10,768
Total Global Risk Management revenue	49,696	33,863
Corporate Segment revenues	7,321	2,971
Total net revenues	$ 2,849,198	$ 2,893,888

Hospital Services Segment

Net Patient Service Revenues

Operating revenue of the Hospital Services segment 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 following is a summary of sources of patient service revenues (net of contractual allowances and discounts) before provision for bad debts and exclude revenues from discontinued operations (in thousands):

Years ended September 30,	2019	2018
Medicare	$ 822,407	$ 801,222
Medicaid	750,909	874,865
Managed Care	579,141	559,463
Self-Pay/Other	166,528	164,495
Capitation	148,800	157,968
Other	19,371	18,831
Total patient service revenue	$ 2,487,156	$ 2,576,844

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 persons with end-stage renal disease and certain other beneficiary categories, including eligible disabled persons. Most inpatient hospital services rendered to Medicare program beneficiaries are paid on a fee-for-service basis at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services also are paid on a fee-for-service basis generally using prospectively determined rates. The Company receives, as appropriate, Medicare disproportionate share hospital ("DSH") and bad debt payments at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare Administrative Contractor. The Company also receives, as appropriate, Medicare uncompensated care DSH payments, which are generally not subject to cost report audit except to determine eligibility for Medicare DSH. The Company also receives Medicare outlier payments on an ongoing basis during the year for cases that are unusually costly, and under certain circumstances these payments may be reconciled to more closely reflect the costs in excess of outlier thresholds after the submission and audit of the annual Medicare cost report. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue.

The Company is reimbursed by Medicare for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare Administrative Contractor. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year that examination is substantially completed.

Although services for most Medicare beneficiaries are paid by the Federal government on a fee-for-service basis, approximately one-third of Medicare beneficiaries are enrolled in a "Medicare Advantage" plan, which is a type of health plan that contracts with the Medicare program to provide hospital and medical benefits to Medicare beneficiaries. Medicare Advantage Plans include Health

Maintenance Organizations, Preferred Provider Organizations, Private Fee-For-Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans. For Medicare beneficiaries enrolled in a Medicare Advantage plan, most Medicare services are covered by the plan and are not paid for under fee-for-service Medicare. Certain Medicare Advantage plans make capitation payments to the Company using a "Risk Adjustment model," which compensates providers based on the health status (acuity) of each enrollee. Providers with higher acuity enrollees generally will receive more and those with healthier enrollees will receive less.

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 fee-for-service component of Medicaid programs in each state in which it operates at prospectively determined rates for inpatient services and a mixture of fee schedules and cost reimbursement methodologies for outpatient services depending on the specific state regulations. Cost report settlements are recorded based upon as-filed cost reports (if required by the respective facility's state) and adjusted for tentative and final settlements, if any. In addition, in California, Rhode Island, and Pennsylvania, a substantial portion of Medicaid beneficiaries are enrolled in Medicaid managed care organizations. The Company received payments for services furnished to these beneficiaries based on negotiated contract rates or non-contract payment methodologies where the Company does not have a contract with the managed care organization.

The various states in which the Company operates have additional programs in which certain of the Company's facilities participate in, related to medical facilities serving a disproportionate number of low-income patients. The following table shows the revenues generated by these programs during the years ended September 30, 2019 and 2018 (in thousands), which are reflected in Net Hospital Services revenues in the accompanying consolidated statements of operations:

For the years ended September 30,	**2019**	2018
California Medi-Cal Disproportional Share ("CA DSH") *(a)*	$ **28,967**	$ 13,761
Rhode Island DSH and Upper Payment Limit ("UPL") *(b)*	**20,456**	19,035
Pennsylvania State Programs *(c)*	**68,831**	40,344
Connecticut Medicaid DSH revenue *(d)*	**26,338**	33,152
	$ **144,592**	$ 106,292

(a) Revenues are accrued based on the expected total annual awards. Differences between the estimated and the actual awards are recorded in the period they become known, and are subject to retrospective revision prior to finalization, which could lead to material retractions. The Company records retrospective retractions when they are estimable and probable. Retrospective additional revenues are recorded when the amounts are received.

(b) Rhode Island hospitals receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low-income patients. The State of Rhode Island also assesses a license fee to all hospitals in Rhode Island based on each hospital's net patient revenue. The Company recorded $17,565,000 and $16,925,000 of expense during the years ended September 30, 2019 and 2018, respectively, as a result of the license fee.

(c) The Company's Pennsylvania hospitals are participants in Pennsylvania statewide hospital assessment, Medicaid Modernization Assessment ("MMA"), which has been extended through June 30, 2023. The assessments have enabled the Commonwealth of Pennsylvania to maintain

the updated inpatient payment system, make changes to existing disproportionate share/supplemental payments, and to create new payments where applicable. The Company has also recognized revenues from the Pennsylvania Community Access Fund ("CAF").

(d) The Company's hospitals in Connecticut participate in its Medicaid DSH program and receive additional reimbursement for treating a disproportionate share of low-income patients. Connecticut assesses a provider tax based on total net revenue received by a hospital for the provision of inpatient hospital services and outpatient hospital services. The state's 2020/2021 budget eliminated a scheduled reduction in the hospital's tax rates on inpatient and outpatient services by maintaining the rates at fiscal year 2019 levels but requiring the base year for calculating the tax to be adjusted each biennium. The State has made a Medicaid supplemental payment to hospitals for the first quarter of the State's 2020-21 fiscal year prior to obtaining federal approval, and has announced that this payment would be recovered if federal approval was not obtained. The amount of the provider tax has also been the subject of litigation, which was recently settled. However, the final settlement is contingent on federal approval of the state's tax waiver and proposed Medicaid State Plan Amendments, as well as on the state's General Assembly approval and adoption of implementing legislation. The proposed settlement agreement is estimated to have a financial impact on hospitals of approximately $1.8 billion in state and federal funds between now and 2026. The agreement includes a one-time payment or refund of approximately $79 million to hospitals, along with declining taxes on hospitals and corresponding increasing state payments to facilities during the applicable time period. The state can ask the court to modify the agreement if the state's overall costs are between $50 and $100 million, and the state can terminate the agreement if the state's overall costs rise by $100 million.

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. Some of these payments are capitated, meaning that the Company receives an agreed amount per patient for providing an agreed range of services.

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 local hospital's indigent and charity care policy.

Laws and regulations governing the third-party payor arrangements are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue in the current period.

The following is a summary of due from and due to governmental payers at September 30, 2019 and 2018 (in thousands):

September 30,	2019	2018
Due from government payers:		
Medicaid Disproportionate Share	$ 19,301	$ 16,545
Medicare cost report settlements	969	4,691
Medicaid Section 1115 receivable	-	173
	$ 20,270	$ 21,409
Due to government payers:		
Medicare cost report settlements	$ 19,464	$ 20,323
Medicaid cost report settlements	9,142	8,814
	$ 28,606	$ 29,137

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.

California Hospital Fee Program

The Company recognizes revenues related to supplemental Medi-Cal payments under California provider fee programs. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds.

Based on formulas contained in the legislation as well as modeling done by the California Hospital Association, the Company recognized supplemental payments, included in net patient service revenue, and quality assurance fee expense, included in general and administrative expenses in the accompanying consolidated statements of operations as follows (in thousands):

Years Ended September 30,	2019	2018
Hospital services revenues	$ 122,976	$ 284,122
General and administrative expenses	53,775	123,996
Net pre-tax impact	$ 69,201	$ 160,126

As of September 30, 2019 and 2018, the Company had receivables related to the California Hospital Fee Program of approximately $167,530,000 and $211,454,000, respectively, and had liabilities related to the California Hospital Fee Program of approximately $24,362,000 and $65,996,000, respectively, in the accompanying consolidated balance sheets.

Legislation approved by the State of California in October 2013 created the framework for the hospital fee program to continue in perpetuity without requiring further legislation from California. In November 2016, California voters approved Proposition 52, which made the hospital fee program permanent and prohibits lawmakers from diverting Medi-Cal funds to pay for anything other than their intended purpose.

In December 2017, CMS approved the fee-for-service inpatient and outpatient payments and taxes for the period from January 1, 2017 to June 30, 2019 ("QAF 5"). CMS has not yet approved the amended Health Plan contracts. During the year ended September 30, 2018, the Company recorded revenues under the QAF 5 program of $111.9 million related to periods prior to the current fiscal year. Additionally, the Company recorded revenues related to previous hospital fee programs prior to QAF 5 of $14.6 million during the year ended September 30, 2018. The current cycle of the California Hospital Fee Program relates to the period from July 1, 2019 through December 31, 2021 ("QAF 6"). This cycle has not yet been approved by CMS and accordingly the Company has not recorded any revenues or expenses related to QAF 6 (or any prior program) during the fourth quarter of the year ended September 30, 2019.

Charity Care

The Company provides charity care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Company's charity care policy. This care is provided without charge or at amounts less than the Company's established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The direct and indirect costs related to this care totaled approximately $7,559,000 and $8,787,000 for the years ended September 30, 2019 and 2018, respectively. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. In addition, the Company provides services to other medically indigent patients under various state Medicaid programs. Such programs pay amounts that are less than the cost of the services provided to the recipients. The Company has not changed its charity care or uninsured discount policies during the years ended September 30, 2019 and 2018.

Provisions for Contractual Allowances and Bad Debts

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 as a percent of gross accounts receivable was 35% and 32% at September 30, 2019 and September 30, 2018, respectively. The allowance for doubtful accounts was approximately $165,719,000 and $151,279,000 as of September 30, 2019 and 2018, respectively, and the increase results from a determination at September 30, 2019 to fully reserve for all patient accounts receivable over 365 days old.

Legislation

All of 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.

Medical Group Segment

Medical Group Revenues

Operating revenue of the Medical Group segment consists primarily of payments for medical services procured by certain entities included within the Medical Group segment ("Affiliates") under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider. See "Concentrations of Credit Risks" below for revenues received from the five largest contracted HMOs.

Capitation revenue (net of capitation withheld to fund risk share deficits discussed below) is recognized in the month in which the physician organizations are obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. During the years ended September 30, 2019 and 2018, the Company returned and recognized as a reduction in revenue,

approximately $1,749,000 and $3,220,000, respectively, as a result of the final Hierarchical Condition Category ("HCC") reconciliation.

HMO contracts also include provisions to share in the risk for hospitalization, whereby the physician organization can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recorded when such amounts are known. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the years ended September 30, 2019 and 2018, Medical Group revenues included approximately $10,482,000 and $7,125,000, respectively, relating to risk-sharing profit. At September 30, 2019 and 2018, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses were approximately $88,991,000 and $92,700,000, respectively, based on the available information from the health plans.

The Company also receives incentives under "pay-for-performance" programs for quality medical care based on various criteria. These incentives, which are included in other revenues within Medical Group revenues, are generally recorded in the third and fourth quarters of the fiscal year when such amounts are known. Performance and incentive revenues recorded during the years ended September 30, 2019 and 2018 were $11,221,000 and $5,751,000, respectively.

Management fee revenue is earned in the month the services are rendered. Management fee arrangements with unaffiliated entities provide for compensation ranging from 6.5% to 10% of revenues. Management fee revenues recorded during the years ended September 30, 2019 and 2018 were $10,248,000 and $5,656,000, respectively. Management fees for revenue for entities that are consolidated are eliminated on consolidation.

Medical Group Cost of Revenues

The cost of health care services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current period. See Note 14 for changes in claims estimates during the years ended September 30, 2019 and 2018.

The Company has contractual reimbursement obligations to providers and discretionary incentive payment obligations to physicians. These payments are in large part predicated on the pay-for-performance, shared risk revenues, and favorable senior capitation risk adjustment payments received by the Company from the health plans. The Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known. During this period, the Company also finalizes the physician discretionary incentive.

The Company recorded physician incentives expense of approximately $17,643,000 and $21,669,000 for the years ended September 30, 2019 and 2018, respectively. As of September 30, 2019 and 2018, physician incentive accruals of approximately $14,351,000 and $17,396,000, respectively, were included in accounts payable and other accrued liabilities in the accompanying consolidated financial statements.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2019 and 2018, respectively.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Global Risk Management Segment

Global Risk Management Revenues

Operating revenue of the Global Risk Management segment consists primarily of payments for medical services procured under global capitation arrangements from third-party health plans. Capitation revenue under these global capitation contracts is prepaid monthly to the Global Risk Management segment based on the number of enrollees. Entities within the Global Risk Management segment entered into Management Services Agreements with the Hospital Services and Medical Group segments, under which up to 98% of capitation revenue received is transferred to these segments. During the years ended September 30, 2019 and 2018, capitation revenue received from health plans was $267,300,000 and $254,795,000, respectively, of which $105,755,000 and $101,563,000, and $120,119,000 and $116,957,000 was transferred to our Hospital Services segment and Medical Group segment, respectively.

Similar to the Medical Group segment, capitation revenue is recognized in the month in which the Global Risk Management segment is obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. During the years ended September 30, 2019 and 2018, the Global Risk Management Segment recognized capitation risk adjustments of $4,552,000 and $5,155,000, respectively.

Global Risk Management Cost of Revenues

The cost of health care services consists primarily of the transfer of capitation revenue to the Hospital Services and Medical Group segments under the Management Services Agreements, and capitation and claims payments. These costs are recognized in the period incurred, or when the services are provided.

Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, record a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2019 or 2018.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

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. Leasehold improvements are generally depreciated over 5 to 40 years, buildings are depreciated over 5 to 40 years, equipment is depreciated over 2 to 15 years and furniture and fixtures are depreciated over 2 to 20 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.

As more fully described in Note 13, the Company is required to comply with certain seismic standards as required by the state of California by dates ranging from February 2021 through June 2022. The useful life of buildings subject to seismic retrofit requirements may be limited if the Company does not make the necessary upgrades by the required compliance date.

Goodwill

Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets.

Goodwill is not amortized; rather it is reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arise. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The Company's annual goodwill impairment test is conducted on July 1. Impairment of goodwill is tested at the reporting unit level, by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting units are estimated. In evaluating whether indicators of impairment exist, the Company considers adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. The goodwill impairment test is a one-step process which consists of estimating based on a weighted combination of (i) the guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model. If the estimated fair value of the reporting unit is less than its carrying value, this indicates that goodwill is impaired, and impairment is recorded based on the deficiency of fair value compared to the carrying value. The

Company's impairment test related to goodwill during the year ended September 30, 2018 resulted in a full impairment of goodwill related to the Rhode Island facilities. There were no impairment charges during the year ended September 30, 2019.

Intangible Assets

Intangible assets include customer relationships, trade names, and favorable leaseholds. 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 during the years ended September 30, 2019 and 2018.

Insurance Reserves

Medical Malpractice Liability Insurance

The individual physicians who contract with the physician organizations carry their own medical malpractice insurance, some of which may be purchased from RRG or CHIC. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the 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's hospitals have a consolidated policy for professional and general liability insurance with separate retentions for each entity. The Pennsylvania MCARE fund provides the $500,000 in excess of $500,000 RRG malpractice coverage for Crozer.

For the current fiscal year, RRG provided primary malpractice insurance ($500,000 per occurrence and $2,500,000 in the aggregate) and general liability ($1,000,000 per occurrence and $2,000,000 in the aggregate). In addition, the RRG provided coverage for losses of $4,000,000 in excess of $1,000,000 for each hospital professional liability claim with no aggregate limit. RRG also provides additional layers of excess coverage over $5,000,000 up to $20,000,000, which are 100% reinsured by third party insurance carriers through multiple layers. The excess coverage provided for general liability is over $10,000,000 up to $50,000,000, which is also 100% reinsured by third party carriers. Additionally, there is $1,000,000 per occurrence and $3,000,000 in the aggregate) coverage for non-healthcare provider professional liability.

During the year ended September 30, 2018, CHIC provided malpractice and general liability ($2,000,000 per occurrence) coverage for all facilities except Crozer and Prospect ECHN, Inc. ("ECHN"). During the year ended September 30, 2019, CHIC provided malpractice and general liability ($5,000,000 per occurrence and $37 million in the aggregate) coverage for all facilities, except Crozer. CHIC also provided an excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employers' liability, helipad liability and non-owned aircraft liability. The limit provided was $80,000,000 and $60,000,000

(during the years ended September 30, 2019 and 2018, respectively) for each loss event and in the annual aggregate excess of the primary coverage layers described above. This coverage was fully reinsured by third party carriers.

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 has recognized 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 of its hospitals. At September 30, 2019 and 2018, the total gross claims liability, was $133,300,000 and $73,532,000 and reinsurance recoverable on unpaid losses were $49,552,000 and $12,834,000, respectively, included in other assets on the accompanying consolidated balance sheets, and were estimated using a discount factor ranging from 3.50% to 4.00%.

Workers' Compensation Insurance

The workers' compensation coverage provides the statutory benefits required by law with a $500,000 deductible reimbursement policy provided by CHIC for the Company's entities located in California and Connecticut, and for the year ended September 30, 2019, Pennsylvania (covered in fiscal 2018 for the first $500,000 with a third party carrier). The facilities in Rhode Island were fully insured for workers' compensation claims with no deductible. At September 30, 2019 and 2018, included in accrued salaries, wages and benefits are accruals for uninsured claims and claims incurred but not reported of approximately $29,182,000 and $27,776,000 and reinsurance recoverable on unpaid losses of $3,134,000 and $8,557,000, respectively, included in other assets on the accompanying consolidated balance sheets. The amounts are estimated based upon an actuarial valuation of claims experience, using a discount factor of 4%.

Reserve Methodology

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 the medical malpractice and workers' compensation claims 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 claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Stock Options

Ivy Holdings has a stock option plan (the "Ivy Plan"), which is administered by the Compensation Committee of the Ivy Holdings Board. The plan includes an Incentive Stock Option Agreement and a Non-Qualified Stock Option Agreement to be used in connection with the grant of options under the plan. These options granted under the Ivy Plan are exercisable into Ivy Holdings stock and vest based on a number of criteria.

Compensation costs for option awards are measured and recognized in the consolidated financial statements based on their grant date fair value, net of estimated forfeitures over the awards' service period. Options subject to variable accounting treatment are subject to revaluation at the end of each reporting period. The Company uses the Black-Scholes option pricing model and a single option award

approach to estimate the fair value of stock options granted. The fair value of restricted stock grants are determined on the date of grant, based on the number of shares granted and the quoted price or estimated fair market value of the Company's common stock. Equity-based compensation is classified within the same line items as cash compensation paid to employees. Compensation costs related to stock options that vest or are exercisable when certain corporate transactions occur, including a change in control, are recognized at the time that such an event occurs.

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

Some of the Company's cash is restricted for various purposes including research, regulatory requirements and letters of credit. The Company is also required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheets, as they are restricted for payment of current liabilities. Restricted cash also include certificates of deposit with maturity dates of more than 90 days when purchased.

Cash Held in Escrow

The Company holds $70 million of the cash at September 30, 2019 which is held in in escrow and is expected to be contributed to the Company's pension plans during the year ending September 30, 2020.

Restricted Investments

Investments in marketable securities, primarily mutual funds, and are classified as available for sale and are stated at fair value. Unrealized gains and losses are recorded in the statements of other comprehensive income. Investment securities are exposed to various risk, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and such changes could materially affect investment. These investments are held in the Company's captive insurance companies and are shown as restricted because the state/local regulators require their approval before dividends or return of capital to the Parent Entity.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or net realizable value, which approximates market value, and are expensed as incurred. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Internal Use Software

Included within other receivables, prepaid expenses and other current assets are hosting arrangements related to the Oracle suite of products, which are accounted for as service contracts. The gross carrying amount of capitalized service costs was approximately $12,100,000 and $149,000 at September 30, 2019 and 2018, respectively. There is no expected residual value for capitalized costs. At September 30, 2019 and 2018, there was approximately $12,100,000 and $149,000, respectively, of capitalized costs for hosting arrangements accounted for as service contracts that is was in the development stage and amortization is scheduled to commence once the project is complete and ready for its intended use. The

estimated amortization period is 5 years. There was no amortization expense for the years ended September 30, 2019 and 2018, respectively.

Deferred Financing Costs

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method and are classified as a deduction from the carrying amount of the related debt. As it relates to MPT liabilities, deferred financing costs are classified in other assets in the accompanying consolidated balance sheets.

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations. For the year ended September 30, 2018, the Company incurred $2,405,000 of interest and penalties related to income taxes, which were reversed during the year ended September 30, 2019.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

A consolidated federal tax return is filed for Ivy Holdings, with the exception of Nuestra Familia Medical Group Inc., ("Nuestra"), which files its own federal tax returns. The Company files separate state tax returns for California, Texas, Rhode Island, Pennsylvania, Connecticut, New Jersey and Florida. The Company's filed tax returns are generally subject to examination by the IRS and state tax boards for 3 to 4 years.

Sale-Leaseback Transactions

The Company evaluates sale-leaseback transactions by determining whether the transaction meets the qualifying criteria to be recognized as a sale-leaseback, including the transfer of risk and rewards of ownership as well as the absence of continuing involvement of the Company. When the qualifying criteria for a sale-leaseback transaction are not met, the Company accounts for the transaction as a financing (see Notes 9 and 10).

Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting stockholder's equity that, under generally accepted accounting principles, are excluded from net income (loss) attributable to the Company. For the Company, such items consist primarily of unrealized gains or losses on debt and equity securities as well as changes related to pension and other postretirement liabilities that are not recognized immediately in net periodic benefit costs (see Note 12).

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash, restricted investments, patient and other accounts receivables, accrued salaries and benefits, accounts payable and accrued expenses, medical claims and related liabilities, amounts due to government agencies, notes receivable and payable, capital lease obligations, debt, MPT liability 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.

Fair Value Measurement

Relevant accounting guidance establishes a framework for measuring fair value and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The guidance requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's Level 1 assets include cash and cash equivalents and investments (certificates of deposit and money market mutual funds). The inputs for fair value of goodwill and intangible assets (including long lived assets and intangible assets subject to amortization) would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows that are not observable from the market, directly or indirectly.

Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

September 30, 2019	Total	Level 1	Level 2	Level 3
Mutual funds	$ 29,540	$ 29,540	$ -	$ -
September 30, 2018				
Mutual funds	$ 23,779	$ 23,779	$ -	$ -

The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company's defined benefit pension plan assets are also measured at fair value (see Note 12).

The Company's carrying amount of long-term debt approximated fair value as of September 30, 2019 and 2018, respectively.

Nonfinancial Items Measured at Fair Value on a Nonrecurring Basis

Nonfinancial assets such as goodwill and identifiable intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. The Company performs an annual impairment test on the goodwill, and performs an impairment test on the intangible assets when there are indications of impairment.

During the year ended September 30, 2018, the Company recorded approximately $14,228,000 of impairment relating to goodwill, which is reflected in the accompanying consolidated statements of operations.

The Company uses the discounted cash flow approach and the guideline public company approach to estimate the residual value of the Company's goodwill. The measurement of goodwill is a Level 3 measurement.

The following table provides quantitative information related to the significant unobservable inputs to determine fair value of goodwill as of September 30, 2018:

Residual Value of Goodwill	Valuation Technique	Unobservable Input	Rates
$ -	Discounted Cash Flow	Weighted average cost of capital	9.3%
		Revenue growth rate	2.1% - 2.5%
	Guideline Public Company	LTM revenue multiple	0.5x
		NTM EBITDA multiple	7.0x

There were no nonrecurring measurements as of September 30, 2019.

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, Medicaid, patients, and health plans including shared-risk arrangements.

The Company invests excess cash in liquid securities at institutions with strong credit ratings, following established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take into consideration trends in yields and interest rates and principal risk. Management attempts to schedule the maturities of the Company's investments to coincide with the Company's expected cash requirements. Credit risk with respect to receivables is limited since amounts are generally due from large HMOs within the Medical Group segment and from the Medicare and Medicaid programs within the Hospital Services segment. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

For the years ended September 30, 2019 and 2018, the Hospital Services segment received a total of 63% and 65% of its net patient revenues from Medicare and Medicaid programs, respectively, and the Medical Group segment received a total of 65% and 62% for the years ended September 30, 2019 and 2018, respectively, of their capitation revenues from its five largest HMOs, as follows (in thousands):

Years Ended September 30,		2019	% of Total Revenue		2018	% of Total Revenue
Hospital Services:						
Government Payers:						
Medicare	$	822,407	33%		$ 801,222	31%
Medicaid		750,909	30%		874,865	34%
Total	$	1,573,316	63%		$ 1,676,087	65%
Medical Group:						
HMO A	$	61,087	20%	HMO A	60,506	20%
HMO B		35,674	12%	HMO B	35,705	11%
HMO E		34,684	11%	HMO F	32,934	11%
HMO F		34,207	11%	HMO D	32,357	11%
HMO D		32,617	11%	HMO C	27,051	9%
Total	$	198,269	65%		$ 188,553	62%

The Global Risk Management segment received all of their revenues from seven health plans during the years ended September 30, 2019 and 2018.

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 third party settlements, settlements under risk sharing programs, allowances for contractual discounts and doubtful accounts, accruals for medical claims, impairment of goodwill, long-lived assets and intangible assets, share-based payments, professional and general liability claims and workers' compensation claims, reserves for pension obligations and other postretirement benefit reserves, reserves for outcome of legislation and valuation allowances against deferred tax assets.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" with an effective date deferred 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, and interim periods within fiscal years beginning after December 15, 2019. 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 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. The Company is currently evaluating the effect of this guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The standard was originally scheduled to effective for nonpublic entities for fiscal years beginning after December 15, 2019. In November 2019 the FASB issued ASU 2019-10, "Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)" which delay the effective date by one year to December 2020. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)". The updated standard addresses eight specific cash flow issues with the objective of reducing diversity in practice. ASU 2016-15 is effective for non-public business entities for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is assessing the impact of the adoption of ASU 2016-15 on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU amends ASC Topic 715, Compensation – Retirement Benefits, to require employers that present a measure of operating income in their statements of income to include only the service cost component of net periodic pension costs and net periodic postretirement benefit cost in operating expenses. The ASU also stipulates that only the service cost component of net benefit cost is eligible for capitalization. This guidance is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance. Disclosures of the nature of and reason for the change in accounting principle are required in the first interim and annual periods of adoption. The Company is currently evaluating the provisions of ASU 2017-07 and its impact on the Company's consolidated financial position, results of operations and cash flows.

In August 2018, the FASB issued ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans", which amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. This ASU is effective for fiscal years ending after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the provision of ASU 2018-14 and its impact on its consolidated financial statements and related disclosures.

Reclassifications

Certain reclassifications were made to the prior year consolidated financial statements in order to conform to the current year presentation, and primarily relate to presentation of discontinued operations (see Note 5).

3. Property, Improvements and Equipment

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

September 30,	2019	2018
Land and land improvements	$ 68,403	$ 75,801
Buildings and improvements	359,570	316,217
Leasehold improvements	12,097	8,758
Equipment	373,153	283,008
Furniture and fixtures	5,288	4,705
	818,511	688,489
Less: accumulated depreciation	(342,106)	(248,162)
	476,405	440,327
Construction in Progress	62,066	73,363
Property, improvements and equipment, net	$ 538,471	$ 513,690

At September 30, 2019 and 2018, the Company had assets under capitalized leases of approximately $53,861,000 and $31,784,000, respectively, and related accumulated depreciation of $10,771,000 and $12,433,000, respectively.

Depreciation expense was approximately $83,683,000 and $78,153,000 for the years ended September 30, 2019 and 2018, respectively.

Included within equipment is capitalized software costs, which relate to significant system conversions. The estimated amortization period is 5 years. The gross carrying amount of capitalized software for internal use (related to the Cerner suite of products) was approximately $39,538,000 and $14,557,000 at September 30, 2019 and 2018, respectively, and the net carrying amount considering accumulated amortization was approximately $37,449,000 and $14,557,000 at September 30, 2019 and 2018, respectively. There is no expected residual value for capitalized internal-use software. At September 30, 2019 and 2018, there was approximately $28,355,000 and $7,914,000, respectively, of capitalized costs for internal-use software that is in the development stage and amortization is scheduled to commence once the software project is complete and ready for its intended use. Amortization expense was $2,050,000 and $0 for the years ended September 30, 2019 and 2018, respectively.

4. Acquisitions

For the years ended September 30, 2019 and 2018, the Company entered into the following material acquisitions. All business combinations were consistent with the Company's strategic growth plan and were accounted for using the acquisition method of accounting. Operating results for each of the acquisitions have been included in the accompanying consolidated financial statements from the date of acquisition. Goodwill arising is primarily attributable to the synergies expected to arise after the acquisitions, and is expected to be deductible for tax purposes for entities that were asset acquisitions, but is not is expected to be deductible for tax purposes for entities that were stock acquisitions.

All assets acquired and liabilities assumed were at fair value with the exception of the defined benefit pension liabilities and other post retirement employee benefits, which allows for an exception to fair value accounting for business combinations in accordance with GAAP. The recognized tax bases (the amount that is attributable for tax purposes) of the assets and liabilities are compared to the financial reporting values of the acquired assets and assumed liabilities (book bases) to determine the appropriate temporary differences. The Company identified temporary differences related to assumed pension liabilities, due primarily to differences in tax law regarding when a liability is or is not assumed in an asset acquisition; this difference in the treatment of the pension liabilities resulted in the recording of deferred tax assets which are reflected in the acquisition accounting and noted in the tables below.

Transaction costs incurred during the years ended September 30, 2019 and 2018 were immaterial.

2019 acquisitions

The Company completed the acquisitions of 10 physician practices in Connecticut and Pennsylvania for an aggregate purchase price of approximately $400,000. All acquisitions were asset acquisitions.

2018 acquisitions

In December 2017, New University Medical Group LLC ("New UMG") entered into a Second Closing to acquire the remaining assets of University Medical Group ("UMG") that were not acquired in the initial acquisition in December 2014. As consideration for the acquisition, New UMG has assumed certain designated liabilities of the practice, which consists of various loans payable to subsidiaries of the Company, totaling approximately $7.5 million. Post-acquisition, these liabilities are eliminated on consolidation. There was no cash consideration related to the transaction. The remaining assets and liabilities acquired were immaterial and no value was assigned to them in the purchase price allocation, and accordingly goodwill of $7.5 million arises from the acquisition. New UMG's parent company, Prospect CharterCARE Physicians, LLC, dba CharterCARE Medical Associates ("CCMA"), entered into a Post Closing Administrative Services Agreement pursuant to which CCMA and its affiliates provide services to the seller of the practice in connection with its termination of all operations and the wind up its affairs and operations.

The Company completed the acquisitions of four physician practice acquisitions in Connecticut for an aggregate purchase price of approximately $2.6 million, one physician multi-specialty practice in Pennsylvania for a purchase price of $1.6 million (net of working capital adjustments), three physician medical practices in California for an aggregate purchase price of approximately $800,000, and one physician family practice in Rhode Island for $180,000. All acquisitions were asset acquisitions, except for one stock purchase acquisition in Connecticut for a purchase price of $800,000.

5. Discontinued Operations

During the year ended September 30, 2019, the Company made the determination to sell the operations of Nix Hospital System ("Nix Health") in Texas and East Orange General Hospital ("EOGH") in New Jersey. The initial plan as approved by the Company's Board of Directors in March 2019 was to sell both Nix Health and EOGH as "going concern" businesses. Subsequent to the initial plan, the plans for Nix Health changed as a result of interest in the market place. The decision to sell the acute hospital building as a real estate transaction was made in August 2019. The hospital closed to patient admissions in September 2019 and as of September 30, 2019 had no patients "in-house". The building is under contract for sale for $28.5 million and the sale is expected to close in the second quarter of fiscal 2020. The decision was made in October 2019 to initially consolidate, and then close, the behavioral business. The two behavioral health businesses were closed in November 2019. Efforts are underway to sell the building that is owned and sublease the building that is leased. Negotiations continue with a number of potential buys with respect to the sale of EOGH. The Company's decision to discontinue the operations of each of these entities was based on the strategy of the Company's management in their respective markets and financial results.

Accordingly, as of September 30, 2019 and 2018, the assets and liabilities of these businesses have been classified as "held for sale," and the operations (as it relates to revenues and expenses that will no longer continue post sale) have been shown within discontinued operations.

In connection with the presentation of discontinued operations, the Company was required to test the long lived assets for impairment as of September 30, 2019. As part of that impairment test: (i) goodwill at Nix Health was fully impaired; (ii) property, plant and equipment at EOGH was impaired by approximately $55.9 million and at Nix Health was impaired by $17.8 million, respectively.

Summarized financial information for discontinued operations is included below (in thousands):

September 30,	2019	2018
Patient accounts receivable, net of allowance for doubtful accounts and other receivables	$ 26,037	$ 33,377
Due from government payors	2,022	11,424
Other receivables, prepaid expenses and other current assets	7,732	11,352
Inventories	1,486	4,837
Total current assets	37,277	60,990
Property, improvements and equipment, net	42,401	110,273
Goodwill	-	3,138
Intangible assets, net	1,555	1,797
Other assets	164	161
Total assets of the disposal groups classified as held for sale in the consolidated balance sheets	$ 81,397	$ 176,359

September 30,	2019	2018
Accrued medical claims and other healthcare costs payable	$ 53	$ 46
Accounts payable and other accrued liabilities	23,325	29,436
Accrued salaries, wages and benefits	7,929	9,849
Due to government payers	855	1,478
Current portion of capital leases	1,777	1,415
Total current liabilities	33,939	42,224
Long-term debt, net of current portion	946	1,000
Malpractice reserves	2,677	3,748
Capital leases, net of current portion	7,310	6,623
Other long-term liabilities	1,061	1,406
Total liabilities of the disposal groups classified as held for sale in the consolidated balance sheets	$ 45,933	$ 55,001

For the Years Ended September 30,	2019	2018
Net patient service revenues	$ 189,063	$ 190,085
Provision for bad debts	(19,953)	(19,388)
Net patient service revenues	169,110	170,697
Other non-patient revenues	4,762	5,049
Total revenues	173,872	175,746
Hospital operating expenses	181,145	174,058
General and administrative	47,829	42,651
Depreciation and amortization	7,224	12,763
Total operating expenses	236,198	229,472
Net operating loss	(62,326)	(53,726)
Interest expense, net	1,708	1,699
Goodwill impairment	3,138	4,572
Property, improvement and equipment impairment	73,682	-
Other expense (income), net	685	(83)
Total other expense, net	79,213	6,188
Loss on discontinued operations before income taxes	(141,539)	(59,914)
Income tax benefit	18,234	1,289
Loss on discontinued operations, net of taxes	$ (123,305)	$ (58,625)

6. Goodwill and Intangible Assets

The carrying value of goodwill by reporting unit is as follows (in thousands):

September 30,	2019	2018
Southern California Hospitals	$ 130,912	$ 130,912
California Medical Groups	28,222	28,222
Crozer	140,216	140,216
ECHN	535	483
Waterbury	2,492	2,155
Total	$ 302,377	$ 301,988

The changes in the carrying amount of goodwill for the years ended September 30 are as follows (amounts in thousands):

September 30,	2019	2018
Balance, beginning of year	$ 301,988	$ 302,985
Acquisitions	389	13,231
Impairment	-	(14,228)
Balance, end of year	$ 302,377	$ 301,988

Identifiable intangible assets are comprised of the following (in thousands):

September 30,	Useful lives	2019	2018
HMO membership	14 years	$ 25,200	$ 25,200
Trade names, net of impairment	3 - 20 years	42,030	50,160
Customer relationships	7 years	-	350
Other	5 - 6 years	97	97
Gross carrying value		67,327	75,807
Accumulated amortization		(41,782)	(43,985)
Intangible assets, net		$ 25,545	$ 31,822

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2019 and 2018 was $6,278,000 and $6,898,000, respectively. There are no expected residual values related to these intangible assets.

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

Years ending September 30,	
2020	$ 5,108
2021	5,088
2022	3,299
2023	2,780
2024	2,780
Thereafter	6,490
	$ 25,545

The weighted-average remaining useful life for the intangible assets was approximately 7 years as of September 30, 2019.

7. Related Party Transactions

Jeereddi Prasad, M.D., a shareholder of Ivy Holdings, a director of Ivy Holdings and the Company, and an officer of the Upland Medical Group, a Professional Medical Group and Pomona Valley Medical Group, Inc (collectively "ProMed Entities"), has ownership interests in physician medical groups that provide medical services to ProMed members, including Chaparral Medical Group, Inc., (in which the Company beneficially owns a 13.2% interest). For the years ended September 30, 2019 and 2018, the ProMed Entities paid these groups approximately $21,922,000 and $19,760,000, respectively. As of September 30, 2019 and 2018, the Company had accounts payable and other accrued liabilities due to these related parties of $806,000 and $1,266,000, respectively.

Pursuant to a Management Services Agreement, dated December 15, 2010 and amended on May 3, 2012 (the "LGP Management Agreement"), between the Company and Leonard Green & Partners, L.P. ("LGP"), a private equity fund with affiliated funds that collectively constitute the majority shareholder of Ivy Holdings, LGP provides to the Company, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In consideration for the services provided by LGP under the LGP Management Agreement, the Company pays LGP an annual fee of $1,000,000, payable in monthly installments, and reimburses LGP for its related expenses up to $50,000 annually. If approved by the unanimous consent of the Board of Directors of the Company, additional customary fees may be due to LGP pursuant to the terms of the LGP Management Agreement for services rendered in connection with major transactions from time to time. As of September 30, 2019 and 2018, there was approximately $500,000 and $0 payable, respectively, included in accounts payable and other accrued liabilities on the accompanying consolidated balance sheets.

During the year ended September 30, 2019, the Company received a capital contribution from Ivy Intermediate of $41.0 million and paid a dividend of approximately $44.4 million (see Note 11).

The Company is a wholly-owned indirect subsidiary of Ivy Holdings. Therefore, Ivy Holdings is the parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986. On December 15, 2010, Ivy Holdings, Ivy Intermediate and the Company entered into a Tax Sharing Agreement. The Tax Sharing Agreement allows the Company to make payments to Ivy Holdings as necessary to fund their payment of any required taxes incurred due to such parent status. Under this agreement, the Company received refunds (net of payments) of $(343,000) and $5,463,000 for the years ended September 30, 2019 and September 30, 2018, respectively.

8. Income Taxes

The components of the income tax (benefit) provision are as follows (in thousands):

For the years ended September 30,	2019	2018
Current:		
Federal	$ 11,940	$ (41,703)
State	3,353	(8,549)
	15,293	(50,252)
Deferred:		
Federal	1,162	100,529
State	-	12,509
	1,162	113,038
Total:		
Federal	13,102	58,826
State	3,353	3,960
	$ 16,455	$ 62,786

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Temporary differences and carry forward items that result in deferred income tax balances as of September 30, are as follows (in thousands):

September 30,	2019	2018
Deferred tax assets:		
Accrued medical claims	$ 3,443	$ 4,265
Malpractice reserves	3,254	3,202
Accounts receivable	26,596	22,136
Accrued salaries & wages	13,478	10,530
Pension obligation	65,919	81,847
Net operating losses	44,026	51,567
Tax Credits	1,719	2,870
Outside basis differences	7,244	755
Lease liability	132,400	-
UTP & other	-	7,730
Deferred tax assets	298,079	184,902
Valuation allowance	(203,335)	(105,909)
Net deferred tax assets	94,744	78,993
Deferred tax liabilities:		
Property, plant & equipment	(72,053)	(54,863)
Intangible assets	(6,642)	(8,626)
Prepaid expenses	(2,969)	(2,222)
Other comprehensive income	(11,585)	(11,307)
UTP & other	(672)	-
Deferred tax liabilities	(93,921)	(77,018)
Net deferred tax assets	$ 823	$ 1,975

Deferred tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

Management assesses the available positive and negative evidence to estimate whether sufficient future pretax income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative pretax losses incurred over the three year period ended September 30, 2019. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth. On the basis of this evaluation, at September 30, 2019 and 2018, a valuation allowance of approximately $203.3 million and $105.9 million, respectively, was recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if negative objective evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as the Company's projections for growth.

During fiscal 2019, the Company completed an IRS examination for Ivy Holdings, Inc. & Subsidiaries fiscal 2014 through 2016 federal income tax returns without any adjustment to reported taxable income The Company is under examinations by the California Franchise Tax Board for tax years ended September 30, 2014 through 2016. The Company does not currently anticipate any changes to our unrecognized tax benefits for the next twelve months related to these examinations.

The Company's tax years 2016 and 2017 are open for federal tax examination, and generally the states are open for tax years 2015 through 2017. During the year ended September 30, 2018, the Company recorded a liability in the amount of $12.7 million related to uncertain tax positions ("UTP") with respect to impermissible accounting methods for federal income tax purposes, which was recorded in other long-term liabilities in the accompanying consolidated balance sheets. During the year ended September 30, 2019, The Company has removed the UTP liability due to filing with IRS for a change from an improper to a proper accounting method change.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, limitations on various business deductions such as executive compensation under Internal Revenue Code §162(m), the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. The United States federal income tax rate reduction was effective as of January 1, 2018. As a result, the Company reduced net U.S. deferred tax assets by $25,660,000 during the year ended September 30, 2018. As the Company does not have profitable foreign subsidiaries, it does not anticipate any impacts as a result of the mandatory deemed repatriation of cumulative foreign earnings.

The differences between the income tax provision at the federal statutory rate and that reflected in the accompanying consolidated statements of operations are summarized as follows:

For the years ended September 30,	**2019**	2018
Tax provision at statutory rate	**21%**	25%
State taxes, net of federal benefit	**16%**	15%
Impact of US Tax Reform	**0%**	(16)%
Valuation allowance	**(56)%**	(77)%
UTP	**8%**	(2)%
Other	**1%**	4%
	(10)%	(51)%

9. Long-Term Debt

Long-term debt consists of the following (in thousands):

September 30,	2019	2018
Senior secured credit facility (net of discount of $0 and $20,085, respectively)	$ -	$ 1,094,315
Other debt *(1)*	206,350	38,769
Less: Deferred financing costs, net ("DFC")	-	(16,214)
Total Debt, net of discount and DFC	206,350	1,116,870
Less: current maturities	(18,983)	(18,429)
Long-term debt, net of current maturities	$ 187,367	$ 1,098,441

(1) Other debt includes (i) financing obligations related to sales-leaseback transactions. The financing obligations related to sales-leaseback transactions were $23,152,000 and $24,614,000 for years ended September 30, 2019 and 2018, respectively, excluding the sale leaseback transaction in entered into in fiscal 2019 with MPT (see Note 10) and (ii) debt related to the Foothill ($51,267,000) and TRS Notes ($112,937,000) entered into in fiscal 2019 with MPT (see Note 10).

Senior Secured Credit Facilities

On June 30, 2016, the Company entered into a six-year $625,000,000 senior secured term loan B (the "Original Term Loan"). The Original Term Loan was issued with an original discount of 1.50%, or $9,375,000. Additionally, the Company refinanced the previous revolver with a new $100,000,000 asset-based revolving credit facility ("Original ABL Facility" and together with the Original Term Loan, the "New Senior Secured Credit Facilities"). Pursuant to various amendments from August 2016 through October 2017, the aggregate commitment amount under the Original ABL facility was increased in stages to $175,000,000. The original maturity date for the Original ABL Facility was June 30, 2021, and the original maturity date for the Term Loan was June 30, 2022.

On February 22, 2018, the Company refinanced and replaced both the Original Term Loan and the Original ABL Facility, and entered into an Amended and Restated Term Loan Credit Agreement (the "Amended TL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent and collateral agent. The Amended TL Agreement replaced the Original Term Loan with a new Term B-1 Loan ("Term B-1 Loan"). The principal amount of the Term B-1 Loan was $1,120,000,000 and such loan incurred interest at LIBOR (subject to a 1.00% floor) plus 5.50%. The Term B-1 Loan was issued with an original discount of 2.00% and was originally scheduled to mature on February 22, 2024. The Term B-1 Loan was repaid on August 23, 2019 (see Note 10).

Additionally, on February 22, 2018, the Company entered into an Amended and Restated ABL Credit Agreement (the "Amended ABL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan, as administrative agent and collateral agent. The Amended ABL Agreement replaced the Original ABL Facility. Under the Amended ABL Agreement, the maximum revolving commitment was $250,000,000 with ability to expand the facility to $325,000,000, and the new ABL

facility (the "New ABL Facility") bears interest at a variable base rate plus an applicable spread that is based on excess availability under the New ABL Facility, as further described in the Amended ABL Agreement, which was 6.0% as of September 30, 2019. From January 2019 through July 2019 the Company entered into various amendments to the Amended ABL Agreement. Such amendments (i) waived certain events of default at September 30, 2018; (ii) increased the maximum revolving commitment from $250.0 million to $280.0 million, and further to $285.0 million, while simultaneously reducing and removing future expansion of the facility; (iii) introduced $40.0 million of a first in last out ("FILO") revolving facility, which incurred interest at either 2.5% or 3.5% per annum depending on whether they are Eurodollar loans or ABR loans (which were repaid on August 23, 2019); (iv) provides for a reduction in the maximum revolving commitment by $20.0 million and $10.0 million upon the future planned closure or disposition of Nix Health and EOGH, respectively. The New ABL Facility matures on February 22, 2023. As of September 30, 2019, the outstanding balance and the available balance on the New ABL facility was approximately $70.0 million and $175.6 million, respectively.

The proceeds of the Term B-1 Loans and the New ABL Facility (the "New Senior Secured Credit Facilities") were used to refinance the Original Term Loan and the Original ABL Facility, to pay a dividend of $457,000,000 to the Company's stockholders, to pay certain expenses associated with the refinancing, to prefund approximately $40,000,000 of pension liabilities of the Company's subsidiaries, to make payments to certain option holders as a result of the referenced dividend, and to finance certain working capital and other operational needs of the Company and its subsidiaries.

Under applicable accounting literature, during the year ended September 30, 2018, deferred financing costs of $11,700,000 and outstanding debt discount of $6,700,000 as of February 22, 2018 were expensed and presented within loss on debt extinguishment in the accompanying consolidated statements of operations, and new costs of approximately $18,000,000 incurred in connection with the refinancing were capitalized to offset the new long-term debt in the accompanying consolidated balance sheets, and are being amortized over the term of the related debt using the effective interest method. In connection with the repayment of the Term B-1 Loan (see Note 10), and under applicable accounting literature, during the year ended September 30, 2019, deferred financing costs of $13,444,000 and outstanding debt discount of $16,608,000 were expensed and are presented within loss on debt extinguishment in the accompanying consolidated statements of operations.

The New ABL Facility is secured by a first priority security interest on the working capital assets of the Company and its wholly-owned subsidiaries except Prospect Health Plan, Inc., CHIC, RRG, Prospect Health Access Network, Inc. and certain immaterial subsidiaries and a second priority security interest on their fixed assets. The Amended ABL Agreement does not have any financial maintenance covenants. The Amended ABL Agreement has a "springing" fixed charge ratio covenant that applies if excess availability is less than the greater of 10% of the maximum borrowing amount and $22,000,000. The fixed charge ratio covenant was not required to be tested for the fiscal quarter ended September 30, 2019.

Demand Notes

The Company has a commitment from a bank for a $15,000,000 equipment leasing facility to finance various equipment at the Company's hospital facilities. As of September 30, 2019 and 2018, draws under the facility are classified as capital lease arrangements. Draws represent demand notes until conversion to capital leases, and interest accrues on such draws at the bank prime rate plus 1.50% with a floor of 4.50% and payable monthly. As of September 30, 2019, approximately $15,000,000 had been drawn under the line.

Scheduled payments under the Company's current and long-term debt as of September 30, 2019 are as follows (in thousands):

Years ending September 30,	
2020	$ 18,983
2021	15,289
2022	13,140
2023	13,106
2024	13,412
Thereafter	132,420
Total scheduled payments	206,350
Less: Current maturities	(18,983)
Total long-term debt	$ 187,367

10. Transactions with MPT

On August 23, 2019, the Company closed a series of transactions with affiliates of Medical Properties Trust, Inc. ("MPT"), a publicly traded Real Estate Investment Trust ("REIT"). Under these transactions, the Company sold to MPT the Company's hospital buildings in California (excluding Foothill Regional Medical Center ("Foothill"), Connecticut and Pennsylvania for an aggregate purchase price of $1,386,000,000. Concurrent with the sale transactions, the Company entered into two master lease agreements whereby the hospital properties and related medical office buildings were leased back for an initial 15 year term, with options to extend twice for an additional 5 years each and for a further 4.75 year extension. Monthly rent is defined as 7.5% of the lease base, subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. For the first master lease, the Company has the option to buy the properties at their fair value at the end of the lease term. For the second master lease, the Company has the option to purchase at a price that is fixed at the time of entering into the lease (the "Option Price"). If the Company chooses not to exercise this option, and the fair value at the end of the lease is below the Option Price, then the Company must pay MPT a sum equal to the difference between the fair value and the Option Price. These transactions do not qualify for sale leaseback accounting because of the Company's deemed continuing involvement with the buyer-lessor, including the requirements to pay reserves for major repairs, and the option to purchase included in the lease, which are considered a form of contingent collateral and results in the transaction being recorded under the financing method. All of the legal entities that are parties to the master lease agreement (which are the hospital entities themselves) provide cross guarantees on all of the obligations to MPT, which guarantees include both lease payments under the master lease as well as indebtedness due to MPT. The balance due under the leases is reflected in MPT liabilities in the accompanying consolidated financial statements.

Further, the Company obtained a mortgage on the Foothill property. This mortgage is secured by the buildings at Foothill. The interest on this mortgage is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this loan is in August 2034. MPT can purchase the property on event of default or at end of term, or if Company does not exercise purchase rights for the aforementioned leased properties. Additionally, if the Foothill property is no longer used as collateral for a promissory note payable to Prospect Medical Group, Inc. ("PMG"), one of the Company's California Medical Groups, then MPT shall have the right to purchase the Foothill property and lease it back to the Company under the second master lease

agreement, for an amount equal to the outstanding principal balance. The referenced promissory note payable to PMG has been included in the calculation of PMG's Tangible Net Equity in connection with requirements of the California Department of Managed Health Care. The balance due under the promissory note payable to MPT is reflected in long term debt in the accompanying consolidated financial statements (see Note 9).

Additionally, the Company entered into a promissory note (the "TRS Note"), under which MPT has advanced to the Company $112,937,000 related to and secured by the value of the properties in Rhode Island. The interest on this note is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this note is the earlier of August 2022 or the conversion to and sale-leaseback of the properties in Rhode Island. The balance due under this note is reflected in long term debt in the accompanying consolidated financial statements (see Note 9).

All of the agreements referenced in this footnote are cross-collateralized and cross defaulted. Based on annualized Adjusted EBITDAR (as defined) achieved over the three years from the transaction date, additional amounts between $50 million to $250 million will be payable to the Company. As of September 30, 2019, there has been no accounting for these amounts in the consolidated financial statements. The proceeds from these transactions were used to pay off in full the Term B-1 Loan and to pay down the amounts outstanding under the Amended ABL Agreements (see Note 9) and the FILO facility, as well as fund a restricted cash account for the future paydown of the Company's pension liabilities and to provide working capital.

The MPT transaction documents contain certain customary covenants and restrictions and a financial covenant based on EBITDAR performance.

Interest expense under these agreements was $6,649,000 for the year ended September 30, 2019.

See Note 13 for future minimum lease payments related to sale leaseback commitments as of September 30, 2019.

11. Stockholder's Equity

Equity Based Compensation Plans

Effective December 15, 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that initially authorized the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings ("Initial Options") to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). These options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, Company and Business Unit performance based on EBITDA targets and CEO and Compensation Committee discretion. Since the Ivy Holdings stock options were granted to Company employees for their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements. Effective June 30, 2015, the Board of Directors of Ivy Holdings adopted the First Amendment to the Ivy Plan. Under the First Amendment, and subsequent amendments, a further 63,704 shares of common stock of Ivy Holdings ("New Options") can be issued.

The New Options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including the same criteria as the Initial Options. However, they only become exercisable on the occurrence of certain corporate transactions, including a change in control of Ivy Holdings, as defined in the Incentive Stock Option Agreements ("Corporate Transaction"). Because the occurrence and timing of a Corporate Transaction is not determinable as of September 30, 2019 and 2018, no compensation cost has been recorded in the Company's consolidated financial statements for the years then ended. See Note 16 for Merger Agreement that was entered into subsequent to year-end.

Under the terms of the Ivy Plan, the exercise price of an incentive stock option ("ISO") may not be less than 100% of the fair market value of the Company's common stock on the date of grant and, if granted to a shareholder owning more than 10% of the Company's common stock, then not less than 110%. Stock options granted under the Ivy Plan have a maximum term of 10 years from the grant date, and are exercisable at such time and upon such terms and conditions as determined by the Compensation Committee. Stock options granted to employees generally vest over four years, subject to continued service, performance, and other criteria. In the case of an ISO, the amount of the aggregate fair market value of common stock with respect to which the ISO grant is exercisable, for the first time by an employee during any calendar year, may not exceed $100,000.

Stock Options Activity

The following table summarizes information about Ivy Holdings stock options outstanding as of September 30, 2019 and 2018 and activity during the years then ended for the Initial Options and the New Options:

	Shares Subject to Options	Weighted Average Exercise Price	Weighted Average Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Months)
Outstanding as of October 1, 2017	168,875	$ 174.91	$ 663.09	73.4
Granted	26,516	418.21	–	–
Exercised	(22,608)	37.74	–	–
Canceled/Forfeited	(9,530)	322.72	–	–
Outstanding as of September 30, 2018 (1)	163,253	140.47	156.53	70.5
Granted	–	–	–	–
Exercised	–	–	–	–
Canceled/Forfeited	(14,233)	231.42	–	–
Outstanding as of September 30, 2019	149,020	$ 131.79	$ –	56.2

(1) The number of options outstanding at September 30, 2018 were modified in connection with the Adjusted Exercise Price of the options (see below).

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the Company's common stock for those awards that have an exercise price currently below the estimated fair value. As of September 30, 2019, the outstanding shares had no aggregate intrinsic value. As of September 30, 2019, there were 101,448 options that are exercisable at a weighted average exercise price of $47.23.

A summary of Ivy Holdings non-vested options and the changes during the fiscal years ended September 30, 2019 and 2018 is presented as follows for the Initial Options and New Options:

	Shares	Weighted Average Grant Date Fair Value
Ivy Holdings Stock Options:		
Nonvested at October 1, 2017	34,364	$ 225.09
Granted	26,516	188.98
Vested	(17,054)	269.50
Canceled/Forfeited	(9,530)	206.09
Nonvested at September 30, 2018	34,296	181.07
Granted	–	–
Vested	–	–
Canceled/Forfeited	(1,876)	200.11
Nonvested at September 30, 2019	32,420	$ 179.97

Stock-Based Compensation Expense

Stock-based compensation expense for all share-based payments in exchange for employee services (including stock options and restricted stock) is measured at fair value on the date of grant, estimated using an option pricing model and is recognized in the consolidated financial statements, net of estimated forfeitures over the awards requisite service period.

The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of options granted. Estimated forfeitures will be revised in future periods if actual forfeitures differ from the estimates and will impact compensation cost in the period in which the change in estimate occurs. The determination of fair value using the Black-Scholes option-pricing model is affected by the Company's estimated stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors.

There were no options granted during the year ended September 30, 2019. Fair value for options granted during the year ended September 30, 2018 was estimated with the following assumptions for Ivy Holdings:

September 30,	2018
Weighted average fair value of option grants	$ 188.98
Estimated fair market value of the Company's common stock on the date of grant	$ 390.14
Weighted average expected life of the options	5 years
Risk-free interest rate	0.85%
Weighted average expected volatility	60.0%
Dividend yield	0.00%

Expected Term - The expected term of options granted represents the period of time that they are estimated to be outstanding.

Risk-Free Interest Rate - The Company bases the risk-free interest rate on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms.

Expected Volatility - The Company estimates the volatility of the common stock at the date of grant based on the average of the historical volatilities of a group of peer companies. The Company has identified a group of comparable companies to calculate historical volatility from publicly available data for sequential periods approximately equal to the expected terms of the option grants. In selecting comparable companies, Management considered several factors including industry, stage of development, size and market capitalization.

Forfeitures - Share-based compensation is recognized only for those awards that are ultimately expected to vest. Compensation expense is recorded net of estimated forfeitures. Those estimates are revised in subsequent periods if actual forfeitures differ from those estimates. The Company used data since December 2010 to estimate pre-vesting option forfeitures.

Stock-based compensation expense for the Ivy Holdings stock options recognized by the Company during the years ended September 30, 2019 and 2018 was $0 and $710,000, respectively. At September 30, 2019, there were no unvested options, which could potentially vest over the next nine fiscal years, subject to meeting the vesting requirements noted above. There were no remaining maximum estimated stock compensation expense to be amortized to expense in future periods. Options which are expected to vest based on CEO and Compensation Committee discretion are treated as variable stock options and are subject to revaluation at each reporting period. Management determined the fair value of the discretionary vested options using a Black Scholes calculation but determined that the change in compensation expense was not material to the consolidated financial statements for the years ended September 30, 2019 and 2018.

Contributions

On January 25, 2019 and on February 6, 2019, Ivy Holdings made equity contributions in the amount of $40,000,000 and $1,000,000, respectively, to Ivy Intermediate Holding Inc., which was then contributed as equity to the Company.

Dividends

On February 22, 2018, the Board of Directors of Ivy Holdings, Inc. (the "Board") approved special cash in the amount of approximately $33,000,000 in bonus payments were made ("the Bonuses") to Option Holders in connection with the dividend provided that any Bonus with respect to an unvested portion of an option shall be payable upon the date such unvested portion becomes vested and exercisable, subject to the Optionee's continued employment with Prospect through such date. At September 30, 2019 and 2018, approximately $2,300,000 was accrued for bonuses in connection with this. To reflect the Dividend and pursuant to the terms of the Option Plan, the Board further resolved to equitably adjust the Options by reducing the per-share exercise price of the Options to an amount determined with reference to the Bonus amount payable by Prospect Medical with respect to such Option (the "Adjusted Exercise Price").

The Company distributed approximately $456,930,000 in connection with the issuance of "New Senior Secured Credit Facilities" during the year ended September 30, 2018, which was recorded against retained earnings, and was ultimately paid to the common stockholders of Ivy Holdings, Inc. (see Note 9).

The Company distributed approximately $44,407,000 during the year ended September 30, 2019, which was recorded against accumulated deficit.

12. Retirement Benefits

The Company sponsors various employee non-contributory, defined benefit pension plans covering certain full-time employees of Crozer, ECHN and Prospect Waterbury, Inc. ("Waterbury").

In connection with the acquisition of Crozer, $100 million of the purchase price was put into an escrow and subsequently used by the Company, as the new sponsor of the Crozer pension plan ("DB Plan") pursuant to IRS rules and regulations, to fund in part the underfunded plan liability then outstanding. Additionally, within five years after acquisition and subject to applicable filing and authorization by the applicable government agency or entity, the Company will adopt a plan amendment to terminate the plan effective within such five year period and will liquidate, fully fund and satisfy, and pay all benefits owed to participants and beneficiaries of the plan by providing lump sum distributions to participants, purchasing annuities for participants who do not elect a lump sum distribution.

Also, in connection with the Crozer acquisition, the plan was frozen with all benefit accruals ceased as of July 1, 2016. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, the Monthly Compensation (as defined), the Credited Service (as defined), the Eligibility Service (as defined) and the accrued benefit was frozen and determined as of July 1, 2016. No benefits accrue since that date. Additionally, the plan was amended to provide that for purposes of determining Vesting Service (as defined) for employees who were employed with the Company before July 1, 2016, years of service shall include all periods of employment completed on and after July 1, 2016, subject to the Break in Service rules (as defined).

On September 3, 2016, the DB Plan was further amended to provide certain Qualifying Participants (as defined) the right to make a Special Benefit Election (as defined) during "2016 Lump Sum Option Window" period from October 15, 2016 through November 30, 2016 to receive or commence receiving his or her vested Accrued Benefit as of December 1, 2016 in accordance with procedures adopted by the Committee.

In conjunction with the acquisition the Company also became the sponsor and assumed CKHS postretirement benefit program (the "OPEB Plan") which is an unfunded medical care and life insurance benefit program, and a supplemental executive retirement plan (the "SERP Plan") which is an unfunded retirement plan that covers a group of current and former executives. These plans were frozen with all benefit accruals ceased as of July 1, 2016. No benefits will accrue since that date. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, benefits will continue to accrue until a settlement of an ongoing union contract negotiation is reached.

ECHN has a defined benefit pension plan that covered substantially all of its employees. The benefits were based upon years of service and compensation for the five highest years during the employee's last 10 years of service. Effective December 31, 2013, ECHN froze the defined-benefit for all remaining participants. During September 2013, the Board passed a resolution to freeze all benefits related to the

Defined benefit pension plan. On December 31, 2008, ECHN implemented a soft freeze on the defined benefit pension plan. All qualified employees were eligible to enter into the defined contribution plan, ECHN contributed 3% of eligible employees' salaries. This contribution was non-guaranteed for all employees, except certain union workers covered under a collective bargaining agreement.

ECHN also sponsors a postretirement benefit plan that provides health care benefits to those employees who retired. The criteria to receive this benefit is to be vested in the pension plan, attain age 55 or older and start collecting under the defined benefit plan described above once retired. The retiree must be enrolled into the medical plan on the date of retirement to be eligible for the continuation. Full-time registered nurse retirees from ECHN's Manchester facility (retired prior to October 1, 2005 and were eligible per the collective bargaining agreement) were grandfathered and required to pay at least 50% of the total cost of the medical and dental coverage they elect for themselves under the plan.

Waterbury has a noncontributory defined benefit cash balance plan. It is Waterbury's policy to make contributions to the plan sufficient to meet the minimum funding requirements of applicable laws and regulations. The plan was frozen to non-union participants effective June 30, 2015. Participants who are part of the Connecticut Healthcare Associates Technical Unit remain active in the plan. Non-union employees no longer accrue additional employer contribution credits in the plan. These participants will continue to receive interest credits based on their account balances in accordance with the terms of the plan. They will be entitled to their account balance (the retirement benefit they have earned up to June 30, 2015) plus applicable interest credits after the Plan were frozen.

The activity of the pension plans for the years ended September 30, 2019 and 2018 is as follows (in thousands):

September 30,	*2019*	*2018*
Changes in benefit obligations		
Projected benefit obligations, beginning of period	$ 660,176	$ 864,293
Service cost	181	194
Interest cost	28,432	27,695
Plan participant contributions	918	461
Actuarial loss	115,016	(48,654)
Benefits paid	(20,482)	(134,185)
Lump sum benefits paid and annuity purchase	(15,606)	(49,628)
Plan changes	(21)	-
Projected benefit obligation, end of year	$ 768,614	$ 660,176
Changes in plan assets		
Fair value of plan assets, beginning of year	$ 400,468	$ 556,590
Actual return on plan assets	80,668	(14,437)
Contributions by plan sponsor	15,939	41,667
Plan participant contributions	327	461
Benefits paid	(21,108)	(134,185)
Lump sum benefits paid and annuity purchase	(15,606)	(49,628)
Fair value of plan assets, end of year	$ 460,688	$ 400,468
Funded status of the plan, end of year	$ (307,926)	$ (259,708)
Accumulated benefit obligation, end of year	$ (307,926)	$ (259,708)

The funded status of the pension plans as of September 30, 2019 and 2018 is as follows (in thousands), split between the pension plans and the post retirement plans:

	2019 Pensions	2019 OPEBs	2019 Total	2018 Pensions	2018 OPEBs	2018 Total
Current liability	$ -	$ 500	$ 500	$ -	$ 600	$ 600
Non-current liability	302,372	5,054	307,426	254,121	4,987	259,108
	$ 302,372	$ 5,554	$ 307,926	$ 254,121	$ 5,587	$ 259,708

The components of net periodic benefit cost for the years ended September 30, 2019 and 2018 are as follows (in thousands):

September 30,	2019	2018
Components of net periodic benefit cost:		
Service cost	$ 181	$ 194
Interest cost	28,432	27,695
Expected return on plan assets	(11,154)	(16,045)
Effect of settlement	-	1,457
Amortization of prior service credit	(48)	(48)
Total net periodic benefit cost	$ 17,411	$ 13,253
Other change in benefit obligations recognized in accumulated other comprehensive income:		
(Gain) Loss due to assumption change	$ 111,382	$ (64,429)
Loss due to participant experience	4,849	14,118
Amortization of net loss	63	-
Asset return (gain) loss	(70,275)	30,483
Prior service cost	28	-
Total recognized in other comprehensive loss (income) and accumulated other comprehensive loss (income)	$ 46,047	$ (19,828)

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The assumptions used in determining the actuarial present value of the projected benefit obligations for pension plans as of September 30, 2019 and 2018 and for the years ended September 30, 2019 and 2018 are as follows:

	2019	2018
Weighted average assumptions used to determine benefit obligations at end of period		
Discount rate	**2.92-3.31%**	3.23-4.48 %
Rate of compensation increase	**0.00-2.00%**	0.00-2.00 %
Weighted average assumptions used to determine net periodic benefit cost for the period ended		
Discount rate	**4.24-4.48%**	3.49-4.41 %
Rate of compensation increase	**0.00-2.00%**	0.00-2.00 %
Expected return on the plan assets	**0.00-4.50%**	0.00-4.50 %

Assumed health care cost trend rates for the next period used to measure the expected cost of benefits covered by the plan are as follows:

	2019	2018
Health care trend rate assumed for next year	**6.75%**	7.00%
Rate to which the cost trend is assumed to decline (the ultimate rate)	**4.50%**	4.50%
Year that the rate reaches the ultimate trend rate	**2027**	2026

Assumed health care cost trend rates have a significant effect on amounts reported for other postretirement benefit programs. A one-percentage-point change in assumed health care cost trends would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on other postretirement benefit obligations	$95	$87
Effect on total of service and interest cost components	$3	$3

The asset allocation percentage by major asset class for the plans and the target allocation for 2019 follows:

	Target	2019
Asset class:		
Cash and cash equivalents	0% - 20%	1 %
Fixed income	10% - 100%	95 %
Domestic equity	0% - 100%	
International equity	0% - 40%	
Real estate	0% - 30%	
Alternative investments and hedge funds	0% - 30%	4 %
		100 %

The investment objectives of the plans are to invest consistently with the fiduciary standards of ERISA, to provide for the funding and anticipated withdrawals on an ongoing basis, conserve and enhance the capital value of the plans in real terms while maintaining a moderate risk profile, to minimize principal fluctuations over the investment cycle, and achieve a long-term level of return commensurate with contemporary economic conditions. The expected long-term rate of return with respect to the plans is based on an aggregate of expected capital market returns within each asset category.

The following tables set forth the assets in the plans measured at fair value, by input level (in thousands):

September 30, 2019	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 36,534	$ -	$ -	$ 36,534
Extended Duration	-	172,610	-	-	172,610
Interim Duration	-	48,328	-	-	48,328
Long-Term Duration	-	181,570	-	-	181,570
Real estate	-	-	1,056	-	1,056
Alternative investments	-	-	17,809	-	17,809
Cash and cash equivalents	-	-	-	2,781	2,781
Total	$ -	$ 439,042	$ 18,865	$ 2,781	$ 460,688

September 30, 2018	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 35,100	$ -	$ -	$ 35,100
Extended Duration	-	125,562	-	-	125,562
Interim Duration	-	41,193	-	-	41,193
Long-Term Duration	-	174,162	-	-	174,162
Real estate	-	-	2,962	-	2,962
Alternative investments	-	-	18,593	-	18,593
Cash and cash equivalents	-	-	-	2,896	2,896
Total	$ -	$ 376,017	$ 21,555	$ 2,896	$ 400,468

Pension plan assets classified as Level 3 in the fair value hierarchy represent investments in which the trustee has used significant unobservable inputs in the valuation model. The hedge funds consist of equity/long/short funds and multi-strategy funds in which fair values have been estimated using the net asset value per share of the investment. The alternative investments primarily consist of investments in limited partnerships that invest in the Public-Private Investment Program which fair values have been estimated using the net asset value per share of the investment.

On an annual basis, the Company assesses the valuation hierarchy for pension assets recorded at fair value. From time to time, assets will be transferred within the fair value hierarchy as a result of changes in, among other things, inputs used, liquidity, or valuation methodologies. During the years ended September 30, 2019 and 2018, there were no transfers in classification within the fair value hierarchy.

The following table is a rollforward of the plans' assets classified within Level 3 of the fair value hierarchy (in thousands):

September 30,	2019	2018
Balance, beginning of year	$ 21,555	$ 23,742
Actual return on plan assets:		
Realized loss	-	-
Unrealized (loss) gain	(2,690)	(2,187)
Purchases	-	-
Sales	-	-
Balance, end of year	$ 18,865	$ 21,555

The expected long-term future benefit payments to retirees with respect to the plans and are as follows (in thousands):

2020	$ 44,970
2021	40,450
2022	41,940
2023	42,760
2024	43,750
2025 - 2029	216,990
	$ 430,860

Waterbury participates in multi-employer pension plans that cover substantially all union employees. Contributions to the plans are based upon a percentage of each participant's total salary. The risks of participating in these multi-employer plans are different from single employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of another participating employer.
- If a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers.
- If Waterbury chose to stop participating in the multi-employer plans, Waterbury may be required to pay those plans an amount based on the underfunded status of the plans, referred to as a withdrawal liability.

The following table presents Waterbury's participation in these plans as of and for the years ended September 30, 2019 and 2018.

Pension Trust Fund	EIN / Pension Plan	Pension Protection Act ("PPA") Certified Zone Status *(1)*		FIP / RP Status Pending / Implemented *(2)*	Contributions		Surcharge Imposed	Exp. Date of CBA
		2019	2018		2019	2018		
Connecticut Health Care Associates Pension Fund	06-1313462	Red	Red	Implemented	$2,122,000	$2,140,000	No	7/1/22
New England Health Care Employees Pension Fund	22-3071963	Green	Green	NA	754,000	821,000	No	3/15/21
Total contributions					$2,876,000	$2,961,000		

(1) The most recent PPA zone status available in 2019 is for the plan's year-ending during 2018. The zone status is based on information received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

(2) The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. As it relates to the Connecticut Health Care Associates ("CHCA") Pension Plan, the trustees adopted a Rehabilitation Plan on May 7, 2018. The Rehabilitation Period, as defined, commenced on January 1, 2019 and ends on December 31, 2028. The trustees updated the Rehabilitation Plan on December 12, 2019 which reflects various reductions to plan benefits effective January 1, 2020.

During the years ended September 30, 2019 and 2018, Waterbury's contributions to the CHCA Pension Plan and the New England Health Care Employees Pension Plan represented 98.1% and 2.4% and 98.2% and 2.6% of the total contributions made to the plans by all participating employers, respectively.

Governmental regulations impose certain requirements relative to union-sponsored pension plans. In the event of plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. As of September 30, 2019, Waterbury has not recorded any liabilities for future withdrawal obligations related to the multi-employer plans.

Defined contribution plans

The Company previously sponsored five defined contribution plans covering substantially all employees who meet certain eligibility requirements. Effective May 1, 2018, the plans covering employees at ECHN, Waterbury and Crozer were merged into the plan covering employees at CharterCARE, and the two remaining plans were renamed and segregated between union and non-union employees. Under these

plans, employees can contribute up to 50% of their compensation up to the IRS deferred annual maximum. There is currently no company match offered under the plans, except at certain facilities in Rhode Island and Pennsylvania, for which the expense for the employer match was $18,863,000 and $19,723,000 for the years ended September 30, 2019 and 2018, respectively.

13. 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 2034. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 2.5% to 41.0% per annum.

The future minimum annual lease payments required under leases in effect at September 30, 2019, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operating Leases	MPT Liability*
2020	$ 12,661	$ 22,455	$ 103,935
2021	9,157	18,685	106,273
2022	4,903	16,987	109,461
2023	4,018	14,195	112,745
2024	2,889	12,887	116,128
Thereafter	19,855	56,273	1,358,111
Total minimum lease payments	53,483	$ 141,482	1,906,653
Less: amounts representing interest	(12,873)		(572,644)
Add: amounts representing land	-		47,176
	40,610		1,381,185
Less: current portion	(10,238)		(43,145)
	$ 30,372		$ 1,338,040

* *Excludes debt related to the Foothill and TRS Notes entered into in fiscal 2019 with MPT (see Note 10).*

Rent expense related to operating leases for the years ended September 30, 2019 and 2018 was approximately $44,959,000 and $46,124,000, respectively. Sublease rental income was not material to the consolidated financial statements for the years ended September 30, 2019 and 2018.

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 consolidated 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 consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Seismic Standards

The Company's California Hospitals (with the exception of Bellflower, which currently only provides psychiatric services) are required to comply with laws that regulate the seismic performance of all aspects of hospital facilities in California and imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and retrofitting or replacement of medical facilities to comply with current seismic standards. These laws and regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake.

The Company was required to conduct engineering studies at its hospitals to determine whether and to what extent modifications to the hospital facilities will be required. Two buildings at Southern California Hospital at Culver City ("SCH Culver City") and one building at Los Angeles Community Hospital ("LACH") do not currently meet the applicable seismic requirements. The three buildings are currently classified at Structural Performance Category 1 ("SPC-1") and, subject to possible deadline extensions discussed below, they must be upgraded to at least SPC-2 by January 1, 2020. That deadline date was set pursuant to an extension granted upon the Company's application submitted in accordance with California Senate Bill 90 (SB 90) and approved by the Office of Statewide Health Planning and Development ("OSHPD").

OSHPD has a voluntary program to re-evaluate the seismic risk of hospital buildings classified as SPC-1. These buildings are considered hazardous and at high risk of collapse in the event of an earthquake and they were required to be retrofitted, replaced or removed from providing acute care services by the applicable deadline. OSHPD is using Hazards U.S. ("HAZUS"), a state-of-the-art methodology, to reassess the seismic risk of SPC-1 buildings. Once the SPC-1 buildings have been seismically upgraded to SPC-2, they are no longer considered a significant risk to occupants, but they may not be repairable or functional after an earthquake. Participation in the HAZUS program is optional for hospital owners wishing to have their SPC-1 buildings evaluated.

Applications for HAZUS evaluation of seismic risk were submitted for all five of the Company's California acute care facilities: Southern California Hospital at Hollywood ("SCH Hollywood"); SCH Culver City; Los Angeles Community Hospital; Los Angeles Community Hospital at Norwalk ("LACH Norwalk"); and Foothill. All buildings at these five facilities obtained SPC-2 reclassification using HAZUS, except for the aforementioned three buildings at SCH Culver City and LACH which are still classified as SPC-1. Currently, failure to obtain SPC-2 reclassification for the three remaining SPC-1 buildings by January 1, 2020 would mean that the buildings would not be allowed to provide acute care services starting on that date.

Recently enacted Assembly Bill 2190 (AB-2190) was utilized to request additional extension. OSHPD granted extensions to 06/01/2022, 10/01/2021, and 02/01/2021 for Tower Building (at SCH Culver City), Pavilion Building (at SCH Culver City), and LACH respectively. For all three buildings, the construction must start by April 1, 2020 for AB-2190 extensions to be valid. SCH-Culver City is evaluating pursuing an alternate "replacement" scheme that would relocate the Emergency department into the adjoining One-Story Building which currently classified as an SPC-2 structure. The Tower Building would be retained as a 'non-hospital' OSHPD building useable for lower acuity services such as behavioral health and subacute/skilled nursing services.

The Company will also be required to make significant capital expenditures in the future to comply with 2030 seismic standards (i.e., upgrade to SPC-4D and NPC-4D/5) for any buildings that will be utilized for hospital facilities beyond January 1, 2030. Such modifications to the hospital facilities could potentially result in environmental remediation liabilities which may be material to the Company.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the costs of renovation needed to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

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. In addition to these federal rules, states have also developed their own standards for the privacy and security of health information as well as for reporting certain violations and breaches (for example, California's Confidentiality of Medical Information Act and Lanterman-Petris Short Act) which in some cases are more stringent. Other federal privacy laws may also apply to certain services provided by the Company, including 42 C.F.R. Part 2, which addresses the confidentiality of substance use disorder records. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Affordable Care Act

The Patient Protection and Affordable Care Act ("PPACA") has made significant changes to the United States health care system. The legislation impacted multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Under this legislation, 33 states have expanded their Medicaid programs to cover previously uninsured childless adults, and four additional states voted in 2018 to expand Medicaid or to elect a governor that pledged to expand Medicaid. In addition, many uninsured individuals have had the opportunity to purchase health insurance via state-based marketplaces, state-based marketplaces using a federal platform, state-partnership marketplaces or the federally-facilitated marketplace. PPACA also implemented a number of health insurance market reforms, such as allowing children to remain on their parents' health insurance until age 26 or prohibiting certain plans from denying coverage based on pre-existing conditions. Nationally, these reforms have reduced the number of uninsured individuals.

It is unclear what changes may be made to PPACA with the divided Congress, current presidential administration, and pending litigation over the validity of PPACA. The Administration has promulgated rules to broaden the availability of coverage options that do not comply with the full range of PPACA requirements for individual market coverage, namely Association Health Plans and Short-Term Limited-Duration Insurance. The Administration has also provided additional guidance on state PPACA waivers. These executive actions have been or may be challenged in court. In addition, the Tax Cuts and Jobs Act ("TCJA"), passed in December 2017, eliminates the individual mandate penalty under PPACA, effective January 1, 2019. The individual mandate penalty was included in PPACA to address concerns that other market reforms expanding access to coverage might produce adverse selection and higher premiums. The extent to which the repeal of the individual mandate penalty will impact the uninsured rate and future premiums are unclear at this juncture. On December 14, 2018, the United States District Court for the Northern District of Texas ruled that the individual mandate without the penalty is unconstitutional and that PPACA is therefore invalid in its entirety. Litigation on this issue is ongoing, with a decision pending from a panel of the United States Court of Appeals for the Fifth Circuit following oral arguments in July 2019. This litigation along with any future legislative changes to PPACA or other federal and state legislation could have a material impact on the operations of the Company. The Company is continuing to monitor the legislative environment and developments in pending litigation for risks and uncertainties.

Collective Bargaining Agreements

As of September 30, 2019, the Company had approximately 17,800 employees, of whom approximately 5,500 employees or 31% are represented by various labor organizations. Of those, approximately 1,300 employees or 7% of the Company's employees are employed under union contracts that have expired or will expire before September 30, 2020.

Tangible Net Equity ("TNE") Requirement

The Company's affiliated California physician organizations and licensed healthcare service plans may be subject to one or more of the following requirements: minimum working capital, Tangible Net Equity, cash-to-claims ratio and claims payment requirements as prescribed by the California Department of Managed Health Care ("DMHC"). TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. As of September 30, 2019, the Company's affiliated California physician organizations were in compliance with these regulatory requirements.

Employee Health Plans

The Company offers self-insured EPO/HMO and PPO plans to 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 (as reflected above). Prior to January 1, 2018, commercial insurance policies covered per occurrence losses. Effective January 1, 2018, all locations were covered by insurance policies with CHIC for per occurrence losses in excess of $350,000, except for Crozer for which the limit is $750,000. CHIC maintains reinsurance coverage above $500,000 for all locations except for Crozer, for which the limit is $750,000. An actuarially and internally-estimated liability of approximately $12,808,000 and $16,566,000 for incurred but not reported claims has been included in accrued salaries, wages, and benefits as of September 30, 2019 and 2018, respectively.

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.

14. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of incurred but not reported ("IBNR") claims reserves (Medical Group segment, Global Risk Management segment, and full risk contracts) as of and for each of the years ended September 30, 2019 and 2018 (in thousands):

September 30,	2019	2018
IBNR as of beginning of year	$ 62,887	$ 53,510
Claim expenses incurred during the year:		
Related to current year	296,817	301,598
Related to prior year	4,523	8,667
Total incurred	301,340	310,265
Claims paid during the year:		
Related to current year	(229,417)	(246,369)
Related to prior year	(62,302)	(54,519)
Total paid	(291,719)	(300,888)
IBNR as of end of year	$ 72,508	$ 62,887

Following is a table showing the details of the Medical Group and Global Risk Management segments cost of revenues per the consolidated statements of operations (in thousands):

Years Ended September 30,	2019	2018
Capitation expense	$ 98,254	$ 96,027
Fee-for-service claims expense	167,702	171,443
Other physician compensation	24,561	15,097
Other cost of revenues	2,558	5,239
Total cost of revenues	$ 293,075	$ 287,806

15. Joint Ventures and Unconsolidated Equity Investments

The Company has invested in several joint ventures with unrelated third parties, which are accounted for under the equity method of accounting. As of September 30, 2019 and 2018, CharterCARE owned: 20% of Roger Williams Radiation Therapy and 20% of Southern New England Regional Cancer Center, LLC. ECHN owned: 50% of NRRON, LLC; 50% of Aetna Ambulance Service, Inc.; 50% of Ambulance Service of Manchester, LLC; and 50% of Evergreen Endoscopy Center, LLC. Waterbury owned: 50% of Harold Leever Regional Cancer Center Inc. Crozer owned: 50% of University Technology Park, Inc. and 21.25% of Delaware Valley Sleep Management Company, LLC. Prospect Medical Group, Inc. owned: 50% of AMVI/Prospect Medical Group. These joint ventures under the equity method are included in the other assets in the accompanying consolidated balance sheets as of September 30, 2019 and 2018 are $28,119,000 and $24,627,000, respectively. For the years ended September 30, 2019 and 2018, the Company received $1,828,000 and $1,746,000, respectively, in distributions for equity method investments, and $527,000 and $404,000, respectively, for cost method investments.

Summarized combined unaudited financial information for the Company's joint ventures as of September 30, 2019 and 2018 and for the years then ended is as follows (in thousands):

September 30,	2019	2018
Cash	$ 18,976	$ 17,226
Receivables	10,096	8,060
Other current assets	21,329	23,654
Total current assets	50,401	48,940
Property, improvements and equipment, net	32,972	33,757
Goodwill	7,142	7,142
Intangible assets	821	852
Other long-term assets	2,904	3,094
Total assets	94,240	93,785
Accounts payable and accrued liabilities	5,827	5,563
Other long-term liabilities	6,116	5,334
Equity	82,297	82,888
Total liabilities and partner's capital	$ 94,240	$ 93,785

Years ended September 30,	2019	2018
Revenues	$ 74,095	$ 67,554
Net income	$ 12,178	$ 5,039
PMH's income from equity method investments	$ 5,358	$ 1,332

16. Subsequent Events

The Company has evaluated subsequent events through December 20, 2019, the date the Company's consolidated financial statements were available for issuance.

Effective October 2, 2019, Ivy Holdings entered into an Agreement and Plan of Merger ("Merger Agreement") with Chamber, Inc. ("Chamber"), Chamber Merger Sub, Inc. and affiliates of LGP. Chamber is owned by two individuals who hold the largest individual shareholdings in Ivy Holdings. The Merger Agreement contemplates, among other things, (i) the purchase of Ivy Holdings by and merger into by Chamber Merger Sub, Inc. (ii) the buyout of all of the other current stockholders of Ivy Holdings, (iii) the termination of all options that have not previously been exercised. The Merger Agreement is subject to regulatory approval by various state agencies and is expected to close during the year ended September 30, 2020.

Exhibit 20

Prospect CharterCARE, LLC

Consolidated Financial Statements

As of and for the Years Ended
September 30, 2019 and 2018

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, LLC

Consolidated Financial Statements

As of and for the Years Ended September 30, 2019 and 2018

Prospect CharterCARE, LLC

Contents

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

Board of Directors
Prospect CharterCARE, LLC
Los Angeles, California

We have audited the accompanying consolidated financial statements of Prospect CharterCARE, LLC, (the "Company") which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations, members' equity, and cash flows for the years then ended, 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. 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prospect CharterCARE, LLC and its subsidiaries as of September 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended 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 company which has agreed to provide the financial support necessary for the operations of the Company. The accompanying financial statements do not reflect any adjustments or disclosures that would be required should the parent company discontinue its financial support.

BDO USA, LLP

February 6, 2020

Prospect CharterCARE, LLC

Consolidated Balance Sheets
(in thousands)

September 30,	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ -	$ -
Restricted cash	174	433
Patient accounts receivable, less allowance for doubtful accounts of $17,871 and $11,141	49,713	46,076
Other receivables	2,895	3,306
Due from government payers	5,531	5,533
Inventories	5,974	5,590
Prepaid expenses and other current assets	3,812	2,188
Total current assets	68,099	63,126
Property, improvements and equipment, net	60,918	59,780
Intangible assets, net	19	1,211
Equity method investments	3,675	4,088
Other assets	1,970	2,302
Total assets	$ 134,681	$ 130,507

See accompanying notes to consolidated financial statements.

Prospect CharterCARE, LLC

Consolidated Balance Sheets
(in thousands)

September 30,	2019	2018
Liabilities and Members' Equity		
Current liabilities		
Accounts payable and other accrued liabilities	$ 33,382	$ 35,590
Accrued salaries, wages and benefits	18,150	17,696
Deferred revenue	170	170
Due to government payers	4,900	4,796
Due to affiliated companies, net	16,694	26,377
Current portion of capital leases	49	798
Total current liabilities	73,345	85,427
Capital leases, net of current portion	43	92
Asset retirement obligations	3,123	2,623
Deferred revenue, net of current portion	1,484	2,270
Other long-term liabilities	10,964	12,674
Total liabilities	88,959	103,086
Commitments and contingencies		
Members' equity		
Member contributions	120,105	92,108
Accumulated deficit	(74,383)	(64,687)
Total members' equity	45,722	27,421
Total liabilities and members' equity	$ 134,681	$ 130,507

See accompanying notes to consolidated financial statements.

Prospect CharterCARE, LLC

Consolidated Statements of Operations
(in thousands)

For the Years Ended September 30,	2019	2018
Revenues		
Net patient service revenues	$ 362,109	$ 354,578
Provision for bad debts	(14,290)	(12,598)
Net patient service revenues less provision for bad debts	347,819	341,980
Other non-patient Hospital revenues	8,879	8,102
Total net revenues	356,698	350,082
Operating Expenses		
Salaries, wages and benefits	189,268	196,794
Supplies	61,933	62,507
Taxes and licenses	22,911	22,309
Purchased services	29,817	24,125
Depreciation and amortization	15,048	15,096
Professional fees	16,545	10,988
Other	3,461	11,287
Insurance	4,091	4,620
Management fees	7,395	7,298
Utilities	5,159	4,771
Lease and rental	5,185	5,438
Research grant expense	2,626	2,503
Repairs and maintenance	1,702	2,675
Registry	699	887
Total operating expenses	365,840	371,298
Operating income from unconsolidated equity method investments	560	589
Operating loss	(8,582)	(20,627)
Other expense (income):		
Interest expense	1,023	955
Goodwill impairment	-	14,228
Other expense (income), net	-	282
Total other (income) expense, net	1,023	15,465
Net loss from continuing operations	(9,605)	(36,092)
Loss from discontinued operations	(91)	(101)
Net loss	$ (9,696)	$ (36,193)

See accompanying notes to consolidated financial statements.

Prospect CharterCARE, LLC

Consolidated Statements of Members' Equity
(in thousands)

	Member Contributions	Accumulated Deficit	Total Members' Equity
Balance at October 1, 2017	$ 82,261	(28,494)	$ 53,767
Member contributions	9,847	-	9,847
Net loss	-	(36,193)	(36,193)
Balance at September 30, 2018	92,108	(64,687)	27,421
Member contributions	27,997	-	27,997
Net loss	-	(9,696)	(9,696)
Balance at September 30, 2019	$ 120,105	$ (74,383)	$ 45,722

See accompanying notes to consolidated financial statements.

Prospect CharterCARE, LLC

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	2019	2018
Operating activities		
Net loss	$ (9,696)	$ (36,193)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	14,292	15,094
Provision for bad debts	(14,290)	12,598
Accretion of interest for asset retirement obligations	756	185
Undistributed earnings from equity method investments	(560)	(589)
Goodwill impairment	-	14,228
Write-off of investment	-	280
Changes in operating assets and liabilities, net of business combinations:		
Change in restricted cash	259	2,595
Patient accounts receivables	10,653	(16,247)
Due to/from government payers, net	106	(99)
Inventories	(384)	215
Prepaid expenses, other receivables and other current assets	(1,213)	2,704
Other assets	332	(829)
Accounts payable and other accrued liabilities	(5,163)	10,381
Net cash (used in) provided by operating activities	(4,908)	4,323
Investing activities		
Purchases of property, improvements and equipment	(9,926)	(8,973)
Cash distributions from equity investments	973	578
Cash paid for acquisitions, net of cash received	-	(736)
Net cash used in investing activities	(8,953)	(9,131)
Financing activities		
Increase in due to affiliated companies, net	14,659	6,288
Repayments of capital leases	(798)	(1,480)
Net cash provided by financing activities	13,861	4,808
Change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	$ -	$ -
Supplemental disclosure of cash flow information		
Interest paid	$ 1,019	$ 955
Schedule of non-cash investing and financing activities		
Accrual of property, improvements and equipment	$ 4,322	$ -
Non-cash acquisitions	$ -	$ 7,692
Non-cash contributions (Note 6)	$ 27,997	$ 9,847

See accompanying notes to consolidated financial statements.

1. Organization

Prospect CharterCARE, LLC ("PCC" or the "Company") is owned 85% by Prospect East PMH, Inc. ("Prospect East"), a wholly-owned subsidiary of Prospect Medical PMH, Inc. ("Prospect" or "PMH") and 15% by CharterCARE Community Board.

The Company provides a comprehensive range of services at Roger Williams Medical Center ("RWMC") and Our Lady of Fatima Hospital ("Fatima" or "SJHRI").

Admitting physicians are primarily practitioners in the local area. The hospitals have payment arrangements with Medicare, Medicaid and other third-party payers, including commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs"). A School of Nursing (the "School") was operated out of the Hospital locations. As of September 30, 2019, the School has been closed.

At September 30, 2019, the Company had negative working capital in the amount $5,077,000. The Company is dependent on Prospect to fund ongoing operations. As of September 30, 2019, the Company had a liability of $16,694,000 due to Prospect and its subsidiaries, 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. During the year ended September 30, 2019, Prospect converted approximately $24,700,000 of liabilities into a capital contribution.

2. Significant Accounting Policies

Principles of Consolidation and 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 all wholly-owned subsidiaries, but do not include the accounts of the parent companies, Prospect or CharterCARE Community Board.

Operating results for the Company's subsidiaries are consolidated with the Company's financial statements from their acquisition dates. All significant intercompany balances and transactions have been eliminated in consolidation.

Revenues

Net Patient Service Revenues

Operating revenue consists primarily of net patient service revenues. The Company reports net patient service revenues 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 following is a summary of sources of patient service revenues (net of contractual allowances and discounts) before provision for doubtful accounts and exclude revenues for discontinued operations (in thousands):

For the Years Ended September 30,	2019	2018
Medicare	$ 151,701	$ 165,882
Medicaid	86,573	74,710
Managed Care	82,955	80,605
Self-Pay/Other	40,880	33,381
Total	$ 362,109	$ 354,578

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 persons with end-stage renal disease and certain other beneficiary categories, including eligible disabled persons. Most inpatient hospital services rendered to Medicare program beneficiaries are paid on a fee-for-service basis at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services also are paid on a fee-for-service basis generally using prospectively determined rates. The Company receives, as appropriate, Medicare disproportionate share hospital ("DSH") and bad debt payments at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare Administrative Contractor. The Company also receives, as appropriate, Medicare uncompensated care DSH payments, which are generally not subject to cost report audit except to determine eligibility for Medicare DSH. The Company also receives Medicare outlier payments on an ongoing basis during the year for cases that are unusually costly, and under certain circumstances these payments may be reconciled to more closely reflect the costs in excess of outlier thresholds after the submission and audit of the annual Medicare cost report. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue.

The Company is reimbursed by Medicare for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare Administrative Contractor. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year that examination is substantially completed.

Although services for most Medicare beneficiaries are paid by the Federal government on a fee-for-service basis, approximately one-third of Medicare beneficiaries are enrolled in a "Medicare Advantage" plan, which is a type of health plan that contracts with the Medicare program to provide hospital and medical benefits to Medicare beneficiaries. Medicare Advantage Plans

include Health Maintenance Organizations, Preferred Provider Organizations, Private Fee-For-Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans. For Medicare beneficiaries enrolled in a Medicare Advantage plan, most Medicare services are covered by the plan and are not paid for under fee-for-service Medicare. Certain Medicare Advantage plans make capitation payments to the Company using a "Risk Adjustment model," which compensates providers based on the health status (acuity) of each enrollee. Providers with higher acuity enrollees generally will receive more and those with healthier enrollees will receive less.

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. Similar to Medicare, cost report settlements are recorded based upon as-filed cost reports and adjusted for tentative and final settlements, if any.

RWMC and SJHSRI are participants in the State of Rhode Island's Disproportionate Share Hospital ("DSH") program, which assists hospitals that provide a disproportionate amount of uncompensated care. Under the program, Rhode Island hospitals, including RWMC and SJHSRI, receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low-income patients. RWMC and SJHSRI recognized revenue related to DSH and Upper Payment Limit ("UPL") reimbursement of $20,456,000 and $19,035,000 for the years ended September 30, 2019 and 2018, respectively. DSH and UPL payments received were $20,074,000 and $17,704,000 for the years ended September 30, 2019 and 2018, respectively. RWMC and SJHSRI recorded license fee expenses of $17,565,000 and $16,815,000 for the years ended September 30, 2019 and 2018, 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 local hospital's indigent and charity care policy.

Laws and regulations governing the third-party payor arrangements are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue in the current period.

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 who lack financial resources and are deemed to be medically indigent based on criteria established under the Company's charity care policy. This care is provided without charge or at amounts less than the Company's established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The direct and indirect costs related to this care totaled approximately $501,000 and $772,000 for the years ended September 30, 2019 and 2018, respectively. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. In addition, the Company provides services to other medically indigent patients under various state Medicaid programs. Such programs pay amounts that are less than the cost of the services provided to the recipients. The Company has not changed its charity care or uninsured discount policies during the years ended September 30, 2019 or 2018.

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 26% and 19% of gross patient accounts receivable as of September 30, 2019 and 2018, respectively, and the increase results from a determination at September 30, 2019 to fully reserve for all patient accounts receivable over 365 days old.

Legislation

All of 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.

Other Non-Patient Hospital Revenues

Other non-patient Hospital revenues totaled $8,879,000 and $8,102,000 for the years ended September 30, 2019 and 2018, respectively. The principal components of other non-patient Hospital revenues include tuition revenue, grant revenue and rental revenue.

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.

Goodwill

Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets.

Goodwill is not amortized; rather it is reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arise. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The Company's annual goodwill impairment test is conducted on July 1. Impairment of goodwill is tested at the reporting unit level, by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting units are estimated. In evaluating whether indicators of impairment exist, the Company considers adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. The goodwill impairment test is a one-step process which consists of estimating based on a weighted combination of (i) the guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model. If the estimated fair value of the reporting unit is less than its carrying value, this indicates that goodwill is impaired, and impairment is recorded based on the deficiency of fair value compared to the carrying value. The Company's impairment test related to goodwill during the year ended

September 30, 2018 resulted in a full impairment of goodwill related to the Rhode Island facilities. There was no goodwill as of and during the year ended September 30, 2019.

Intangible Assets

Intangible assets include trade names. 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 during the years ended September 30, 2019 and 2018.

Insurance Reserves

Medical Malpractice Liability Insurance

The Company carries professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the 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.

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 of the Company's hospitals. The Company's gross claims liability was $8,498,000 and $9,943,000 as of September 30, 2019 and 2018, respectively, and insurance receivables were $1,881,000 and $2,220,000 as of September 30, 2019 and 2018, respectively. The gross claims liability and insurance receivables were estimated using a discount factor of 4% and are included within long-term liabilities and long-term assets, respectively, in the accompanying consolidated balance sheets.

Workers' Compensation Insurance

The Company was fully insured for workers' compensation claims with no deductible during the years ended September 30, 2019 and 2018.

Reserve Methodology

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 consolidated financial position, results of operations or cash flows.

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 statements of operations. The Company has accrued $3,123,000 and $2,623,000 related to asbestos remediation as of September 30, 2019 and 2018, respectively. The liability was estimated using a discount factor which ranged from 1% and 7%.

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 $174,000 and $433,000 as of September 30, 2019 and 2018, respectively, which was restricted for research at the Company's hospitals as well as for School grants.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or net realizable value, which approximates market value, and are expensed as incurred. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Income Taxes

For tax reporting purposes, the Company is treated as a Partnership. The Company and its wholly-owned subsidiaries are pass-through entities. 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, 2019 and 2018, 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.

Nonfinancial assets such as goodwill and identifiable intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. The Company performs an annual impairment test on the goodwill, and performs an impairment test on the intangible assets when there are indications of impairment.

During the year ended September 30, 2018, the Company recorded approximately $14,228,000 of impairment relating to goodwill, which is reflected in the accompanying consolidated statements of operations.

The Company uses the discounted cash flow approach, the guideline public company approach and the guideline transactions approach to estimate the residual value of the Company's goodwill. The measurement of goodwill is a Level 3 measurement.

The following table provides quantitative information related to the significant unobservable inputs to determine fair value and impairment of goodwill as of September 30, 2018:

Residual Value of Goodwill	Valuation Technique	Unobservable Input	Rates
$ -	Discounted Cash Flow	Weighted average cost of capital	9.3%
		Revenue growth rate	2.1% - 2.5%
	Guideline Public Company	LTM EBITDA multiple	7.0x

There were no non-recurring measurements as of September 30, 2019.

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 (excluding revenues for discontinued operations, in thousands):

Years Ended September 30,	2019	% of Total Revenues	2018	% of Total Revenues
Medicare	$ 151,701	42 %	$ 165,882	47 %
Medicaid	86,573	24 %	74,710	21 %
Total	$ 238,274	66 %	$ 240,592	68 %

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.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" with an effective date deferred 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, and interim periods within fiscal years beginning after December 15, 2019. 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 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. The Company is currently evaluating the effect of this guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The standard was originally scheduled to effective for nonpublic entities for fiscal years beginning after December 15, 2019. In November 2019 the FASB issued ASU 2019-10, "Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)" which delayed the effective date by one year to December 2020. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)". The updated standard addresses eight specific cash flow issues with the objective of reducing diversity in practice.

ASU 2016-15 is effective for non-public business entities for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is assessing the impact of the adoption of ASU 2016-15 on its consolidated financial statements.

3. Property, Improvements and Equipment

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

September 30,	2019	2018
Property, improvements and equipment:		
Land and land improvements	$ 7,471	$ 7,471
Buildings and improvements	40,163	39,359
Leasehold improvements	4,410	4,334
Equipment	43,253	39,400
	95,297	90,564
Less: accumulated depreciation	(57,977)	(44,869)
	37,320	45,695
Construction in progress	23,598	14,085
Property, improvements and equipment, net	$ 60,918	$ 59,780

At September 30, 2019 and 2018, the Company had assets under capitalized leases of approximately $4,292,000 and $4,292,000, respectively, and related accumulated depreciation of $2,661,000 and $1,917,000, respectively.

Depreciation expense was $13,100,000 and $13,222,000 for the years ended September 30, 2019 and 2018, respectively.

4. Acquisitions

In December 2017, New University Medical Group ("New UMG") entered into a Second Closing to acquire the remaining assets of University Medical Group ("UMG") that were not acquired in the initial acquisition in December 2014. As consideration for the acquisition, New UMG has assumed certain designated liabilities of the practice, which consists of various loans payable to subsidiaries of the Company, totaling approximately $7.5 million. Post-acquisition, these liabilities are eliminated on consolidation. There was no cash consideration related to the transaction. The remaining assets and liabilities acquired were immaterial and no value was assigned to them in the purchase price allocation, and accordingly goodwill of $7.5 million from the acquisition. The goodwill is deductible for tax purposes at Prospect, with PCC acting as a flow through entity. New UMG's parent company, Prospect CharterCARE Physicians, LLC, dba CharterCARE Medical Associates ("CCMA"), entered into a Post Closing Administrative Services Agreement pursuant to which CCMA and its affiliates provide services to the seller of the practice in connection with its termination of all operations and the wind up its affairs and operations.

Additionally, during the year ended September 30, 2018, CharterCARE Physicians entered into asset purchase agreements to acquire three medical practices with primary care physicians. Total cash consideration for the medical practices was $976,000, of which $240,000 was included in accounts payable in the accompanying consolidated balance sheets and paid in October 2018.

The acquisitions were accounted for as business combinations using the acquisition method of accounting. Under the acquisition accounting method, assets acquired and liabilities assumed are recorded based on their estimated fair values. As asset purchases, goodwill acquired is expected to be deductible for tax purposes.

The following table summarizes the assets acquired and liabilities assumed in connection with the acquisitions during fiscal 2018 (in thousands):

For the Year Ended September 30,	2018
Improvements and equipment	$ 22
Goodwill	8,406
Accrued purchase consideration due to seller	(240)
Liabilities assumed	(7,452)
Net cash consideration	$ 736

As mentioned at Note 2, on July 1, 2018, the Company tested for goodwill impairment which resulted in a full impairment of goodwill. This includes the goodwill presented in the table above (see Note 5).

5. Goodwill and Intangible Assets

Goodwill and intangible assets relate to the Prospect CharterCARE and CharterCARE Physicians medical practices acquisitions, as well as the acquisition of New UMG. The following is a roll-forward of goodwill for the years ended September 30, 2019 and 2018, respectively (in thousands):

September 30,	2019	2018
Balance, beginning of year	$ -	$ 5,822
Acquisitions	-	8,406
Impairment	-	(14,228)
Balance, end of year	$ -	$ -

Identifiable intangible assets are comprised of the following (in thousands):

	Amortization Period	September 30, 2019	September 30, 2018
Trade names	5 years	$ 8,130	$ 8,130
Other	5 years	97	97
Total acquisition cost of intangible assets		8,227	8,227
Less accumulated amortization		(8,208)	(7,016)
Intangible assets, net		$ 19	$ 1,211

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 $1,192,000 and $1,643,000 for the years ended September 30, 2019 and 2018, respectively.

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

Years ended September 30,	
2020	$ 19

The weighted-average remaining useful life for the intangible assets was approximately one month as of September 30, 2019.

6. Members' Equity

In accordance with the Amended & Restated Limited Liability Company Agreement of PCC ("LLC Agreement"), the profit or loss of PCC is to be allocated to the members based on their Adjusted Capital Contribution, as defined in the LLC Agreement. Total member contributions were $27,997,000 and $9,847,000 for the years ended September 30, 2019 and 2018, respectively. For the year ended September 30, 2019 and 2018, contributions were non-cash transactions. All of these contributions were made by Prospect and are accounted for as additional member contributions, however, in accordance with the LLC Agreement, the contributions were allocated 85% to Prospect and 15% to CharterCARE Community Board, consistent with their ownership percentages.

The following is a summary of the members' capital accounts (in thousands):

	Prospect	CharterCARE Community Board	Total
Balance at October 1, 2017	$ 45,702	$ 8,065	$ 53,767
Allocated contributions	8,370	1,477	9,847
Net loss	(30,764)	(5,429)	(36,193)
Balance at September 30, 2018	23,308	4,113	27,421
Allocated contributions	23,798	4,199	27,997
Net loss	(9,108)	(1,607)	(10,715)
Balance at September 30, 2019	$ 37,998	$ 6,705	$ 44,703

7. Related Party Transactions

The Company and Prospect East Hospital Advisory Services, LLC ("PEHAS"), a wholly-owned subsidiary of Prospect, entered into a Management Services Agreement ("MSA") as of June 20, 2014, 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 $7,395,000 and $7,298,000 for the years ended September 30, 2019 and 2018, respectively, which is included within management fees expense in the accompanying consolidated statements of operations. As of September 30, 2019 and 2018, the Company had liabilities related to the MSA due PEHAS of $37,959,000 and $30,568,000, respectively.

In May 2019, Prospect East, which owns 85% of the Company, made a non-cash capital contribution in the amount of approximately $24.7 million, which consisted of converting unpaid management fees due to PEHAS of approximately $20.0 million and approximately $4.7 million of unpaid invoices that Prospect paid on behalf of the Company at April 30, 2019, into equity.

8. 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 2021. Capital leases bear interest at rates ranging from 1.5% to 4.3% per annum.

The future minimum annual lease payments (net of anticipated sublease income) required under leases in effect at September 30, 2019, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operating Leases
2020	$ 50	$ 400
2021	44	34
2022	-	15
2023	-	-
2024	-	-
Total minimum lease payments	94	$ 449
Less: amounts representing interest	(2)	
	92	
Less: current portion	(49)	
	$ 43	

Lease and rental expense was $5,185,000 and $5,438,000 for the years ended September 30, 2019 and 2018, respectively.

Contingent Liability for Borrowings by Prospect

The Company is contingently liable as a guarantor, among others, for amounts borrowed by PMH on senior secured notes (through August 23, 2019), credit facilities at September 30, 2019 and 2018. Additionally, as of September 30, 2019 the Company is a pledger for all of the transactions that PMH has entered into with affiliates of Medical Properties Trust, Inc. ("MPT"), a publicly traded Real Estate Investment Trust, on August 23, 2019.

The obligations and related interest expense related to these credit facilities are not reflected in the Company's consolidated financial statements as of and for the years ended September 30, 2019 and 2018, as the borrowings are reflected in the separate consolidated financial statements of PMH.

Total borrowings outstanding as of September 30, 2019, reflected in the consolidated financial statements of PMH, but for which the Company is contingently liable as a guarantor, were (in thousands):

September 30,	2019	2018
Senior secured credit facility (net of discount of $0 and $20,085, respectively)	$ -	$ 1,094,315
Less: Deferred financing costs, net ("DFC")	-	(16,214)
Total Debt, net of discount, premium and DFC	$ -	$ 1,078,101

On June 30, 2016, PMH entered into a six-year $625,000,000 senior secured term loan B (the "Original Term Loan"). The Original Term Loan was issued with an original discount of 1.50%, or $9,375,000. Additionally, PMH refinanced the previous revolver with a new $100,000,000 asset-based revolving credit facility ("Original ABL Facility" and together with the Original Term Loan, the "New Senior Secured Credit Facilities"). Pursuant to various amendments from August 2016 through October 2017, the aggregate commitment amount under the Original ABL facility was increased in stages to $175,000,000. The original maturity date for the Original ABL Facility was June 30, 2021, and the original maturity date for the Term Loan was June 30, 2022.

On February 22, 2018, PMH refinanced and replaced both the Original Term Loan and the Original ABL Facility, and entered into an Amended and Restated Term Loan Credit Agreement (the "Amended TL Agreement"), by and among PMH (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent and collateral agent. The Amended TL Agreement replaced the Original Term Loan with a new Term B-1 Loan ("Term B-1 Loan"). The principal amount of the Term B-1 Loan is $1,120.0 million and such loan incurred interest at LIBOR (subject to a 1.0% floor) plus 5.5%. The Term B-1 Loan was issued with an original discount of 2% and was originally scheduled to mature on February 22, 2024. The Term B-1 Loan was repaid on August 23, 2019 by the proceeds totaling $1.55 billion from a series of transactions that PMH entered into with affiliates of MPT (see further discussion below).

Additionally, on February 22, 2018, PMH entered into an Amended and Restated ABL Credit Agreement (the "Amended ABL Agreement"), by and among PMH (as the borrower), the lenders party thereto and JPMorgan, as administrative agent and collateral agent. The Amended ABL Agreement replaced the Original ABL Facility. Under the Amended ABL Agreement, the maximum revolving commitment was $250,000,000 with ability to expand the facility to $325,000,000, and the new ABL facility (the "New ABL Facility") bears interest at a variable base rate plus an applicable spread that is based on excess availability under the New ABL Facility, as further described in the Amended ABL Agreement, which was 6.0% as of September 30, 2019. From January 2019 through July 2019 PMH entered into various amendments to the Amended ABL Agreement. Such amendments (i) waived certain events of default at September 30, 2018; (ii) increased the maximum revolving commitment from $250.0 million to $280.0 million, and further to $285.0 million, while simultaneously reducing and removing future expansion of the facility; (iii) introduced $40.0 million of a first in last out ("FILO") revolving facility, which incurred interest at either 2.5% or 3.5% per annum depending on whether they are Eurodollar loans or ABR loans (which were repaid on August 23, 2019); (iv) provides for a reduction in the maximum revolving commitment by $20.0 million and $10.0 million upon the future planned closure or disposition of Nix Health and EOGH, respectively. The New ABL Facility matures on February 22, 2023. As of September 30, 2019, the outstanding balance and the available balance on the New ABL facility was approximately $70.0 million and $175.6 million, respectively. On August 23, 2019, PMH closed a series of transactions with affiliates of MPT. Under these transactions, PMH sold to MPT its hospital buildings in California (excluding Foothill Regional Medical Center ("Foothill"), Connecticut and Pennsylvania for an aggregate purchase price of $1,386,000,000. Concurrent with the sale transactions, PMH entered into two master lease agreements whereby the hospital properties and related medical office buildings were leased back for an initial 15 year term, with options to extend twice for an additional 5 years each and for a further 4.75 year extension. Monthly rent is defined as 7.5% of the lease base, subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. For the first master lease, PMH has the option to buy the properties at their fair value at the end of the lease term. For the second master lease, PMH has the option to purchase at a price that is fixed at the time of entering into the lease (the "Option Price"). If PMH chooses not to exercise this option, and the fair value at the end of the lease is below the Option

Price, then PMH must pay MPT a sum equal to the difference between the fair value and the Option Price. All of the legal entities that are parties to the master lease agreement (which are the hospital entities themselves) provide cross guarantees on all of the obligations to MPT, which guarantees include both lease payments under the master lease as well as indebtedness due to MPT. The balance under sale-leaseback liabilities was $1,331,000,000 at September 30, 2019, as reflected in PMH's consolidated financial statements.

Further, PMH obtained a mortgage on the Foothill property. This mortgage is secured by the buildings at Foothill. The interest on this mortgage is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this loan is in August 2034. MPT can purchase the property on event of default or at end of term, or if Company does not exercise purchase rights for the aforementioned leased properties. Additionally, if the Foothill property is no longer used as collateral for a promissory note payable to Prospect Medical Group, Inc. ("PMG"), , then MPT shall have the right to purchase the Foothill property and lease it back to PMH under the second master lease agreement, for an amount equal to the outstanding principal balance. The referenced promissory note payable to PMG has been included in the calculation of PMG's Tangible Net Equity in connection with requirements of the California Department of Managed Health Care. The balance under this mortgage loan was $51,276,000 at September 30, 2019, as reflected in PMH's consolidated financial statements.

Additionally, PMH entered into a promissory note (the "TRS Note"), under which MPT has advanced to PMH $112,937,000 related to the value of the properties in Rhode Island. The interest on this note is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this note is the earlier of July 2022 or the conversion to and sale-leaseback of the properties in Rhode Island. The balance under this mortgage loan was $112,215,000 at September 30, 2019, as reflected in PMH's consolidated financial statements.

All of the agreements with MPT are cross-collateralized and cross defaulted. The MPT transaction documents contain certain customary covenants and restrictions and a financial covenant based on EBITDAR performance, and PMH was in compliance with such covenants at September 30, 2019.

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 consolidated 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 consolidated 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. In addition to these federal rules, states have also developed their own standards for the privacy and security of health information as well as for reporting certain violations and breaches (for example, California's Confidentiality of Medical Information Act and Lanterman-Petris Short Act) which in some cases are more stringent. Other federal privacy laws may also apply to certain services provided by the Company, including 42 C.F.R. Part 2, which addresses the confidentiality of substance use disorder records. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Affordable Care Act

The Patient Protection and Affordable Care Act ("PPACA") has made significant changes to the United States health care system. The legislation impacted multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Under this legislation, 33 states have expanded their Medicaid programs to cover previously uninsured childless adults, and four additional states voted in 2018 to expand Medicaid or to elect a governor that pledged to expand Medicaid. In addition, many uninsured individuals have had the opportunity to purchase health insurance via state-based marketplaces, state-based marketplaces using a federal platform, state-partnership marketplaces or the federally-facilitated marketplace. PPACA also implemented a number of health insurance market reforms, such as allowing children to remain on their parents' health insurance until age 26 or prohibiting certain plans from denying coverage based on pre-existing conditions. Nationally, these reforms have reduced the number of uninsured individuals.

It is unclear what changes may be made to PPACA with the divided Congress, current presidential administration, and pending litigation over the validity of PPACA. The Administration has promulgated rules to broaden the availability of coverage options that do not comply with the full range of PPACA requirements for individual market coverage, namely Association Health Plans and Short-Term Limited-Duration Insurance. The Administration has also provided additional guidance on state PPACA waivers. These executive actions have been or may be challenged in court. In addition, the Tax Cuts and Jobs Act ("TCJA"), passed in December 2017, eliminates the individual mandate penalty under PPACA, effective January 1, 2019. The individual mandate penalty was included in PPACA to address concerns that other market reforms expanding access to coverage might produce adverse selection and higher premiums. The extent to which the repeal of the individual mandate penalty will impact the uninsured rate and future premiums are unclear at this juncture. On December 14, 2018, the

United States District Court for the Northern District of Texas ruled that the individual mandate without the penalty is unconstitutional and that PPACA is therefore invalid in its entirety. Litigation on this issue is ongoing, with a decision pending from a panel of the United States Court of Appeals for the Fifth Circuit following oral arguments in July 2019. This litigation along with any future legislative changes to PPACA or other federal and state legislation could have a material impact on the operations of the Company. The Company is continuing to monitor the legislative environment and developments in pending litigation for risks and uncertainties.

Collective Bargaining Agreements

The Company has 304 employees that are subject to a collective bargaining agreement with United Nurses and Allied Professionals ("UNAP"), which was effective beginning July 15, 2019 and expires July 31, 2019. During April 2015, a hospital unit consisting of approximately 430 service employees of Fatima elected to be represented by UNAP. The parties entered into a new collective bargaining agreement which was effective beginning July 2, 2019 and expires on June 30, 2022. A small number of employees are subject to a collective bargaining agreement with the Federation of Nurses and Health Professionals ("FNHP"), which expires on July 30, 2021.

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.

9. Defined Contribution Plan

Prospect sponsors defined contribution plans (the "Plans") covering substantially all employees who meet certain eligibility requirements. Under the Plans, employees can contribute up to 100% of their compensation up to the IRS deferred annual maximum. Effective May 1, 2018, the plans covering employees at Prospect's facilities in Connecticut and Pennsylvania merged into the plans covering employees at CharterCARE, and the two remaining plans were renamed and segregated between union and non-union employees. The Company may make discretionary matching contributions to the Plans. Employer contributions to the Plan were $1,981,000 and $1,925,000 for the years ended September 30, 2019 and 2018, respectively.

10. 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. 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, 2019 and 2018, the Company's investments in RWRT, SNERCC, and other minor investments under the equity method were approximately $3,675,000 and $4,088,000, respectively, and are included in equity method investments in the accompanying consolidated balance sheets. For the years ended September 30,

2019 and 2018, the Company recognized approximately $560,000 and $589,000, respectively, as its share of the financial results of RWRT, SNERCC, and other minor investments and received $973,000 and $614,000, respectively, in distributions.

Summarized combined unaudited financial information for RWRT and SNERCC as of and for the years ended September 30, 2019 and 2018 is as follows (in thousands):

September 30,	2019	2018
Cash	$ 1,905	$ 2,515
Receivables and other current assets	1,683	3,756
Total current assets	3,588	6,271
Property, improvements and equipment, net	3,849	3,502
Goodwill	7,142	7,142
Intangible assets	821	851
Other long-term assets	1,532	1,569
Total assets	$ 16,932	$ 19,335
Accounts payable and accrued liabilities	$ 1,304	$ 1,052
Other long-term liabilities	948	420
Equity	14,680	17,863
Total liabilities and partner's capital	$ 16,932	$ 19,335

For the Years Ended September 30,	2019	2018
Revenues	$ 16,678	$ 17,278
Net income	$ 2,461	$ 2,953
Income from equity method investments	$ 560	$ 589

11. Subsequent Events

The Company has evaluated subsequent events through February 6, 2020, the date the Company's consolidated financial statements were available for issuance.

Exhibit 21

West's Rhode Island Administrative Code
Title 216. Department of Health
Chapter 40. Professional Licensing and Facility Regulation
Subchapter 10. Facilities Regulation
Part 4. Licensing of Hospitals (Refs & Annos)

216-RICR- 40-10-4.4
Formerly cited as RI ADC 31-4-18:2.0; RI ADC 31-4-18:3.0; RI ADC 31-4-18:4.0; RI ADC 31-4-18:5.0; RI ADC 31-4-18:6.0; RI ADC 31-4-18:7.0

40-10-4.4. Licensing Procedures

Currentness

4.4.1 General Requirements for Licensure

A. No person acting severally or jointly with any other person, shall establish, conduct or maintain a hospital in this state without a license in accordance with the requirements of R.I. Gen. Laws § 23-17-4.

B. A certificate of need is required as a precondition to the establishment of a new hospital, and such other activities in accordance with "Rules and Regulations for Determination of Need for New Health Care Equipment and New Institutional Health Services."

C. Each premises and the related operations of a licensed hospital shall be approved by the Department of Health prior to the inclusion of that premises on the hospital license and commencement of operations at that location.

1. The hospital shall have a written lease, contract, or other legal document in place for use of space on premises not owned by the hospital.

D. The hospital shall maintain current accreditation by any organization granted deeming authority by the federal Centers for Medicare and Medicaid Services (CMS).

E. The hospital shall be subject to the provisions of R.I. Gen. Laws Chapter 23-17.17, and the Rules and Regulations Related to the Health Care Quality Program (Part 10-10-7 of this Title) promulgated by the Department. Nothing in these regulations should be construed to be inconsistent with the Rules and Regulations Related to the Health Care Quality Program.

4.4.2 Application for License or Changes in the Owner, Operator, or Lessee

A. Application for a license to conduct, maintain or operate a hospital shall be made to the licensing agency upon forms provided by it one (1) month prior to expiration date of license and shall contain such information as the licensing agency

reasonably requires which may include affirmative evidence of ability to comply with the provisions of R.I. Gen. Laws Chapter 23-17 and these regulations.

1. Each application shall be accompanied by a non-refundable, non-returnable application fee as set forth in the Rules and Regulations Pertaining to the Fee Structure for Licensing, Laboratory and Administrative Services Provided by the Department of Health (Part 10-05-2 of this Title).

B. Application for changes in the owner, operator, or lessee of a hospital shall be made on forms provided by the licensing agency and shall contain but not be limited to: information pertinent to the statutory purpose expressed in R.I. Gen. Laws § 23-17-3 or to the considerations enumerated in § 4.4.3(E) of this Part. An application for a proposed conversion pursuant to the provisions of R.I. Gen. Laws § 23-17.14 shall contain all information required pursuant to R.I. Gen. Laws § 23-17.14 as may be determined by the state agency. Further, when review of a proposed change in owner, operator or lessee of a hospital and review of a proposed conversion are both required pursuant to the provisions of R.I. Gen. Laws Chapters 23-17 and 23-17.14, respectively, a conversion application shall be filed with the Department of Health which contains all information required pursuant to R.I. Gen. Laws Chapter 23-17.14 as may be determined by the state agency; and a separate application for a change in effective control shall be filed containing all information required under the provisions of R.I. Gen. Laws Chapter 23-17 and § 4.4.2 of this Part. Twenty-five (25) copies of the change in effective control application are required to be provided.

1. Each application filed pursuant the provisions of this section shall be accompanied by a non-refundable, non-returnable application fee, as set forth in the Rules and Regulations Pertaining to the Fee Structure for Licensing, Laboratory and Administrative Services Provided by the Department of Health (Part 10-05-2 of this Title).

4.4.3 Issuance & Renewal of License

A. Upon receipt of an application for a license, the licensing agency shall issue a license or renewal thereof for a period of no more than one (1) year if the applicant meets the requirements of R.I. Gen. Laws Chapter 23-17 and these regulations. Said license, unless sooner suspended or revoked, shall expire by limitation on the 31st day of December following its issuance and may be renewed from year to year after inspection and approval by the licensing agency.

1. All renewal applications shall be accompanied by a non-refundable, non-returnable annual inspection fee as set forth in the Rules and Regulations Pertaining to the Fee Structure for Licensing, Laboratory and Administrative Services Provided by the Department of Health (Part 10-05-2 of this Title).

B. A license shall be issued to a specific licensee for a specific location(s) and shall not be transferable. The license shall be issued only for the premises and the individual owner, operator or lessee, or to the corporate entity responsible for its governance, as identified in the application.

1. Any change in owner, operator, or lessee of a licensed hospital shall require prior advisory review by the Health Services Council and approval of the licensing agency as provided in §§ 4.4.3(D) through 4.4.3(E) of this Part as a condition precedent to the transfer, assignment or issuance of a new license.

2. Any conversion of a licensed hospital shall require prior approval of the licensing agency as provided in the "Rules and Regulations Pertaining to Hospital Conversions."

3. Any change or addition in premises shall require prior review and approval by the Department of Health and amendment of the hospital license.

C. A license issued hereunder shall be the property of the State of Rhode Island and loaned to such licensee and it shall be kept posted in a conspicuous place on the licensed premises.

D. Reviews of applications for changes in the owner, operator, or lessee of licensed hospitals shall be conducted according to the following procedures:

1. Within ten (10) working days of receipt, in acceptable form, of an application for a license in connection with a change in the owner, operator or lessee of an existing hospital, the licensing agency will notify and afford the public thirty (30) days to comment on such application.

2. The decision of the licensing agency will be rendered within ninety (90) days from acceptance of the application.

3. The Health Services Council shall transmit its advisory to the state agency in writing. The decision of the licensing agency shall be based upon the findings and recommendations of the Health Services Council unless the licensing agency shall afford written justification for variance therefrom.

4. All applications reviewed by the licensing agency and all written materials pertinent to licensing agency review, including minutes of all Health Services Council meetings, shall be accessible to the public upon request.

E. Except as otherwise provided in these regulations, a review by the Health Services Council of an application for a license, in the case of a proposed change in the owner, operator, or lessee of a licensed hospital, shall specifically consider and it shall be the applicant's burden of proof to demonstrate:

1. The character, commitment, competence and standing in the community of the proposed owners, operators or directors of the hospital as evidenced by:

a. In cases where the proposed owners, operators, or directors of the health care facility currently own, operate, or direct a health care facility, or in the past five years owned, operated or directed a health care facility, whether within or outside Rhode Island, the demonstrated commitment and record of that (those) person(s):

(1) in providing safe and adequate treatment to the individuals receiving the health care facility's services;

(2) in encouraging, promoting and effecting quality improvement in all aspects of health care facility services; and

(3) in providing appropriate access to health care facility services;

b. A complete disclosure of all individuals and entities comprising the applicant; and

c. The applicant's proposed and demonstrated financial commitment to the health care facility.

2. The extent to which the facility will continue, without material effect on its viability at the time of change of owner, operator, or lessee, to provide safe and adequate treatment for individual's receiving the facility's services as evidenced by:

a. The immediate and long term financial feasibility of the proposed financing plan;

(1) The proposed amount and sources of owner's equity to be provided by the applicant;

(2) The proposed financial plan for operating and capital expenses and income for the period immediately prior to, during and after the implementation of the change in owner, operator or lessee of the health care facility;

(3) The relative availability of funds for capital and operating needs;

(4) The applicant's demonstrated financial capability;

(5) Such other financial indicators as may be requested by the state agency;

3. The extent to which the facility will continue to provide safe and adequate treatment for individuals receiving the facility's services and the extent to which the facility will encourage quality improvement in all aspects of the operation of the health care facility as evidenced by:

a. The applicant's demonstrated record in providing safe and adequate treatment to individuals receiving services at facilities owned, operated, or directed by the applicant; and

b. The credibility and demonstrated or potential effectiveness of the applicant's proposed quality assurance programs.

4. The extent to which the facility will continue to provide appropriate access with respect to traditionally underserved populations as evidenced by:

a. In cases where the proposed owners, operators, or directors of the health care facility currently own, operate, or direct a health care facility, or in the past five years owned, operated or directed a health care facility, both within and outside of Rhode Island, the demonstrated record of that person(s) with respect to access of traditionally underserved populations to its health care facilities; and

b. The proposed immediate and long term plans of the applicant to ensure adequate and appropriate access to the programs and health care services to be provided by the health care facility.

5. In consideration of the proposed continuation or termination of emergency, primary care and/or other core health care services by the facility:

a. The effect(s) of such continuation or termination on access to safe and adequate treatment of individuals, including but not limited to traditionally underserved populations.

6. And in cases where the application involves a merger, consolidation or otherwise legal affiliation of two or more health care facilities, the proposed immediate and long term plans of such health care facilities with respect to the health care programs to be offered and health care services to be provided by such health care facilities as a result of the merger, consolidation or otherwise legal affiliation.

F. Subsequent to reviews conducted under §§ 4.4.3(D) through 4.4.3(E) of this Part, the issuance of a license by the licensing agency may be made subject to any condition, provided that no condition may be made unless it directly relates to the statutory purpose expressed in R.I. Gen. Laws § 23-17-3, or to the review criteria set forth in § 4.4.3(E) of this Part. This shall not limit the authority of the licensing agency to require correction of conditions or defects which existed prior to the proposed change of owner, operator, or lessee and of which notice had been given to the facility by the licensing agency.

G. Any new hospital licensee shall meet the statewide community standard for the provision of charity care as a condition of initial and continued licensure, pursuant to § 4.5.2 of this Part.

H. Those entities engaged in a hospital conversion shall be subject to the provisions of the "Rules and Regulations Pertaining to Hospital Conversions" promulgated by the Department. Nothing in these regulations should be construed to be inconsistent with the "Rules and Regulations Pertaining to Hospital Conversions."

4.4.4 Capacity & Classification

A. Each license shall be issued for the specified licensed bed capacity of the hospital. No hospital shall have more inpatients than the number of beds for which it is licensed, except in cases of short term seasonal fluctuations, local epidemics, or multiple casualty emergencies.

1. The number of women in active labor admitted at any point in time to the birth center service shall be no greater than the number of birth rooms in the center.

4.4.5 Inspections

A. The licensing agency shall make, or cause to be made, such inspections and investigations as it deems necessary in accordance with R.I. Gen. Laws § 23-17-10 and these regulations.

B. Every hospital shall be given prompt notice by the licensing agency of all deficiencies reported as a result of an inspection or investigation.

C. Written reports and recommendations of inspections shall be maintained on file in each hospital for a period of no less than three (3) years.

4.4.6 Denial, Suspension, Revocation of License, Curtailment of Activities or Cessation of Operation

A. The licensing agency is authorized to deny, suspend or revoke the license or curtail activities of any hospital which: has failed to comply with the rules and regulations pertaining to licensing of hospitals; and has failed to comply with the provisions of R.I. Gen. Laws Chapter 23-17.

1. Lists of deficiencies noted in inspections conducted in accordance with § 4.4.5 of this Part shall be maintained on file in the licensing agency and shall be considered by the licensing agency in rendering determinations to deny, suspend or revoke the license or curtail activities of a hospital.

B. Where the licensing agency deems that operation of a hospital results in undue hardship to patients as a result of deficiencies, the licensing agency is authorized to deny licensure to facilities not previously licensed, or to suspend for a stipulated period of time or revoke the license of a hospital already licensed or curtail activities of the hospital.

C. Whenever an action shall be proposed to deny, suspend or revoke a hospital license, or curtail its activities, the licensing agency shall notify the hospital by certified mail, setting forth reasons for the proposed action, and the applicant or licensee shall be given an opportunity for a prompt and fair hearing in accordance with R.I. Gen. Laws §§ 23-17-8 and 42-35-9.

1. However, if the licensing agency finds that public health, safety, or welfare imperatively requires emergency action and incorporates a finding to that effect in its order, the licensing agency may order summary suspension of license or curtailment of activities pending proceedings for revocation or other action in accordance with R.I. Gen. Laws §§ 23-1-21 and 42-35-14(c).

D. The appropriate state and federal placement and reimbursement agencies shall be notified of any action taken by the licensing agency pertaining to either denial, suspension, or revocation of license or curtailment of activities.

E. A license shall immediately become void and shall be returned to the licensing agency whenever the hospital ceases delivering patient care.

Credits
Adopted Sept. 28, 2017. Amended Sept. 28, 2017.

Current with amendments received through May 31, 2020.

216 R.I. Admin. Code 40-10-4.4, 216 RI ADC 40-10-4.4

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