



# Public Health and Health Planning Council

Project # 111096-E

**L. Woerner, Inc.  
d/b/a HCR**

**County: Schoharie (Schoharie)  
Purpose: Establishment**

**Program: Certified Home Health Agency  
Submitted: January 10, 2011**

## Executive Summary

### Description

L. Woerner, Inc., d/b/a HCR (HCR), an existing proprietary Article 36 certified home health agency (CHHA) and licensed home care services agency (LHCSA) serving Monroe, Genesee and Orleans Counties, wishes to purchase and become the new owner/operator of Schoharie County Department of Health's CHHA serving Schoharie County. The Schoharie County CHHA currently has 800 registrants.

Via CONs #111529-E and #112025-E, HCR received Public Health and Health Planning Council (PHHPC) approval in October 2011 to acquire the Cortland County and Madison County CHHAs, respectively. CON #121027-E to acquire Delaware County's CHHA and LTHHCP is being presented to the PHHPC for approval, concurrent with this CON.

Ownership of L. Woerner, Inc. d/b/a HCR is as follows:

|                               |     |
|-------------------------------|-----|
| Employee Stock Ownership Plan | 90% |
| Louise Woerner                | 7%  |
| Mark Maxim                    | 3%  |

The Employee Stock Ownership Plan (ESOP) was established as a benefit to L. Woerner, Inc.'s employees. The ESOP established a trust agreement into which L. Woerner, Inc. d/b/a HCR intends to place 90% of its stock. Each participating employee will have a separate agreement in the trust to hold the employee stock. Participants may not sell, transfer, assign, pledge, or encumber their interest in the Trust. ESOP participants will be permitted to instruct the voting trustees as to the manner in which the shares of stock allocated to their account will be voted, only in the event of a corporate merger, consolidation, recapitalization, reclassification, liquidation, or dissolution sale of substantially all assets of HCR.

DOH Recommendation  
Approval.

### Need Summary

As this project involves only a change in the ownership of a CHHA, no Need recommendation is required.

### Program Summary

HCR plans to open a new separate and distinct agency in Schoharie County to serve Schoharie County, and close Schoharie County Department of Health Home Health Agency. HCR will continue serving Genesee, Orleans and Monroe Counties from its office located in Monroe County. HCR and its principals all possess the appropriate character and competence for approval of this application.

### Financial Summary

The total purchase price of \$135,000 will be met from equity.

|         |                    |                  |
|---------|--------------------|------------------|
| Budget: | <i>Revenues:</i>   | \$ 1,356,430     |
|         | <i>Expenses:</i>   | <u>1,264,903</u> |
|         | <i>Net Income:</i> | \$ 91,527        |

The applicant has demonstrated the capability to proceed in a financially feasible manner.

### Architectural Summary

This project is for Establishment action only; therefore, no Architectural recommendation is required.

## Recommendations

Health Systems Agency

There will be no HSA recommendation for this application.

Office of Health Systems Management

**Approval conditional upon:**

1. Proper notice being given to all employees participating in the employee stock ownership plan (ESOP) of the potential for an audit risk due to the lack of a legal separation between the CHHA and the LHCSA as it relates to payment structures. [CHA]
2. No employee, or any other individual, owning/controlling 10% or more of the stock without first obtaining Department of Health and/or Public Health and Health Planning Council approval, as appropriate. [CHA]

Council Action Date

**February 2, 2012.**

## Programmatic Analysis

### Review Summary

L. Woerner, Inc., a business corporation operating under the assumed name of HCR (Home Care of Rochester), was established as the operator of an Article 36 certified home health agency (CHHA) serving Monroe and Genesee Counties, a Long Term Home Health Care Program (LTHHCP) serving Genesee County and an Article 36 licensed home care service agency (LHCSA) under the same assumed name. There are no other parent, subsidiary, or affiliate corporations.

HCR is applying for approval to purchase and become the new owner/operator of the CHHA currently operated by Schoharie County Department of Health to serve Schoharie County. HCR plans to open a new separate and distinct agency in Schoharie County, and Schoharie County Department of Health Home Health Agency will close.

HCR will provide the services of Home Health Aide, Medical Social Services, Medical Supplies/Equipment/Appliances, Nursing, Occupational Therapy, Physical Therapy and Speech Language Pathology to the residents of Schoharie County.

In 2006, L. Woerner, Inc, d/b/a HCR, CON #061088-E, received Public Health Council approval to convert 90% of the shares of corporate stock (which up to that time were owned 90.5% by Louise Woerner and 9.5% by Mark Maxim - both disclosed below), to an Employee Stock Ownership Plan (ESOP), and establish a trust to control and manage the assets, including the stock, held by the ESOP. Ms. Woerner retained 7% of the shares, and Mr. Maxim retained 3% of the shares.

Each employee participating in the ESOP does not actually take ownership of the stock itself, but instead has a separate stock account in the trust to hold his/her allocation of stock. Ms. Woerner and Mr. Maxim are named the sole voting trustees of the ESOP trust, with the power to: manage and control the assets, including the stock, held in the trust; sell, exchange, transfer, or grant options for any property held in the trust; and vote all allocated and unallocated shares of stock. Employees participating in the ESOP instruct the trustees in the manner to vote the shares of stock allocated to their stock account only in the event of corporate merger, consolidation, recapitalization, reclassification, liquidation, dissolution, or sale of substantially all assets of the company or similar transaction. Additional trustees may be designated in the future, but they will not have any voting rights. The Certificate of Amendment to the Certificate of Incorporation stated that the corporation's stock shall be held only by employees of L. Woerner, Inc., d/b/a HCR, or any of its wholly owned subsidiaries, or by the ESOP trust. Employees participating in the ESOP may not sell, transfer, assign, pledge, or encumber the shares of stock allocated to their stock account. Dividends will be allocated among, and credited to, each participant's stock accounts on the basis of the number of shares held by the participant's account. The applicant had confirmed, and has restated such confirmation for this current project proposal, that no employee controls 10% or more of the stock, or will control 10% or more of the stock without first obtaining Department of Health and/or Public Health Council approval, as appropriate.

CON #061088-E also noted that L. Woerner, Inc., d/b/a HCR, operates both a CHHA and LHCSA out of a single corporation. The Department has discouraged this type of arrangement because of the different regulatory requirements and payment structures applicable to CHHAs and LHCSAs. L. Woerner, Inc., d/b/a HCR wished to retain its current corporate arrangement, thus placing the agency at potential risk for future audit liabilities due to there being two different payment structures for the same service within a single corporation. Therefore, the Department required the agency to provide written notification, approved by the Department, to all participants in the ESOP of the possible loss in dividends resulting from the audit risk posed by the corporate structure. The applicant had confirmed, and has restated such confirmation for this current project proposal, that the agency continues to provide such written notification, as previously approved by the Department, to all participants in the ESOP, of the possible loss in dividends resulting from the audit risk posed by the corporate structure.

The corporation is currently authorized 2,000,000 shares of stock. The stockholders and stock distribution are as follows:

Employee Stock Ownership Plan Trust – 1,800,000 shares (90%)  
Louise Woerner – 140,000 shares (7%)  
Mark Maxim – 60,000 shares (3%)

The Trustees of the Employee Stock Ownership Plan Trust are as follows:

**Louise Woerner**

Chief Executive Officer, L. Woerner, Inc.,  
d/b/a HCR (CHHA and LHCSA)

Affiliations:

- HealthNow New York, Inc., Buffalo  
(Managed Care Program) – 4/1/02 to  
4/10/08

**Mark Maxim, CPA**

Chief Operating Officer / Administrator, L.  
Woerner, Inc., d/b/a HCR (CHHA and  
LHCSA)

Affiliations:

- Lakeside Memorial Hospital, Inc.,  
Brockport (Hospital) - 5/3/06 to present

The members of Board of Directors of L. Woerner, Inc., d/b/a HCR, are as follows:

**Louise Woerner**

Previously Disclosed

**Don H. Kollmorgen**

Retired

**Mark Maxim, CPA**

Previously Disclosed

**Carolyn A. Maxim, LMSW**

Owner, Carolyn A. Maxim, LMSW  
(Counseling Services)

The Office of the Professions of the State Education Department indicates no issues with the CPA licensures of Mr. Maxim or with the LMSW license of Ms. Maxim. In addition, a search of all of the above named trustees, board members, officers, employers, and health care affiliations revealed no matches on either the Medicaid Disqualified Provider List or the Office of the Inspector General's Provider Exclusion List.

The Division of Home and Community Based Services reviewed the compliance history of both the CHHA and the LHCSA operated by L. Woerner, Inc., d/b/a HCR, for the time period 1999 to present and the LTHHCP from the period of May 2010 to present. It has been determined that the CHHA, LTHHCP and LHCSA have exercised sufficient supervisory responsibility to protect the health, safety and welfare of patients and to prevent any recurrent code violations. The CHHA, LTHHCP and LHCSA have been in substantial compliance with all applicable codes, rules, and regulations, with no enforcement or administrative action imposed.

The Division of Primary and Acute Care Services reviewed the compliance history of Lakeside Memorial Hospital, Inc., for the time period May 3, 2006 to present. It has been determined that the affiliated hospital has been in substantial compliance with all applicable codes, rules, and regulations, with no enforcement or administrative action imposed, during that time period.

The Office of Managed Care reviewed the compliance history of HealthNow New York, Inc., for the time period April 1, 2002 to April 10, 2008. It has been determined that the affiliated managed care program was in substantial compliance with all applicable codes, rules, and regulations, with no enforcement or administrative action imposed, during that time period.

A review of the personal qualifying information indicates there is nothing in the background of the principal stockholders, trustees, board members, and officers to adversely effect their positions with L. Woerner, Inc., d/b/a HCR. The applicant has the appropriate character and competence required under Article 36 of the Public Health Law.

Recommendation

**From a programmatic perspective, approval is recommended.**

## Financial Analysis

### Description of Employee Stock Ownership Plan

The Employee Stock Ownership Plan (ESOP) was established as a benefit to L. Woerner, Inc.'s employees.

The ESOP established a trust agreement into which L. Woerner, Inc. d/b/a HCR intends to place 90% of its stock. Each participating employee will have a separate account in the trust to hold the employee stock.

Participants may not sell, transfer, assign, pledge, or encumber their interest in the Trust. ESOP participants will be permitted to instruct the voting trustees as to the manner in which the shares of stock allocated to their account will be voted, only in the event of a corporate merger, consolidation, recapitalization, reclassification, liquidation, or dissolution sale of substantially all assets of the HCR.

### Lease Rental Agreement

The applicant has submitted an executed lease rental agreement that the applicant will occupy, which is summarized below:

*Date:* January 12, 2011  
*Premises:* 1,400 sq. ft. located at East 795 Main Street, Cobleskill, New York  
*Lessor:* Cobleskill Shopping Mall, LLC  
*Lessee:* L. Woerner, Inc. d/b/a HCR  
*Term:* 23 and one half months.  
*Rental:* 9/15/2011 – 8/31/2012 - \$1,516.66 per month (\$13.00 per sq. ft.)  
9/1/2012 – 8/31/2013 - \$1,575 per month (\$13.50 per sq. ft.)  
*Provisions:* The lessee shall be responsible for maintenance and utilities.

This lease agreement will be an arms length lease arrangement.

### Asset Purchase Agreement

The applicant has submitted an executed asset purchase agreement, the terms of which are summarized below:

*Date:* August 27, 2010  
*Seller:* County of Schoharie  
*Buyer:* L. Woerner, Inc. d/b/a/ HCR  
*Assets Transferred:* The Certified Home Health Agency (CHHA) Operating Certificate; copies of all current patient lists and patient files, with pending orders; treatment plans and clinical records; all of Seller's rights under the Assumed Provider Agreements, and any and all of Seller's rights under the Assumed Operating Certificate.  
*Assumed Liabilities:* None  
*Purchase Price:* \$135,000  
*Payment of Purchase Price:* \$35,000 paid at execution of agreement  
\$100,000 paid at closing

The applicant has provided an original affidavit, which is acceptable to the Department, in which the applicant agrees, notwithstanding any agreement, arrangement or understanding for any Medicaid overpayments made to the facility and/or surcharges, assessments or fees due from the transferor pursuant to Article 28 of the Public Health Law with respect to the period of time prior to the applicant acquiring its interest, without releasing the transferor of its liability and responsibility.

### Operating Budget

The applicant has submitted an operating budget for the CHHA in 2011 dollars, for the first year subsequent to the change in operator, summarized as follows:

CHHA

|            |                  |
|------------|------------------|
| Revenues   | \$1,356,430      |
| Expenses   | <u>1,264,903</u> |
| Net Income | \$91,527         |

Expenses are further itemized as follows:

|                         | <u>Total Cost</u> | <u>Visit/Hours</u> | <u>Cost Per Visit/Hour</u> |
|-------------------------|-------------------|--------------------|----------------------------|
| Nursing                 | \$930,889         | 6,506              | \$143.08                   |
| Physical Therapy        | 164,919           | 1,330              | \$124.00                   |
| Speech Pathology        | 3,559             | 28                 | \$129.11                   |
| Occupational Therapy    | 3,559             | 28                 | \$129.11                   |
| *Home Health Aide       | 159,118           | 3,936              | \$40.43                    |
| Medical Social Services | <u>2,859</u>      | 28                 | \$102.11                   |
| Total                   | \$1,264,903       |                    |                            |
| *Hours                  |                   |                    |                            |

Utilization by payor source for the CHHA for the first year subsequent to the change in operator is as follows:

|                            |        |
|----------------------------|--------|
| Medicaid Fee-For-Service   | 15.12% |
| Medicare Fee-For-Service   | 64.86% |
| Commercial Fee-For-Service | 17.21% |
| Charity Care               | 2.81%  |

Expense and utilization assumptions are based on the historical experience of Schoharie County's CHHA and LTHHCP and the experience of the applicant in operating a CHHA and LTHHCP.

Capability and Feasibility

The applicant will provide equity of \$135,000 which will be derived from operations, of which \$35,000 was paid upon execution of the asset purchase agreement.

Working capital requirements are estimated at \$310,000, which appears reasonable based on two months of first year expenses subsequent to the change in operator.

The applicant will provide equity from the shareholder's personal net worth statements to meet the working capital requirement. Presented as BFA Attachment A, are the personal net worth statements of Louise Woerner and Mark Maxim, which indicates the availability of sufficient funds for the equity contribution to meet the purchase price and the working capital requirements for the submitted applications.

The following budget indicates a net income of \$91,527 during the first year subsequent to the change in operator. Revenues are based on HCR's experience in the operation of the CHHA and on current reimbursement rates. Monthly expenses per registrant are within the 2011 ceilings. The budget appears reasonable.

As shown on BFA Attachment B, the applicant had an average positive working capital position and a positive net asset position during the period shown. The applicant incurred a net loss of \$2,689,561 through December 31, 2010. The applicant has indicated that the reason for the loss was that the applicant contributed \$4,000,000 to the ESOP.

Presented as BFA Attachment C are the 2009 certified financial statements and the 2010 internal financial statements of Schoharie County Health Department. As shown on Attachment C, the County incurred a loss of \$502,000 and \$159,000 during 2009 and 2010, respectively. The applicant has indicated that the Schoharie County Health Department did not actively pursue new patients, and as a result, their competitors were increasing their patient census.

Presented as BFA Attachment D, is the November 30, 2011 internal financial statements of L Woerner, Inc., d/b/a HCR. As shown on Attachment D, the applicant had a negative working capital position and a negative stockholder equity position of \$1,913,722 in November 30, 2011. The applicant has indicated that the main reason for the low cash account has been the purchase of a new clinical software program, which cost over \$1,000,000 and in addition with the purchase of the new software system, there have been delays in collecting of receivables. The applicant's receivables have grown over \$2,500,000 from the beginning of the year. The applicant expects to improve the collection of receivables over the next several months.

Also, the applicant has indicated that the reason for the losses is the result of Medicaid represents approximately 75% of HCR's total revenue, and the 2011 budget contained significant cuts to the Medicaid program, including a cap on utilization and a 2% across the board cut.

In addition to the budget cuts, the applicant experienced an overall census decline and implemented a new clinical software program in 2011, for which there are sizeable expenses. The applicant has indicated that as they progress into 2012, their new software system will create enhanced reporting, which will gain them cost efficiency.

#### Recommendation

**From a financial perspective, approval is recommended.**

## Attachments

|                  |  |
|------------------|--|
| BFA Attachment A | Personal Net Worth Statement of Shareholders   |
| BFA Attachment B | Financial Summary - 2010 certified financial statements of L. Woerner, Inc. d/b/a HCR.   |
| BFA Attachment C | Financial Summary - 2009 certified financial statements and December 31, 2010 internal financial statements of Schoharie County Health Department. |
| BFA Attachment D | Financial Summary – November 30, 2011 internal financial Statements of L. Woerner, Inc. d/b/a HCR  |

**L. WOERNER, INC.**  
**D/B/A HCR**  
**BALANCE SHEETS**  
**December 31,**

| <b>ASSETS</b>   | <b>2010</b>          | <b>2009</b>         |
|---|----------------------|---------------------|
| <b>Current assets:</b>  |                      |                     |
| Cash and cash equivalents   | \$ 4,393,124         | \$ 467,648          |
| Accounts receivable, less allowance for<br>doubtful accounts of \$115,000 (\$137,000 - 2009)  | 5,476,548            | 6,539,949           |
| Prepaid expenses and other current assets   | 497,855              | 622,243             |
| Total current assets  | <u>10,367,527</u>    | <u>7,629,840</u>    |
| Property and equipment, net   | 1,417,008            | 1,442,080           |
| Intangible asset  | <u>1,400,000</u>     | -                   |
| Total assets  | <u>\$ 13,184,535</u> | <u>\$ 9,071,920</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                      |                     |
| <b>Current liabilities:</b>   |                      |                     |
| Note payable - current portion  | \$ 1,821,429         | \$ 1,821,429        |
| Accounts payable  | 997,720              | 150,340             |
| Accrued expenses  | 2,272,014            | 2,128,931           |
| Unearned revenue  | 362,101              | 339,714             |
| Refundable advance  | 160,000              | 160,000             |
| Due to third-party payors   | 5,535,098            | 1,675,667           |
| Total current liabilities   | <u>11,148,362</u>    | <u>6,276,081</u>    |
| <b>Long-term liabilities:</b>   |                      |                     |
| Security deposits   | 27,084               | 42,131              |
| Note payable - net of current portion   | 785,000              | 2,606,429           |
| Total long-term liabilities   | <u>812,084</u>       | <u>2,648,560</u>    |
| Total liabilities   | 11,960,446           | 8,924,641           |
| <b>Stockholders' equity:</b>  |                      |                     |
| Common Stock - no par, 2,000,000 shares authorized<br>and issued, 1,981,832 and 1,994,402 shares<br>outstanding (includes 543,208 and 708,978 unallocated<br>ESOP shares, respectively) | 93,500               | 93,500              |
| Treasury stock (18,168 and 5,598 shares at cost)  | (289,382)            | (76,875)            |
| Additional paid-in capital  | 604,371              | 858,364             |
| Retained earnings   | 1,499,104            | 4,193,210           |
| Unearned ESOP shares  | (683,504)            | (4,920,910)         |
| Total stockholders' equity  | <u>1,224,089</u>     | <u>147,279</u>      |
| Total liabilities and equity  | <u>\$ 13,184,535</u> | <u>\$ 9,071,920</u> |

**L. WOERNER, INC.**  
**D/B/A HCR**  
**STATEMENTS OF OPERATIONS**  
**Years Ended December 31,**

|   | <u>2010</u>                  | <u>2009</u>                |
|---|------------------------------|----------------------------|
| <b>Revenues:</b>                          | <b>\$ 43,216,205</b>         | <b>\$ 43,368,491</b>       |
| <b>Operating expenses:</b>                |                              |                            |
| Payroll                                   | 28,749,789                   | 25,619,916                 |
| Payroll taxes and employee benefits       | 5,080,421                    | 4,275,974                  |
| ESOP contributions                        | 4,000,000                    | 4,000,000                  |
| Outside services                          | 2,578,368                    | 2,535,705                  |
| Travel                                    | 945,380                      | 761,042                    |
| Bad debt expense                          | 600,590                      | 313,334                    |
| Depreciation                              | 542,827                      | 392,806                    |
| Utilities                                 | 502,953                      | 361,281                    |
| Medical expenses                          | 502,911                      | 440,648                    |
| Office expense                            | 406,064                      | 356,196                    |
| Rent                                      | 406,972                      | 364,510                    |
| Equipment rental, repairs and maintenance | 382,607                      | 338,551                    |
| Legal and accounting                      | 289,855                      | 216,116                    |
| Training and recruitment                  | 190,948                      | 122,728                    |
| Miscellaneous                             | 187,668                      | 89,226                     |
| Cash receipt assessment                   | 165,237                      | 108,909                    |
| Insurance                                 | 124,397                      | 117,938                    |
| Interest                                  | 110,378                      | 221,711                    |
| Dues and subscriptions                    | 69,916                       | 59,661                     |
| Real estate taxes                         | 69,485                       | 67,904                     |
| Total operating expenses                  | <u>45,905,766</u>            | <u>40,764,156</u>          |
| <b>Operating (loss) income</b>            | <b>(2,689,561)</b>           | <b>2,604,335</b>           |
| <b>Provision for taxes</b>                | <u>4,545</u>                 | <u>7,042</u>               |
| <b>Net (loss) income</b>                  | <u><u>\$ (2,694,106)</u></u> | <u><u>\$ 2,596,693</u></u> |

Schoharie County Department of Health  
 Financial Summary  
 2010

|                                 | Projected<br>2010 | Actual<br>2009 | Difference |                                       | Projected<br>2010 | Actual<br>2009 | Difference |
|---------------------------------|-------------------|----------------|------------|---------------------------------------|-------------------|----------------|------------|
| <b>Full-Costing Method:</b>     |                   |                |            |                                       |                   |                |            |
| <b>Patient Revenue:</b>         |                   |                |            | <b>Direct Costing Method:</b>         |                   |                |            |
| Medicare                        | \$ 858,000        | 681,000        | \$ 177,000 | Patient Revenue:                      | \$ 1,253,000      | 1,034,000      | \$ 219,000 |
| Medicaid                        | 208,000           | 192,000        | 8,000      | Patient Expense                       | 855,000           | 823,000        | (68,000)   |
| Other                           | 195,000           | 161,000        | 34,000     | Net Revenue over Expense              | \$ 398,000        | 111,000        | \$ 287,000 |
| Total                           | 1,253,000         | 1,034,000      | 219,000    |                                       |                   |                |            |
| <b>Patient Expense</b>          | 1,412,000         | 1,536,000      | (124,000)  | <b>Special Analysis Service Cost:</b> |                   |                |            |
| <b>Net Revenue over Expense</b> | \$ (159,000)      | (502,000)      | \$ 343,000 | Patient Revenue                       | \$ 1,253,000      | 1,034,000      | \$ 219,000 |
|                                 |                   |                |            | Patient Expense                       | 841,000           | 816,000        | 25,000     |
| <b>Patient Revenue/Mix</b>      |                   |                |            | Net Revenue over Expense              | \$ 412,000        | 218,000        | \$ 194,000 |
| Medicare                        | 63.48%            | 65.86%         | 3.98%      |                                       |                   |                |            |
| Medicaid                        | 15.96%            | 18.57%         | -14.05%    |                                       |                   |                |            |
| Other                           | 15.56%            | 15.57%         | -0.06%     |                                       |                   |                |            |

Schoharie County Department of Health  
 Financial Summary  
 2010

|                                 | Full-Costing Method |                  | Difference        | Direct Costing Method                 |                   | Difference        |
|---------------------------------|---------------------|------------------|-------------------|---------------------------------------|-------------------|-------------------|
|                                 | Projected 2010      | Actual 2009      |                   | Projected 2010                        | Actual 2009       |                   |
| <b>Patient Revenue:</b>         |                     |                  |                   |                                       |                   |                   |
| Medicare                        | \$ 888,000          | 681,000          | \$ 177,000        | \$ 1,253,000                          | 1,034,000         | \$ 219,000        |
| Medicaid                        | 200,000             | 192,000          | 8,000             | 855,000                               | 923,000           | (68,000)          |
| Other                           | 195,000             | 161,000          | 34,000            |                                       |                   |                   |
| <b>Total</b>                    | <b>1,283,000</b>    | <b>1,034,000</b> | <b>219,000</b>    | <b>398,000</b>                        | <b>1,111,000</b>  | <b>\$ 287,000</b> |
| <b>Patient Expense</b>          | <b>1,412,000</b>    | <b>1,536,000</b> | <b>(124,000)</b>  |                                       |                   |                   |
| <b>Net Revenue over Expense</b> | <b>\$ (159,000)</b> | <b>(502,000)</b> | <b>\$ 343,000</b> | <b>Special Analytic Service Cost:</b> |                   |                   |
|                                 |                     |                  |                   | Patient Revenue                       | \$ 1,253,000      | \$ 219,000        |
|                                 |                     |                  |                   | Patient Expense                       | 841,000           | 25,000            |
|                                 |                     |                  |                   | <b>Net Revenue over Expense</b>       | <b>\$ 412,000</b> | <b>\$ 194,000</b> |
| <b>Patient Revenue Mix:</b>     |                     |                  |                   |                                       |                   |                   |
| Medicare                        | 68.48%              | 65.86%           | 3.98%             |                                       |                   |                   |
| Medicaid                        | 15.96%              | 18.57%           | -14.05%           |                                       |                   |                   |
| Other                           | 15.56%              | 15.57%           | -0.06%            |                                       |                   |                   |

**L.Woerner, Inc. dba HCR**  
**Preliminary Balance Sheet**  
**November 30, 2011**

**ASSETS:****Current Assets**

|                     |           |
|---------------------|-----------|
| Cash                | 44,459    |
| Accounts Receivable | 8,646,088 |
| Prepaid Expenses    | 242,347   |

|                             |                  |
|-----------------------------|------------------|
| <b>Total Current Assets</b> | <b>8,932,894</b> |
|-----------------------------|------------------|

|  |                  |
|--|------------------|
| <b>Total Property, Plant &amp; Equipment</b> | <b>2,323,540</b> |
|--|------------------|

**Other Assets**

|                                   |           |
|-----------------------------------|-----------|
| Intangibles and Security Deposits | 2,131,000 |
|-----------------------------------|-----------|

|                     |                   |
|---------------------|-------------------|
| <b>TOTAL ASSETS</b> | <b>13,387,434</b> |
|---------------------|-------------------|

**Liabilities:****Current Liabilities**

|                               |           |
|-------------------------------|-----------|
| Line of Credit Payable        | 2,000,000 |
| Libor Term Note/Current       | 936,786   |
| Accounts Payable              | 1,056,380 |
| Accrued Expenses              | 695,787   |
| Accrued Payroll & Fringes     | 2,056,138 |
| Unearned Revenue              | 595,346   |
| Reserve for Payor Settlements | 7,929,578 |

|                                  |                   |
|----------------------------------|-------------------|
| <b>Total Current Liabilities</b> | <b>15,270,015</b> |
|----------------------------------|-------------------|

**Other Liabilities**

|                             |        |
|-----------------------------|--------|
| Libor Term Note/Long Term   | 0      |
| Security Deposits- Patients | 31,141 |

|                          |                   |
|--------------------------|-------------------|
| <b>TOTAL LIABILITIES</b> | <b>15,301,156</b> |
|--------------------------|-------------------|

**STOCKHOLDERS' EQUITY:**

|                            |             |
|----------------------------|-------------|
| Common Stock               | 93,500      |
| Unearned ESOP Shares       | (683,504)   |
| Additional Paid In Capital | 604,371     |
| Treasury Stock             | (289,382)   |
| Retained Earnings          | (1,638,706) |

|                                   |                    |
|-----------------------------------|--------------------|
| <b>TOTAL STOCKHOLDERS' EQUITY</b> | <b>(1,913,722)</b> |
|-----------------------------------|--------------------|

|   |                   |
|---|-------------------|
| <b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b> | <b>13,387,434</b> |
|---|-------------------|

**L. Woerner, Inc. d/b/a HCR  
Preliminary Profit/(Loss) Statement  
YTD November 2011**

|                                     |                             |
|-------------------------------------|-----------------------------|
| <b>Revenues</b>                     | <b>\$38,963,988</b>         |
| <b>Direct Costs</b>                 | <b><u>26,853,032</u></b>    |
| <b>Gross Margin</b>                 | <b>\$12,110,956</b>         |
| <b>Indirect Costs</b>               |                             |
| <b>Payroll and Related Expenses</b> | <b>\$10,121,503</b>         |
| <b>Other Indirect Expenses</b>      | <b><u>5,127,265</u></b>     |
| <b>Total Indirect Expenses</b>      | <b><u>\$15,248,768</u></b>  |
| <b>Net Profit/(Loss)</b>            | <b><u>(\$3,137,812)</u></b> |

RESOLUTION

RESOLVED, that the Public Health and Health Planning Council, pursuant to the provisions of section 2801-a of the Public Health Law, on this 2<sup>nd</sup> day of February, 2012, having considered any advice offered by the Regional Health Systems Agency, the staff of the New York State Department of Health, and the Establishment and Project Review Committee of this Council and after due deliberation, hereby approves the following application to acquire Schoharie County Department of Health's CHHA serving Schoharie County, and with the contingencies, if any, as set forth below and providing that each applicant fulfills the contingencies and conditions, if any, specified with reference to the application, and be it further

RESOLVED, that upon fulfillment by the applicant of the conditions and contingencies specified for the application in a manner satisfactory to the Public Health Council and the New York State Department of Health, the Secretary of the Council is hereby authorized to issue the approval of the Council of the application, and be it further

RESOLVED, that any approval of this application is not to be construed as in any manner releasing or relieving any transferor (of any interest in the facility that is the subject of the application) of responsibility and liability for any Medicaid (Medicaid Assistance Program -- Title XIX of the Social Security Act) or other State fund overpayments made to the facility covering the period during which any such transferor was an operator of the facility, regardless of whether the applicant or any other entity or individual is also responsible and liable for such overpayments, and the State of New York shall continue to hold any such transferor responsible and liable for any such overpayments, and be it further

RESOLVED, that upon the failure, neglect or refusal of the applicant to submit documentation or information in order to satisfy a contingency specified with reference to the application, within the stated time frame, the application will be deemed abandoned or withdrawn by the applicant without the need for further action by the Council, and be it further

RESOLVED, that upon submission of documentation or information to satisfy a contingency specified with reference to the application, within the stated time frame, which documentation or information is not deemed sufficient by Department of Health staff, to satisfy the contingency, the application shall be returned to the Council for whatever action the Council deems appropriate.

NUMBER:

111096 E

FACILITY/APPLICANT:

L. Woener, Inc., d/b/a HCR

APPROVAL CONDITIONAL UPON:

1. Proper notice being given to all employees participating in the employee stock ownership plan (ESOP) of the potential for an audit risk due to the lack of a legal separation between the CHHA and the LHCSA as it relates to payment structures. [CHA]
2. No employee, or any other individual, owning/controlling 10% or more of the stock without first obtaining Department of Health and/or Public Health and Health Planning Council approval, as appropriate. [CHA]