HYGEA
Holdings, Corp.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with United States Generally Accepted Accounting Principles (G.A.A.P.) requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to asset impairment, accruals for compensation and related benefits, accounts receivable, contingencies, reserves, litigation, valuation and recognition of share-based payments and income taxes. We base these estimates on the information that is currently available to us and on various other assumptions that we believe are reasonable under the circumstances. We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements:

Goodwill and Intangible Assets

In accordance with accounting guidance on goodwill and other intangible assets, we perform annual impairment analysis to assess the recoverability of the goodwill and indefinite-lived intangible assets. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each. Valuation techniques consistent with the market approach and income approach are used to measure the fair value. Significant judgments are required to estimate the fair value of reporting units including estimating future cash flows, and determining appropriate discount rates, growth rates, company control premium and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit. Testing is required between annual tests if significant events occur or circumstances change that would, more likely than not, reduce the fair value of the reporting unit below its carrying value.

Risk Pool Reserve

We maintain an accrual for our payor risk pool limits that we include in accounts receivable in our consolidated balance sheets. We determine the adequacy of this undiscounted receivable by evaluating our historical experience and trends, standard loss reserves established by our insurance carriers, management and any third party stakeholders, as well as by analyzing independent actuarial studies. We receive and analyze trend reports on all of our at-risk (Risk) Medicare Advantage contracts to evaluate look back performance in order to properly value current period performance. We also obtain actuarial studies on a semi-annual basis that use our historical claims data and industry data to assist us in determining the appropriate reserves.

Revenue Recognition

Revenue consists of three primary revenue sources: clinical fees earned from physicians; ancillary services (e.g. Pharmacy) provided in the Hygea network and; risk pool revenues from capitated members of Palm or Hygea patients in risk contracts with HMO payors. We recognize revenue when earned and realizable. We have entered into certain risk contracts with healthcare organizations to provide managed services programs. Under these contract arrangements, we use our physicians along with third parties pursuant to contract requirements to provide all medical services to members under our contracts. Our HMO risk contracts record gross capitated revenue before the expenses of payor's administrative fee and all medical services are paid out of the Risk Pool. The resulting net revenue is equivalent to the gross Accounts Receivable recorded for Hygea's Risk contracts.

8095 NW 12th Street,
Suite #105
Doral, Florida 33126

Toll Free: 888.959.4450
Fax: 866.852.0454
Email: info@hygea.net

HYGEA
Holdings, Corp.

Accounts Receivable

We record accounts receivable for clinical revenues at the billed amount adjustments are made at entry. We record ancillary revenue at the invoiced amount. We record all accounts receivable from Risk pool revenue using the gross capitated amount from all eligible MA members during the accounting period. Accounts receivable are non-interest bearing. We maintain an allowance for doubtful accounts for estimated credit losses resulting from collection risk. We report the allowance for doubtful accounts as a reduction of accounts receivable in our consolidated balance sheets. We determine the adequacy of this allowance by evaluating historical delinquency and write-off trends, the financial condition and credit risk and history of each customer, historical payment trends as well as the current economic conditions and the impact of such conditions on our customers' liquidity and overall financial condition. If the financial condition of our customers deteriorates, affecting their ability to make payments, additional allowances would be provided. We also maintain a reserve for potential Risk Pool losses from adverse MRA scores from new MA members and the long reconciliation tail (up to 18 months after revenue recognition) in our HMO Risk pool. We determine the amount of the reserve based on historical credits issued, MRA scoring trends, and changes in CMS regulations, which might affect existing Accounts Receivables.

Contingent Liabilities

We may be subject to various claims and legal actions in the ordinary course of our business. Some of these matters relate to professional liability, tax, payroll, contract and employee-related matters and potential lawsuits, as well as inquiries and investigations by governmental agencies regarding our employment and managed services practices. We currently are not aware of any pending or threatened litigation that we believe is reasonably possible to have a material adverse effect on our results of operations, financial position or liquidity.

October 2013

8095 NW 12th Street,
Suite #105
Doral, Florida 33126

Toll Free: 888.959.4450
Fax: 866.852.0454
Email: info@hygea.net