PHYSICIANS' MEDICAL CENTER, LLC

Financial Report

December 31, 2018 and 2017

CONTENTS

INDEPENDENT AUDITOR'S REPORT

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An Independently Owned Member, RSM US Alliance

Board of Directors
Physicians' Medical Center, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Physicians' Medical Center, LLC, which comprise the balance sheets as of December 31, 2018 and 2017, the related statements of income, changes in members' capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 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 financial statements.

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

Evansville, IN ■ Louisville, KY

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of Physicians' Medical Center, LLC as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Harding, Shymanski & Company, P.S.C.

Louisville, Kentucky
May 16, 2019

PHYSICIAN'S MEDICAL CENTER, LLC

BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash	**$ 904,310**	$ 245,599
Patient accounts receivable, net of allowance for uncollectible accounts	**9,940,898**	8,247,550
Inventories	**1,213,380**	1,041,310
Prepaid expenses and other current assets	**1,712,750**	1,417,293
Total current assets	**13,771,338**	10,951,752
Long-Term Patient Accounts Receivable, Net of Allowance for Uncollectible Accounts	**0**	3,300,000
Goodwill, Net	**7,500,131**	8,536,831
Other Intangible Assets	**33,334**	66,667
Property and Equipment, Net	**7,638,723**	5,781,468
	$ 28,943,526	$ 28,636,718
LIABILITIES AND MEMBERS' CAPITAL		
Current Liabilities		
Line of credit	**$ 1,060,000**	$ 560,000
Note payable due to seller	**500,000**	500,000
Current maturities of long-term debt	**1,016,597**	881,160
Current maturities of capitalized lease obligations	**648,168**	1,041,376
Current portion of lab recoupment liabilities	**1,888,889**	0
Accounts payable	**1,611,585**	2,095,072
Accrued expenses and other current liabilities	**3,108,141**	1,622,753
Due to United States Medical Scientific Indiana (USMSI), LLC	**0**	4,296,863
Total current liabilities	**9,833,380**	10,997,224
Long-Term Debt	**1,461,820**	2,150,147
Capitalized Lease Obligations	**2,483,445**	737,019
Lab Recoupment Liabilities	**1,111,111**	2,858,601
Total liabilities	**14,889,756**	16,742,991
Members' Capital	**14,053,770**	11,893,727
	$ 28,943,526	$ 28,636,718

See notes to the financial statements.

PHYSICIANS' MEDICAL CENTER, LLC

STATEMENTS OF INCOME
Years Ended December 31, 2018 and 2017

	2018		2017	
Net patient service revenue, net of contractual allowance and discounts	**$ 64,338,100**	**100.0 %**	$ 60,278,055	100.0 %
Provision for bad debts	**(4,955,809)**	**(7.7)**	(4,916,558)	(8.2)
Net patient service revenue less provision for bad debts	**59,382,291**	**92.3**	55,361,497	91.8
Operating Expenses				
Salaries and other personnel expenses	**13,190,099**	**20.5**	12,297,631	20.4
Employee benefits and payroll taxes	**2,299,026**	**3.6**	2,354,444	3.9
Purchased services	**10,443,845**	**16.2**	12,507,515	20.7
Medical supplies	**15,153,201**	**23.6**	13,443,155	22.3
Professional fees	**820,534**	**1.3**	1,047,484	1.7
Insurance	**139,271**	**0.2**	91,331	0.2
Rent	**2,225,462**	**3.5**	1,650,816	2.7
Utilities	**750,222**	**1.2**	699,242	1.2
Depreciation and amortization	**807,408**	**1.3**	1,303,559	2.2
Repairs and maintenance	**1,223,514**	**1.9**	1,099,179	1.8
Hospital assessment fee	**700,554**	**1.1**	170,202	0.3
Advertising	**323,245**	**0.5**	274,989	0.5
Other operating expenses	**1,982,939**	**3.1**	1,775,093	2.9
	50,059,320	**78.0**	48,714,640	80.8
Operating income before impairment and loss on disposals	**9,322,971**	**14.3**	6,646,857	11.0
Loss on impairment of goodwill	**(1,036,700)**	**(1.6)**	0	0.0
Loss on disposal of equipment	**(216,069)**	**(0.3)**	0	0.0
Operating income	**8,070,202**	**12.4**	6,646,857	11.0
Other Expense				
Interest, net	**(249,998)**	**(0.4)**	(102,111)	(0.2)
Net income	**$ 7,820,204**	**12.0 %**	$ 6,544,746	10.8 %

See notes to the financial statements.

PHYSICIANS' MEDICAL CENTER, LLC

STATEMENTS OF CHANGES IN MEMBERS' CAPITAL
Years Ended December 31, 2018 and 2017

	Capital Contributed	Members' Capital Retained	Total Members' Capital
Balance at December 31, 2016	$ 10,007,036	$ 5,096,569	$ 15,103,605
Capital contributions	750,000		750,000
Redemption of member's units	(30,000)	(325,800)	(355,800)
Distributions		(10,148,824)	(10,148,824)
Net income		6,544,746	6,544,746
Balance at December 31, 2017	10,727,036	1,166,691	11,893,727
Capital contributions	600,000		600,000
Redemption of member's units	(627,523)	306,137	(321,386)
Distributions		(5,938,775)	(5,938,775)
Net income		7,820,204	7,820,204
Balance at December 31, 2018	$ 10,699,513	$ 3,354,257	$ 14,053,770

See notes to the financial statements.

PHYSICIANS' MEDICAL CENTER, LLC

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Net income	**$ 7,820,204**	$ 6,544,746
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**774,075**	1,270,226
Amortization	**33,333**	33,333
Provision for doubtful accounts	**4,955,809**	4,916,558
Loss on disposal of equipment	**216,069**	0
Impairment loss	**1,036,700**	0
Changes in assets and liabilities:		
Decrease (increase)		
Patient accounts receivable	**(3,349,157)**	(4,623,635)
Inventories	**(172,070)**	(228,391)
Prepaid expenses and other current assets	**(295,457)**	(642,895)
Increase (decrease)		
Accounts payable	**(483,487)**	563,557
Accrued expenses and other current liabilities	**1,485,388**	(369,250)
Lab recoupment liabilities	**141,399**	2,858,601
Due to USMSI, LLC	**(4,296,863)**	(1,968,755)
Net cash provided by operating activities	**7,865,943**	8,354,095
Cash Flows from Investing Activities		
Purchase of property and equipment	**(2,847,399)**	(3,816,942)
Acquisition of First Stop Urgent Care Center, LaGrange, PSC	**0**	(1,093,883)
Acquisition of First Stop Urgent Care Madison, PSC	**0**	(906,117)
Net cash used in investing activities	**(2,847,399)**	(5,816,942)
Cash Flows from Financing Activities		
Net borrowings on line of credit	**500,000**	560,000
Proceeds from long-term borrowings and capital leases	**1,651,086**	4,313,269
Principal payments on long-term borrowings and capitalized lease obligations	**(1,107,867)**	(980,584)
Proceeds from issuance of members' units	**600,000**	750,000
Redemption of member's units	**(64,277)**	(30,000)
Distributions to members	**(5,938,775)**	(10,148,824)
Net cash used in financing activities	**(4,359,833)**	(5,536,139)
Net increase (decrease) in cash	**658,711**	(2,998,986)
Cash at beginning of year	**245,599**	3,244,585
Cash at end of year	**$ 904,310**	$ 245,599
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest	**$ 253,400**	$ 102,161
Supplemental Schedules of Noncash Investing and Financing Activities		
Urgent care centers portion acquired in exchange for a note payable to seller (net of cash paid)	**$ 0**	$ 500,000
Redemption of member's units in exchange for a note payable (net of cash paid)	**$ 257,109**	$ 325,800

See notes to the financial statements.

Note 1 – Nature of Business and Significant Accounting Policies

Nature of Business

Physicians' Medical Center, LLC (Company) is a physician-owned hospital located in New Albany, Indiana. Services provided included both inpatient and outpatient healthcare services. The Company was organized as a limited liability company under the laws of the State of Indiana. There is only one class of membership interest. As a result, each membership interest shares equally in the rights, preferences, and privileges of members' capital. Net income or loss is apportioned among the members in accordance with membership interest percentage.

Limited Liability Company

Since the Company is a limited liability company, no member is liable for the debts, obligations, or liabilities of the Company, except as otherwise legally obligated. The term of the Company shall be perpetual unless and until it is dissolved pursuant to state law or as provided in the limited liability company agreement.

Certain Leasing Arrangements with Entity Under Common Control

The Company leases property from a related party, Physicians' Surgical Properties, LLC (PSP) and, as discussed in Note 9, has guaranteed PSP's debt. The Company has adopted the accounting alternative offered to private companies for certain leasing arrangements with entities under common control. In accordance with this alternative, the Company does not consolidate entities that meet the requirements in the variable interest entities subsections of the Financial Accounting Standards Board (FASB) ASC 810-10. Instead, the Company discloses the leasing arrangement as required by the accounting alternative.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and patient accounts receivable. At times, such cash in banks may be in excess of the Federal Deposit Insurance Corporation insurance limit. See Note 3 for further discussion on concentration on patient accounts receivable.

Patient Accounts Receivable and Net Patient Service Revenue

Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. A provision for uncollectible accounts is recorded based upon management's evaluation of current industry conditions, historical collection experience and other relevant factors which, in the opinion of management, require recognition in estimating the allowance for uncollectible accounts.

Note 1 – Nature of Business and Significant Accounting Policies (Continued)

Inventories

Inventories consist primarily of medical supplies and are stated at the lower of cost (first-in, first-out method) and net realizable value.

Property, Equipment, and Depreciation

Property and equipment are stated at cost. Provisions for depreciation of property and equipment have been computed on the straight-line and accelerated methods over the estimated useful life.

	Years
Improvements to buildings	7-39
Furniture and furnishings	5-7
Medical equipment and instruments	3-15
Computer equipment and software	3-5
Other equipment	5-10

Construction-in-progress includes direct and indirect expenditures for the construction and expansion of the facilities and is stated at original cost. Construction-in-progress includes certain costs incurred under a construction contract including project management services, engineering and schematic design services, design development, construction services and other construction-related fees, and certain assets not in use. Once a building or expansion project becomes operational, these capitalized costs are allocated to certain property, plant, and equipment categories and are depreciated over the estimated useful life of the underlying assets.

Improvements to leased property owned by related parties are being amortized over the estimated useful life of the improvement rather than the lease term, if shorter. An annual assessment is performed by management to determine the likelihood of whether the carrying value of the improvements has been impaired. Improvements to property under related-party leases had a net book value of $1,699,244 and $1,336,675 at December 31, 2018 and 2017, respectively.

Long-Lived Assets

Long-lived assets are reviewed for impairment in accordance with guidance issued by FASB. The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. Impairment losses are measured by comparing the estimated fair value of the assets to their carrying amount.

Note 1 – Nature of Business and Significant Accounting Policies (Continued)

Goodwill and Other Intangible Assets

Goodwill and other intangible assets having an indefinite life are tested for impairment, at least annually, using a fair value based approach. Intangible assets with finite lives are being amortized on the straight-line method over their estimated useful life.

Lab Recoupment Liabilities

Lab recoupment liabilities relate to estimated lab charges as further discussed in Note 10.

Due to USMSI, LLC

For the lab operations, the Company had a management services agreement for clinical diagnostic laboratory services with USMSI, LLC. As compensation for the services, the Company paid USMSI, LLC 78 percent of fees collected for the lab services. Fees collected were net of any write-offs, contractual discounts, payor or patient refunds, or recoupments.

Effective October 1, 2018, the Company discontinued the lab operations by terminating the agreement. Net income for the years ended December 31, 2018 and 2017 was $4,620,127 and $514,039, respectively.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2018 and 2017 was $323,245 and $274,989, respectively.

Subsequent Events Evaluation

The Company has evaluated subsequent events through May 16, 2019, the date on which the financial statements were available to be issued.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification

Certain items in the December 31, 2017 financial statements have been reclassified to conform to the December 31, 2018 classifications.

Note 1 – Nature of Business and Significant Accounting Policies (Continued)

Recently Adopted Accounting Standards

Business Combinations Clarification

In January 2017, FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business,* which provides guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 requires entities to use a screen test to determine when an integrated set of assets and activities is not a business or if the integrated set of assets and activities needs to be further evaluated against the framework. In the current year, the Company adopted ASU 2017-01 which did not have a material effect on the Company's financial statements.

Test for Goodwill Impairment

In January 2017, FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The ASU simplifies the measurement of goodwill impairment by eliminating the requirement that an entity compute the implied fair value of goodwill based on the fair values of its assets and liabilities to measure impairment. Instead, goodwill impairment will be measured as the difference between the fair value of the reporting unit and the carrying value of the reporting unit. The ASU also clarifies the treatment of the income tax effect of tax deductible goodwill when measuring goodwill impairment loss. In the current year, the Company adopted ASU 2017-04 which did not have a material effect on the Company's financial statements.

Recent Accounting Pronouncements

Leases

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, and interim periods for years beginning after December 15, 2020. A modified retrospective transition approach is required. An entity may adopt the guidance, as well as certain practical expedients, either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented, or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Company is currently evaluating the impact the adoption of this guidance will have on the financial statements.

Note 1 – Nature of Business and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

Revenue Recognition from Contracts with Customers

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative-effect transition method. It also requires additional disclosures. In August 2015, FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Company has not yet selected a transition method and is currently evaluating the effect that the new standard will have on the financial statements.

Note 2 – Acquisitions

In January 2017, the Company acquired certain assets of First Stop Urgent Care Center LaGrange, PSC (LaGrange) and First Stop Urgent Care Madison, PSC (Madison), urgent care centers in Kentucky and Indiana, respectively. The transaction was recorded under the purchase method of accounting and the operations of the acquired business were included as of the date of acquisition.

The purchase price allocation was as follows:

Purchase price:	LaGrange	Madison	Total
Cash payment	$ 1,093,883	$ 906,117	$ 2,000,000
Note payable to seller	250,000	250,000	500,000
	$ 1,343,883	$ 1,156,117	$ 2,500,000
Fair value purchase price allocation:			
Non-compete agreements	$ 50,000	$ 50,000	$ 100,000
Property and equipment	375,533	187,767	563,300
Goodwill	918,350	918,350	1,836,700
	$ 1,343,883	$ 1,156,117	$ 2,500,000

Note 2 – Acquisitions (Continued)

As a result of the acquisitions, the Company has expanded their presence in the urgent care market and has additional referral sources for the other services provided by the Company. Due to the walk-up nature of the patients of the urgent care centers, the value associated with the patients is included in goodwill. Since acquiring the LaGrange and Madison urgent care centers, the Company has made changes to how the urgent care centers would operate. As a result, the volume of urgent care visits and net patient service revenue has decreased. During the Company's annual goodwill impairment testing for the year ended December 31, 2018, it was indicative that the fair value of the LaGrange and Madison urgent care centers was less than the carrying value. Refer to Note 4 for further disclosures regarding the fair value of the urgent care centers.

Note 3 – Patient Accounts Receivable

The Company records an estimated provision for uncollectible accounts in the year of service for self-pay accounts receivable, which includes patient receivables associated with self-pay patients and deductible and copayment balances for which third-party coverage provides for a portion of the services provided. As of December 31, 2018 and 2017, patient accounts receivable consisted of the following:

	2018	2017
Patient accounts receivable	$ 92,114,062	$ 106,825,260
Less allowances for:		
Contractual adjustments	77,114,727	89,146,249
Uncollectible accounts	5,058,437	6,131,461
Patient accounts receivable, net	$ 9,940,898	$ 11,547,550
Amounts expected to be collected in:		
Less than one year	$ 9,940,898	$ 8,247,550
One to two years	0	3,300,000
	$ 9,940,898	$ 11,547,550

In 2017, approximately $3.3 million of the net amount of patient accounts receivable reported above had not been collected as of the report date and was classified as long-term patient accounts receivable. As of December 31, 2018, the Company has collected or written off the entire balance of long-term patient accounts receivables that were recorded as of December 31, 2017.

Note 3 – Patient Accounts Receivable (Continued)

The Company grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Net patient service revenue and receivables before the provision for uncollectible accounts by major payor source for the years ended December 31, 2018 and 2017 are as follows:

	2018		2017	
	Revenues	Receivables	Revenues	Receivables
Medicare	26 %	23 %	29 %	16 %
Medicaid	15	7	29	25
Blue Cross	23	23	22	20
Commercial and other	31	39	18	33
Self-pay	5	8	2	6
	100 %	100 %	100 %	100 %

Note 4 – Goodwill and Other Intangible Asset

Goodwill represents the excess of purchase price over the fair value of assets and liabilities as part of the 2017 acquisition of certain assets of First Stop Urgent Care Center LaGrange, PSC and First Stop Urgent Care, PSC (Madison) and the 2012 purchase of Southern Indiana Endoscopy, LLC. The carrying value of goodwill is tested annually to determine if facts and circumstances suggest that the assets may be impaired or that the useful lives may need to be changed. The Company considers internal and external factors, including cash flow, contract changes, and other trends. If these factors and the projected discounted cash flows of the Company over the remaining useful life indicate that goodwill will not be recoverable, the carrying value will be adjusted to the estimated fair value. As noted in Note 2, the Company determined goodwill related to the LaGrange and Madison urgent care centers was impaired and a reduction to goodwill for approximately $1,037,000 was recorded for the year ended December 31, 2018.

Note 4 – Goodwill and Other Intangible Asset (Continued)

Intangible assets at December 31, 2018 and 2017 consisted of the following:

	2018		
	Gross	Accumulated Amortization	Net
Intangible assets, subject to amortization:			
Non-competition agreements, net	$ 100,000	$ (66,666)	$ 33,334
Intangible assets, not subject to amortization:			
Goodwill, net of impairment	$ 7,500,131	$ 0	$ 7,500,131

	2017		
	Gross	Accumulated Amortization	Net
Intangible assets, subject to amortization:			
Non-competition agreements, net	$ 100,000	$ (33,333)	$ 66,667
Intangible assets, not subject to amortization:			
Goodwill	$ 8,536,831	$ 0	$ 8,536,831

Amortization expense for the years ended December 31, 2018 and 2017 was $33,333. The estimated amortization expense expected to be charged to income over the next year is $33,334.

Note 4 – Goodwill and Other Intangible Asset (Continued)

Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table represents the asset carried on the balance sheet by level within the valuation hierarchy as of December 31, 2018, for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2018 and 2017.

		Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3	Total Losses
December 31, 2018					
Goodwill	7,500,131	0	0	8,536,831	$ (1,036,700)
December 31, 2017					
Goodwill	8,536,831	0	0	8,536,831	$ 0

In accordance with FASB guidance related to goodwill impairment, goodwill related to the urgent care centers with a carrying amount of $1,836,700 was written down to its implied fair value of $800,000, resulting in an impairment charge of $1,036,700, which was included in earnings for the year ended December 31, 2018.

Note 5 – Property and Equipment

Property and equipment at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Medical equipment and instruments	$ 7,505,185	$ 6,876,211
Other equipment	357,224	350,554
Furniture and furnishings	673,946	618,512
Building improvements	1,783,711	1,423,315
Software	393,793	388,035
Computer equipment	482,814	380,987
Construction-in-progress	2,887,728	1,478,348
	14,084,401	11,515,962
Accumulated depreciation	(6,445,678)	(5,734,494)
	$ 7,638,723	$ 5,781,468

Assets listed above acquired under capital leases was approximately $3,505,514 and $1,000,000 for the years ended December 31, 2018 and 2017, respectively. Accumulated depreciation related to those assets was $310,418 and $6,410 for the years ended December 31, 2018 and 2017, respectively.

Depreciation expense, which includes depreciation on capitalized leases, for the years ended December 31, 2018 and 2017 was $774,075 and $1,270,226, respectively.

Note 6 – Line of Credit

The Company has an operating line of credit with maximum borrowings of $3,000,000. The note provides for interest at a floating rate per annum equal to two percent in excess of the one-month London Interbank Offered Rate (LIBOR), is secured by all business assets, and is due December 2019. The outstanding borrowings on this line of credit at December 31, 2018 and 2017 were $1,060,000 and $560,000, respectively. The loan with the bank contains certain restrictive financial covenants, which among other things require the Company, jointly with PSP, to maintain net worth and certain key ratios.

The Company and PSP are jointly and severally liable on the line. The full amount of the outstanding obligation has been recorded on the Company's financial statements.

Note 7 – Long-Term Debt

Long-term debt at December 31, 2018 and 2017 consisted of the following:

		2018	2017
Note payable to bank, 4.15%, $9,167 monthly, secured by Company assets, due February 2020	(A)	128,334	238,333
Note payable to bank, interest at LIBOR plus 2.35%, $16,667 monthly, secured by Company assets, due April 2020	(A)	266,669	466,667
Note payable to bank, interest at LIBOR plus 2.00%, $41,667 monthly, secured by Company assets, due January 2022	(A)	1,541,665	2,041,667
Notes payable to former members, 4.75%, $135,437 annually, unsecured, due various dates through May 2022	(B)	541,749	284,640
		2,478,417	3,031,307
Current maturities		(1,016,597)	(881,160)
		$ 1,461,820	$ 2,150,147

(A) The note contains certain financial and non-financial covenants, including tangible net worth and operating ratios. The Company and PSP are jointly and severally liable on the notes. The full amount of these obligations has been recorded in the Company's financial statements.

Note 7 – Long-Term Debt (Continued)

(B) In 2018 and 2017, the Company redeemed 200 and 100 Class A Membership Units of Company, respectively, from former members. The consideration for the purchase and sale of the Class A Units and for the member's release of all member's rights will be approximately $677,000 in total. The Company paid cash of approximately $64,000 in 2018 and $71,000 in 2017.

Long-term debt maturities are as follows:

2019	$ 1,016,597
2020	720,440
2021	635,437
2022	105,943
	$ 2,478,417

Total interest expense for the years ended December 31, 2018 and 2017 was $253,400 and $102,161, respectively.

Note 8 – Note Payable to Seller

The Company entered into a closing promissory note in the amount of $500,000 for the purchases of the LaGrange and Madison Urgent Care Centers in 2017. The note provides for interest at a floating rate per annum equal to two percent in excess of the one-month LIBOR, unsecured, and was due October 2018, but due to an unresolved dispute, the note has not yet been paid.

Note 9 – Commitments and Contingencies

Professional Liability

The Company insures for medical malpractice losses through a claims-made policy and provides an estimated reserve for deductibles for outstanding claims, which in the opinion of management, is adequate to cover losses, if any. Should the current claims-made policy not be renewed or replaced with equivalent insurance, claims based upon occurrences during their terms but reported subsequently will be uninsured. The Company intends to continue carrying such insurance.

The Corporation maintains medical professional liability insurance with a limit of $400,000 per occurrence ($1,200,000 annual aggregate) pursuant to the Indiana Medical Malpractice Act (Act). The Act provides coverage of $1,650,000 per occurrence ($8,250,000 annual aggregate), of which the first $400,000 per occurrence would be covered by the Corporation's medical professional liability insurance and the remainder by the State of Indiana Patient Compensation Fund (Fund).

Note 9 – Commitments and Contingencies (Continued)

PSP, a Related Party – Debt Guarantees

At December 31, 2018, the Company guarantees the following debt of PSP in which the Company is jointly and severally liable with PSP.

- $2,352,600 of LIBOR plus 2.75 percent, secured long-term borrowings. The Company entered into a reimbursement agreement with PSP to guarantee a bond issued by PSP for the construction of the facility used by the Company. Payments of $20,200 are due monthly with a final payment due in September 2023.

- $1,360,000 of LIBOR plus 2.25 percent, a secured term note. The borrowings were for the construction of the facility used by the Company. Payments of $8,889 are due monthly with a final payment due in September 2023.

- $6,656,916 of LIBOR plus 2.05 percent, a construction draw payable. The borrowings were for the expansion and renovation of the facility used by the Company. Payments of $28,000 are due monthly with a final payment due in September 2024.

The agreements with PSP call for PSP to pay all the required payments. The Company is obligated under the terms of the notes to perform if PSP should fail to meet its requirements under the debt agreements. The maximum potential amount of future payments the Company would be required to make if this guarantee was invoked subsequent to December 31, 2018, is dependent on the related outstanding balance plus any accrued interest. The Company has not been called upon to perform under these guarantees and has suffered no losses as a result of the guarantees. Accordingly, the Company has recorded no additional debt related to this guarantee for both 2018 and 2017. Should the Company be required to pay any portion of the total amount of the loans it has guaranteed, the Company could attempt to recover some or the entire amount from PSP. The Company holds no collateral in respect of the guarantee. The loan agreements contain covenants which require PSP jointly with the Company to maintain net worth and certain key ratios.

Pursuant to our policy to apply the accounting alternative to certain lessor entities under common control, the Company does not consider consolidation of the accounts of PSP into the Company's financial statements.

Note 10 – Litigation

The Company is involved in lawsuits, claims, investigations, and proceedings, which arise in the ordinary course of business. If management believes that a loss arising from these matters is probable and can be reasonably estimated, a loss is recorded. As additional information becomes available, these matters are assessed and the estimates are revised, if necessary.

The Company was performing lab services for which several audits were conducted. Management has identified billing errors with payors that the Company has corrected on an ongoing basis. Additional payors have inquired about the lab charges as well and have requested information and/or resolution.

Mediation between one payor and the Company was completed in February 2019 and it was settled that the Company will pay the payor \$3,000,000. Management has accrued a liability at December 31, 2018 representing the known settlement.

In 2018, a second payor has made a recoupment claim against the Company of approximately \$1.5 million due to alleged overpayments by the Company for lab drug screens. It is the opinion of management that the lawsuit is without merit and the Company intends to vigorously defend the claim. The Company has not included an accrual for potential losses.

The Company has not quantified an estimated exposure amount for additional payors that have not filed a claim related to lab audits. The Company is no longer providing lab services for drug screens, as of October 1, 2018. As the paid claims age, any risk of overpayment claims by payors will decrease.

While the Company believes it has meritorious defenses against the suits, the ultimate resolution of these matters listed above, or claims from additional payors in the future, could result in a liability larger than the amount accrued by the Company at December 31, 2018.

Note 11 – Income Taxes

The limited liability company is not a tax-paying entity for income tax purposes and, thus, no income tax expense has been recorded in the statements. Income from the limited liability company is taxed to the members on their individual returns. Local and miscellaneous state taxes which do not recognize the tax treatment described above are reported in operating expenses.

Management evaluated the Company's uncertain tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements.

Note 12 – Related Party Transactions

The Company leases property on a triple net lease from PSP dated June 30, 2008. The majority of the Company's primary members are also members of PSP. The lease is for ten years and has an option to renew under the same terms for four additional five-year terms. On July 1, 2018, the Company exercised its option to renew under the same terms for an additional five-year term. Rental expense was $1,552,000 and $1,072,881 in 2018 and 2017, respectively.

The Company has a balance due from PSP of $221,000 and $10,000 at December 31, 2018 and 2017, respectively.

The Company is required to pay Indiana income tax on behalf of its non-resident members. The amount paid on behalf of non-resident members was $165,740 and $305,933 in 2018 and 2017, respectively.

Several members indirectly own a portion of Louisville Lithotripsy, LLC. The Company entered into an agreement with Louisville Lithotripsy, LLC for the use of a mobile extracorporeal shock wave lithotripter. The agreement is for a one-year period and unless terminated, will be automatically renewed for successive one-year terms. The Company had a balance due to Louisville Lithotripsy, LLC of $115,700 as of December 31, 2017 that was included in accounts payable. There was no balance due at December 31, 2018. The Company paid $1,418,800 and $1,713,688 for the years ended December 31, 2018 and 2017, respectively, under the agreement.

Note 13 – Leasing Arrangements as Lessee

The Company leases certain property and equipment under cancelable and noncancelable operating lease agreements expiring at various dates through June 2023. Generally, the Company is required to pay executory costs such as property taxes, maintenance, and insurance.

Since June 30, 2008, the Company has leased its operating facilities from PSP under a ten-year lease with an option to renew under the same terms for four additional five-year terms. On July 1, 2018, the Company exercised its option to renew under the same terms for an additional five-year term. At December 31, 2018, aggregate future minimum rental payments required under the noncancelable operating leases are as follows:

Years Ending December 31,	Related Party	Other	Total
2019	$ 1,574,928	$ 539,765	$ 2,114,693
2020	1,574,928	471,943	2,046,871
2021	1,574,928	398,400	1,973,328
2022	1,574,928	382,800	1,957,728
2023	787,464	100,000	887,464
Thereafter	0	422,400	422,400
	$ 7,087,176	$ 2,315,308	$ 9,402,484

Total rental expense under the operating leases was $2,225,462 and $1,650,816 for the years ended December 31, 2018 and 2017, respectively.

Note 13 – Leasing Arrangements as Lessee (Continued)

The Company leases property and equipment under capital leases expiring in October 2023. The property and equipment and the related liabilities have been recorded at the present value of the future payments discounted at a rate ranging from 3.37 to 5.28 percent.

Future minimum lease payments, by year and in the aggregate, under the capital lease are as follows:

Years Ending December 31,	Capitalized Lease
2019	$ 791,905
2020	791,905
2021	791,905
2022	702,579
2023	439,142
Total minimum lease payments	3,517,436
Amount representing interest	(385,823)
	3,131,613
Current maturities	(648,168)
Long-term	$ 2,483,445

Note 14 – Net Patient Service Revenue

The Company has agreements with third-party payors which provide for payments to the Company at amounts different from its established rates. A summary of the payment arrangements with major third-party payor follows:

<u>Medicare</u>

The Company is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The Company is reimbursed for Medicare inpatient services based on a fixed price per discharge for each diagnosis related grouping and Medicare outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Company's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursements is reflected as a receivable from or payable to the third-party program. The Company's classification of patients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the Company. As of December 31, 2018, the Company's submitted Medicare cost reports have been final settled with the Fiscal Intermediary through December 31, 2016.

<u>Medicaid</u>

The Company is a provider of services to patients entitled to coverage under the Title XIX (Medicaid) of the Health Insurance Act. The Company is reimbursed for Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Company's year-end, a cost report is filed with the Medicaid program computing reimbursement amounts related to Medicaid patients. There is no cost settlement for either of the inpatient or outpatient programs.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility recorded estimates will change by a material amount in the near-term. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from Medicare and Medicaid programs. The Company believes it is in compliance with all applicable laws and regulations.

The Company has also entered into payment agreements with certain commercial insurance carriers. Payment arrangements to the Company under these agreements included discounted charges and fee schedule payments.

Note 14 – Net Patient Service Revenue (Continued)

Commercial Carriers - Contractual Allowances

The Company has contractual agreements with certain third-party payors that include payment rates that reflect significant discounts from billed charges.

Estimated contractual allowances are accrued for services billed to third-party payors until payment has been received and the contractual difference applied to individual patient accounts.

Note 15 – Hospital Assessment Fee

The purpose of the HAF Program is to fund the state share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana hospitals. Previously, the state share was funded by government entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. The Company recognized HAF program expense of $700,554 and $170,202 for the years ended December 31, 2018 and 2017, respectively.

Note 16 – Bonuses and Profit-Sharing

The Company pays discretionary bonuses to its officers and key employees and profit-sharing to all employees. The amount of these bonuses and profit-sharing charged to expense was $755,790 and $570,348 for the years ended December 31, 2018 and 2017, respectively.