PHYSICIANS' SURGICAL PROPERTIES, LLC

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

CPAs / ADVISORS

blue

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REPORT OF INDEPENDENT AUDITORS

The Members of the Board
Physicians' Surgical Properties, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Physicians' Surgical Properties, LLC (the "Company"), which comprise the balance sheets as of December 31, 2012 and 2011, and 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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, 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.

Blue & Co., LLC

Louisville, Kentucky
July 31, 2013

PHYSICIANS' SURGICAL PROPERTIES, LLC

BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Current assets:		
Cash	$ 62,645	$ 0
Restricted cash	141,722	307,879
Due from members	1,866	6,000
Prepaid expenses	3,500	29,126
Total current assets	209,733	343,005
Property and equipment:		
Land	999,549	989,573
Land improvements	768,718	768,718
Building	7,399,067	7,399,067
	9,167,334	9,157,358
Less accumulated depreciation	1,099,310	859,662
Net property and equipment	8,068,024	8,297,696
Other assets:		
Deferred loan costs, net of amortization of $3,800 in 2012 and $2,280 in 2011	34,753	5,320
Total assets	$ 8,312,510	$ 8,646,021

See accompanying notes to financial statements.

	2012	2011
LIABILITIES AND MEMBERS' CAPITAL		
Current liabilities:		
Bank overdraft	$ 0	$ 39,188
Accounts payable	3,500	2,752
Long-term debt	614,166	1,007,333
Due to related party	1,731,560	1,377,427
Accrued expenses	3,578	4,445
Total current liabilities	2,352,804	2,431,145
Noncurrent liabilities:		
Long-term debt	4,085,834	4,735,667
Total liabilities	6,438,638	7,166,812
Commitment and contingency		
Members' capital	1,873,872	1,479,209
Total liabilities and members' capital	$ 8,312,510	$ 8,646,021

PHYSICIANS' SURGICAL PROPERTIES, LLC

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Rent	$ 894,000	$ 894,000
Operating expenses:		
Interest expense	224,167	182,629
Depreciation	239,647	240,968
Amortizaton	1,520	24,159
Professional fees	21,027	18,100
Administrative fees	3,000	3,000
Bank charges	6,977	2,292
Property taxes	3,091	0
Total operating expenses	499,429	471,148
Income from operations	394,571	422,852
Other income:		
Interest income	92	109
Net income	$ 394,663	$ 422,961

See accompanying notes to financial statements.

PHYSICIANS' SURGICAL PROPERTIES, LLC

STATEMENTS OF CHANGES IN MEMBERS' CAPITAL
YEARS ENDED DECEMBER 31, 2012 AND 2011

	Capital Contributions	Undistributed Earnings	Total
Balance as of January 1, 2011	$ 690,000	$ 366,248	$ 1,056,248
Net income	0	422,961	422,961
Balance as of December 31, 2011	690,000	789,209	1,479,209
Net income	0	394,663	394,663
Balance as of December 31, 2012	$ 690,000	$ 1,183,872	$ 1,873,872

See accompanying notes to financial statements.

PHYSICIANS' SURGICAL PROPERTIES, LLC

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating activities:		
Net income	$ 394,663	$ 422,961
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	239,647	240,968
Amortization	1,520	24,159
Accrued interest on advances to related parties	103,116	37,328
Change in operating assets and liabilities:		
Prepaid expenses	25,626	(9,584)
Accounts payable	748	(37,937)
Accrued expenses	(867)	(7,979)
Net cash flows from operating activities	764,453	669,916
Investing activities:		
Purchase of property and equipment	0	(139,384)
Due from members	4,134	(6,000)
Restricted cash	166,157	(25,108)
Net cash flows from investing activities	170,291	(170,492)
Financing activities:		
Bank overdraft	(39,188)	39,188
Loan costs	(30,953)	0
Payments on long-term debt	(1,043,000)	(1,028,667)
Advances to related parties	(15,297)	(196,872)
Advances from related parties	256,339	572,984
Net cash flows from financing activities	(872,099)	(613,367)
Net increase (decrease) in cash	62,645	(113,943)
Cash, beginning of year	0	113,943
Cash, end of year	$ 62,645	$ 0
Cash payments for interest	$ 120,982	$ 153,280
Supplemental disclosure of noncash investing and financing activities:		
Property and equipment purchased by related party	$ 9,976	$ 0

See accompanying notes to financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Physicians' Surgical Properties, LLC (the "Company") leases and manages real property located in New Albany, Indiana. The Company leases its property, a hospital, on a triple net lease to Physicians' Medical Center LLC. The lease is for ten years and has an option to renew under the same terms for four additional five year terms.

The Company is organized as a limited liability company under the laws of the State of Indiana. As a limited liability company, each member's liability for the debts and obligations of the Company is limited under provisions of the Internal Revenue Code. There is only one class of membership interest. As a result, each membership interest shares equally in the rights, preferences and privileges of members' equity. Net income or loss is apportioned among the members in accordance with membership interest percentage. The period of duration of the Company specified in its operating agreement is perpetual.

This summary of significant accounting policies is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Management's Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results could vary from the estimates that were used.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 5 to 39 years. Expenditures for repairs and maintenance are expensed as incurred.

Restricted Cash

The Company classifies cash maintained in a sinking fund to provide the funding source for the reimbursement of future principal draws against their letter of credit as restricted. Restricted cash is excluded from cash.

Deferred Loan Costs

Deferred loan costs are recorded at cost, less accumulated amortization, and are amortized over the term of the loans.

Revenue Recognition

The Company recognizes rental income from the leased property as due under the lease agreement.

Income Taxes

No provision is made for federal and state income taxes since the members report their distributive share of Company's taxable income or loss on their respective income tax returns.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Company and recognize a tax liability if the Company has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Company and has concluded as of December 31, 2012 and 2011, there are no uncertain positions taken or expected to be taken requiring recognition of a liability or disclosure in the accompanying financial statements. The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Company has filed its federal and state income tax returns for periods through December 31, 2012. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date.

Subsequent Events

The Company has evaluated subsequent events through July 31, 2013 which is the date the financial statements were available to be issued.

Reclassifications

Certain accounts on the financial statements as of December 31, 2011 and for the year then ended have been reclassified to be consistent with the classifications adopted for the financial statements as of December 31, 2012 and for the year then ended. Members' capital and net income are unchanged due to these reclassifications.

2. LONG-TERM DEBT

Long-term debt at December 31 consists of the following:

	2012	2011
Note payable to a bank at LIBOR plus 3% (LIBOR was .2108% at December 31, 2012), monthly payments of $35,667, plus interest, through June 2015, collateralized by substantially all Company assets.	$ 1,070,000	$ 1,498,000
Bonds payable, refinanced through a term note.	3,630,000	4,245,000
	4,700,000	5,743,000
Current portion	614,166	1,007,333
	$ 4,085,834	$ 4,735,667

The Company was a co-borrower with Physicians' Medical Center, LLC of Adjustable Rate Taxable Securities, Series 2006 notes with total value of $5,820,000. Interest was payable monthly at a variable rate based upon the weekly interest rate as set by the remarketer. The rate was approximately 3.9% at December 31, 2012 and 4.7% at December 31, 2011.

The bond indentures required the Company to make deposits to restricted accounts for the retirement of bond principal. At December 31, 2012, restricted cash was $141,722.

Effective December 14, 2012, the Company and co-borrower Physicians' Medical Center, LLC entered into a term note for the purpose of refinancing the bonds. The borrowing was advanced on January 17, 2013 with a rate of LIBOR plus 2.75% (LIBOR was .2108% at December 31, 2012). Monthly payments of $20,167 plus interest are required through January 2018. The term note is collateralized by substantially all Company assets.

Aggregate maturities required on the long-term debt after the refinancing are as follows:

Year ending December 31:

2013	$	614,166
2014		670,000
2015		491,667
2016		242,000
2017		242,000
Thereafter		2,440,167
Total	$	4,700,000

The Company’s term note agreements contain a covenant which requires the Company jointly with Physicians’ Medical Center, LLC to maintain a specified level of debt service coverage as defined by the bank. The Company’s debt service coverage at December 31, 2012 is below that required by the financial covenant. The bank has waived the covenant requirement at December 31, 2012.

3. COMMITMENT AND CONTINGENCY

At December 31, 2012, the Company has guaranteed a $1,000,000 line of credit held by Physician’s Medical Center. The Company is obligated under the terms of the guarantee to perform if the primary obligor should fail to meet its requirements under the debt agreement. The total outstanding balance the Company has guaranteed at December 31, 2012, is $640,000. This note is subject to annual renewal in September. The maximum potential amount of future payments the Company would be required to make if this guarantee was invoked subsequent to December 31, 2012, is dependent on the related outstanding balance on the line of credit. The Company has not been called upon to perform under this guarantee and has suffered no losses as a result of the guarantee. Should the Company be required to pay any portion of the total amount of the loan it has guaranteed, the Company could attempt to recover some or the entire amount from Physician’s Medical Center. The Company holds no collateral in respect of the guarantee.

4. RELATED PARTY TRANSACTIONS

The Company leases its property on a triple net lease to Physicians’ Medical Center LLC. Most of the Company’s members are also members of Physicians’ Medical Center, LLC. The lease is for ten years and has an option to renew under the same terms for four additional five year terms. The rental payments will increase 3% after each 60 month period. The lease was amended to include a 4% increase in the rent as of January 1, 2011. All other terms of the lease remained the same. Rental income was $894,000 for 2012 and $894,000 for 2011.

At December 31, 2012, the minimum lease payments (revenue to recognize) under the terms of all lease agreements are as follows:

Year ending December 31

2013	$	907,410
2014		920,820
2015		920,820
2016		920,820
2017		920,820
Thereafter		460,410
Total	$	5,051,100

The Company had a balance due Physicians' Medical Center, LLC of approximately $1,730,000 at December 31, 2012 and $1,380,000 at December 31, 2011.

5. CONCENTRATION OF CREDIT RISKS

The Company maintains a bank deposit account at a financial institution. Cash accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 and at times balances may exceed the federally insured limits.