Financial Statements

for

PHYSICIANS' MEDICAL CENTER, LLC

Years Ended December 31, 2022 and 2021
with Report of Independent Auditors

CONTENTS

DEANDORTON

Report of Independent Auditors

To the Board of Directors
Physicians' Medical Center, LLC
New Albany, Indiana

Opinion

We have audited the accompanying financial statements of Physicians' Medical Center, LLC (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, effective January 1, 2022, the Company adopted the provisions on Financial Accounting Standards Update 2016-02, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date the financial statements are issued or available to be issued.

To the Board of Directors
Physicians' Medical Center, LLC
Report of Independent Auditors, continued

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Dean Dorton Allen Ford, PLLC

Louisville, Kentucky

September 29, 2023

PHYSICIANS' MEDICAL CENTER, LLC

Balance Sheets

December 31, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash	**$ 1,823,993**	$ 1,431,114
Patient accounts receivable, net	**7,834,841**	7,467,135
Inventories	**1,397,534**	1,481,471
Prepaid expenses	**985,692**	674,566
Other current assets	**1,398,343**	500,017
Total current assets	**13,440,403**	11,554,303
Property and equipment:		
Construction in progress	**-**	1,008,056
Medical equipment and instruments	**16,730,233**	14,488,192
Furniture and furnishings	**596,576**	596,576
Leasehold improvements	**1,892,655**	1,858,174
	19,219,464	17,950,998
Less accumulated depreciation	**(13,448,984)**	(12,083,609)
Total property and equipment, net	**5,770,480**	5,867,389
Other assets:		
Right of use assets - operating leases	**20,821,053**	-
Other intangible assets	**7,500,000**	-
Goodwill	**106,801,485**	6,700,131
Total other assets	**135,122,538**	6,700,131
Total assets	**$154,333,421**	$ 24,121,823

	2022	2021
Liabilities and Members' Capital		
Current liabilities:		
Accounts payable	**$ 2,260,893**	$ 1,962,883
Accrued expenses and other current liabilities	**1,782,235**	1,309,668
Note payable to seller	**500,000**	500,000
Current portion of notes payable to former members	**-**	98,618
Current portion of long-term debt	**-**	41,667
Current maturities of finance lease liability	**428,438**	661,588
Current portion of operating lease liability	**625,821**	-
Total current liabilities	**5,597,387**	4,574,424
Long-term liabilities:		
Notes payable to former members, less current portion	**-**	73,654
Finance lease liability, less current portion	**-**	466,817
Operating lease liability, less current portion	**20,195,233**	-
Total long-term liabilities	**20,195,233**	540,471
Total liabilities	**25,792,620**	5,114,895
Members' capital	**128,540,801**	19,006,928
Total liabilities and members' capital	**$154,333,421**	$ 24,121,823

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Income

Years ended December 31, 2022 and 2021

	2022	2021
Patient service revenue	**$ 59,945,502**	$ 59,686,542
Operating expenses:		
Salaries and other personnel expenses	**13,830,865**	12,389,507
Employee benefits and payroll taxes	**3,053,652**	1,953,860
Purchased services	**842,173**	681,363
Medical supplies	**18,671,774**	21,321,125
Professional fees	**522,840**	733,646
Insurance	**384,404**	553,311
Rent	**2,461,123**	2,083,301
Utilities	**727,924**	589,980
Depreciation and amortization	**1,365,374**	2,074,422
Repairs and maintenance	**1,082,446**	1,106,097
Hospital assessment fee	**848,698**	823,435
Advertising	**59,954**	27,312
Computer and software	**756,963**	638,448
Other operating expenses	**1,013,955**	1,240,062
Total operating expenses	**45,622,145**	46,215,869
Income from operations	**14,323,357**	13,470,673
Other income (expense):		
Interest, net	**(30,532)**	(16,434)
Gain on forgiveness of Paycheck Protection Program (PPP) loan	**-**	2,000,000
Other income from sale of PSP	**8,029,559**	-
Income from Provider Relief Fund payments	**-**	145,610
Settlement loss	**(5,219,000)**	-
Total other income (expense)	**2,780,027**	2,129,176
Net income	**$ 17,103,384**	$ 15,599,849

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Changes in Members' Capital

Years ended December 31, 2022 and 2021

	Contributed Capital	Members' Capital	Total
Balances at December 31, 2020	$ 10,699,513	$ 3,589,351	$ 14,288,864
Capital contributions	-	75,000	75,000
Net income	-	15,599,849	15,599,849
Distributions	-	(10,956,785)	(10,956,785)
Balances at December 31, 2021	10,699,513	8,307,415	19,006,928
Capital contributions	**64,189,253**	**558,000**	**64,747,253**
Application of push down accounting	**-**	**47,137,950**	**47,137,950**
Redemption of members' units	**-**	**(717,523)**	**(717,523)**
Net income	**-**	**17,103,384**	**17,103,384**
Distributions	**-**	**(18,737,191)**	**(18,737,191)**
Balances at December 31, 2022	**$ 74,888,766**	**$ 53,652,035**	**$128,540,801**

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Cash Flows

Years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Net income	**$ 17,103,384**	$ 15,599,849
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**1,365,674**	2,074,422
Gain on forgiveness of PPP Loan	**-**	(2,000,000)
Provision for uncollectible accounts	**4,004,792**	4,968,132
Operating lease expense	**1,907,286**	-
Increase (decrease) in cash due to changes in:		
Patient accounts receivable	**(4,372,498)**	(6,117,799)
Inventories	**83,937**	(105,284)
Prepaid expenses	**(311,126)**	90,373
Other current assets	**(898,326)**	569,067
Accounts payable	**298,010**	(712,953)
Accrued expenses and other current liabilities	**472,567**	(1,834,135)
Lab recoupment liabilities	**-**	(2,933,087)
Operating lease liability	**(1,907,286)**	-
Net cash provided by operating activities	**17,746,414**	9,598,585
Cash flows from investing activities:		
Purchases of property and equipment	**(1,268,765)**	(1,148,445)
Business combination, net	**3,725,849**	-
Net cash provided by (used in) investing activities	**2,457,084**	(1,148,445)
Cash flows from financing activities:		
Repayment of notes payable to former members	**(172,272)**	(97,062)
Proceeds from PPP loan	**-**	2,000,000
Repayment of long term debt and finance leases	**(741,634)**	(1,291,905)
Proceeds from issuance of members' units	**558,000**	75,000
Redemption of members' units	**(717,522)**	-
Distributions to members	**(18,737,191)**	(10,956,785)
Net cash used in financing activities	**(19,810,619)**	(10,270,752)
Net increase (decrease) in cash	**392,879**	(1,820,612)
Cash, beginning of year	**1,431,114**	3,251,726
Cash, end of year	**$ 1,823,993**	$ 1,431,114

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Cash Flows, continued

Years ended December 31, 2022 and 2021

		2022		2021
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	**$**	**34,785**	$	23,730
Addition of right-of-use asset obtained from operating lease liabilities, net of remeasurement	**$**	**13,597,911**	$	-

See accompanying notes.

1. Description of the Organization and Presentation of the Financial Statements

Physicians' Medical Center, LLC (the 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. 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' capital. 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.

As discussed in Notes 5, 6, 9 and 11, the Company leases property from a related party, Physicians' Surgical Properties, LLC (PSP) and, as discussed in Note 11, has guaranteed PSP's debt. The Company has elected to utilize a practical expedient available to private companies (the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2014-07, *Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*) within accounting principles generally accepted in the United States of America (GAAP). This expedient permits the Company to not consolidate PSP's assets, liabilities and activity within its presented financial statements.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with GAAP which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Company in the preparation of its financial statements:

Pushdown Accounting

During 2022, 51% of the Company's equity was purchased by SCA AHN JV Holding II, LLC (Majority Member) and as a result, pushdown accounting was used to prepare the financial statements due to the different bases of accounting between the Company and the Majority Member. The effects of this change in accounting basis have not been calculated, but goodwill, intangibles and members' capital are the most significant areas with differences.

Cash

Deposits with financial institutions, as well as highly liquid investments with original maturities of three months or less are considered to be cash and cash equivalents by the Company. The Company has a concentration of credit risk in that it periodically maintains bank accounts which, at times, may exceed the coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Company has not experienced any losses on such accounts. The Company believes it is not exposed to any significant credit risk.

2. Summary of Significant Accounting Policies, continued

Patient Accounts Receivable and Patient Service Revenue

Patient care service revenue and patient accounts receivable are reported at the amount that reflects the consideration to which the Company expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government payors), and others. Generally, the Company bills the patients and third-party payors several days after the services are performed. Revenue is recognized as the performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Company. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Company believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. The Company measures its performance obligations from admission to the point when it is no longer required to provided services to that patient, which is generally at the time of discharge. Outpatient service revenue is recognized at a point in time when services are provided and the Company does not believe it is required to provide additional goods or services to the patient.

The Company estimates the transaction price for patients with deductibles and coinsurance and for those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Agreements with third-party payors provide for payments at amounts less than established charges. Payment agreements with governments and commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined rates. Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from related programs. There can be no assurance that regulatory authorities will not challenge the Company's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Company.

2. Summary of Significant Accounting Policies, continued

Patient Accounts Receivable and Patient Service Revenue, continued

Consistent with the Company's mission, care is provided to patients regardless of their ability to pay. Therefore, the Company has determined it has provided implicit price concessions to uninsured patients and other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represents the difference between amounts billed to patients and the amounts the Company expects to collect based on its collection history with those patients.

Inventories

Inventories consist of medical supplies and are valued at the lower of cost or net realizable value, determined by using the first-in, first-out method.

Property and Equipment

Property and equipment are recorded at cost. The Company capitalizes all expenses for property and equipment exceeding $1,000. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 3 to 59 years.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of assets and liabilities as part of historical business acquisitions. The carrying value of goodwill is tested annually to determine if facts and circumstances suggest that the asset may be impaired. The Company considers internal and external factors, including cash flow, contract changes, and other trends. If these qualitative factors or the projected discounted cash flows of the Company indicate that goodwill will not be recoverable, the carrying value will be adjusted to the estimated fair value. No goodwill impairment was recognized during the years ended December 31, 2022 and 2021.

The Company recorded intangible assets for non-compete agreements and accreditation costs in the current year. The Company amortizes the non-compete intangible asset on a straight-line basis over its estimated useful life of 5 years. The Company does not amortize the accreditation costs intangible asset as it has an indefinite life, but tests it for impairment annually, or more frequently if circumstances indicate impairment may have occurred. There was no amortization expense or accumulated amortization related to the intangible assets for the years ended December 31, 2022 and 2021, respectively.

2. Summary of Significant Accounting Policies, continued

Adoption of New Accounting Standard

Effective January 1, 2022, the Company adopted Accounting Standards Update (ASU) 2016-02, Leases (Topic 842) and associated amendments. This standard requires all leases to be recognized on the Company's balance sheet as a right-of-use (ROU) asset and a lease liability, unless the lease is a short term lease (generally a lease with a term of twelve months or less). The Company recognizes: 1) a lease liability for the Company's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents the Company's right to use, or control the use of, the specified asset for the lease term.

The Company recognized and measured its leases at January 1, 2022 in accordance with Accounting Standards Codification (ASC) Topic 842 using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Upon adoption of this new standard on January 1, 2022, right-of-use assets and corresponding operating lease liabilities of $9,130,428 were recorded. Amounts as of and for the year ended December 31, 2021 are accounted for in accordance with previous guidance (ASC Topic 840).

The Company elected the "package of practical expedients" under the transition guidance within ASC Topic 842, in which the Company does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Company has not elected to adopt the "hindsight" practical expedient, and therefore measured the ROU assets and lease liabilities using the remaining portion of the lease term upon adoption of ASC 842.

The adoption of the new lease standard did not materially impact net income or cash flows and did not result in a cumulative-effect adjustment to the opening balance of members' equity.

Leases

Lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease, measured on a discounted basis. The Company determines if an arrangement is, or contains, a lease at inception of the agreement, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Company obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Company also considers whether its service arrangements include the right to control the use of an asset.

2. Summary of Significant Accounting Policies, continued

Leases, continued

The Company has made an accounting policy election not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. Lease expense for such leases is recognized on a straight-line basis over the lease term. The Company has identified leases that were determined to not be significant to the financial statements and as such they are also not included in the ROU asset and liability at year end. The rent expense associated with the insignificant and short term leases for the current year was $277,872.

Operating leases are included in operating lease right-of-use assets, and operating lease liabilities (current and non-current) on the balance sheet. Operating lease expense is recognized on a straight-line basis over the lease term. Finance leases are included in property and equipment, and finance lease liabilities (current and non-current) on the balance sheet. Finance lease cost is recognized as a combination of amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expenses pattern over the lease term.

Operating and finance lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of future lease payments over the lease term. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date of the lease, and are reduced by any lease incentives.

As most of the Company's leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at the commencement date.

Lease terms may include options to extend or terminate the lease. Where management concludes that it is reasonably certain that a renewal or termination option will be exercised, that renewal period or termination option is used to determine the lease term and the related payments that are reflected in the ROU asset and lease liability.

Some of the Company's leases include variable lease payments. Variable lease payments are only included in measuring ROU assets and lease liabilities if they depend on an index or a rate, or are in substance fixed payments. Variable payments that are not included in measuring the ROU assets are expensed when incurred. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

2. Summary of Significant Accounting Policies, continued

Leases, continued

Lease agreements with lease and non-lease components are generally accounted for separately based upon the standalone price of the separate lease and non-lease components at the commencement date of the lease. The Company has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for the Company's real estate leases. The non-lease components generally relate to the separate payments made to the lessor based on the lessor's property and casualty insurance costs and the property taxes assessed on the property, as well as a portion of the common area maintenance costs associated with the property. The non-lease components are variable in nature and are recorded in variable lease expense in the period incurred.

Forgivable Loan

The Company received a Paycheck Protection Program loan (PPP loan) under the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act) in the amount of $2,000,000. The Company accounted for the PPP loans as grants under Accounting Standards Codification (ASC) 958. During the year ended December 31, 2021, $2,000,000 was forgiven and recognized as other income on the statements of income.

Advertising

The Company expenses advertising costs as they are incurred. Advertising expense was $59,954 and $27,312 for the years ended December 31, 2022 and 2021, respectively.

Long-Lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2022 and 2021.

Income Taxes

The Company has been organized as a limited liability company for income tax purposes. Accordingly, the members report their share of federal income or loss on their own tax returns. Because of the Company's tax status, the financial statements do not reflect a federal tax provision or any related tax assets and liabilities. Federal income taxes will be paid by the Company's members and cash distributions may be paid to the members to cover this liability.

2. Summary of Significant Accounting Policies, continued

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through September 29, 2023, the date that the financial statements were available to be issued.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The standard will be effective for the Company for the year ending December 31, 2023. The Company is currently evaluating the effect that the new standard will have on its financial statements.

3. Acquisition

During December 2022, 51% of the Company was acquired by the majority member. The acquisition has been accounted for as a business combination, which required that all assets and liabilities be recognized on the new acquisition basis as of the closing date of the acquisition. The purchase price for 51% of the Company was $64,300,000. Intangible assets of $7,500,000 were created and members capital accounts were stepped up to the new parent basis. Goodwill of $100,101,354 was recorded as a result of the transaction.

4. Patients Accounts Receivable

As of December 31, 2022, 2021 and 2020, patient accounts receivable consisted of the following:

	2022	2021	2020
Patient accounts receivable	**$ 19,531,003**	$ 24,958,357	$ 26,774,294
Less allowances for:			
Contractual adjustments	**7,691,370**	12,523,090	16,226,714
Uncollectible accounts	**4,004,792**	4,968,132	4,230,112
Patient accounts receivable, net	**$ 7,834,841**	$ 7,467,135	$ 6,317,468

4. 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. The mix of receivables from patients and third-party payors as of, and for the year ended, December 31, 2022, 2021 and 2020 is as follows:

	2022	2021	2020
Medicare	**32 %**	28 %	29 %
Commercial and other	**25**	26	26
Blue Cross	**20**	25	20
Self pay	**13**	13	13
Medicaid	**10**	8	12
	100 %	100 %	100 %

5. Line of Credit

The Company had an operating line of credit with a local bank. The line was for a maximum of $4,000,000 with interest at a floating rate per annum equal to the adjusted Secured Overnight Financing Rate (SOFR) with a rate margin of 2.10%. There were no outstanding borrowings on this line of credit at December 31, 2022 and 2021. The line of credit agreement contained a covenant which required the Company, jointly with PSP, to maintain net worth and certain key ratios. This line expired on December 15, 2022 and was not renewed.

6. Long-Term Debt

As of December 31, 2022 and 2021, long-term debt consisted of the following:

	2022	2021
Bank note payable, bearing interest at LIBOR plus 2.00% (2.13% as of December 31, 2022). Interest is due monthly in addition to monthly payments of $41,667 through the maturity date. The note was paid off during 2022.	**-**	41,667
Less: amounts due within one year	**-**	41,667
Long-term portion of debt	**$ -**	$ -

The Company's note payable agreements contained covenants which, among other things, required the Company, jointly with PSP, to maintain a specified level of debt service coverage as defined by the bank.

7. 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 2.00% percent in excess of the one-month LIBOR, unsecured, and was due October 2018. The Company is currently disputing this payable and acting on recourse as provided in the related asset purchase agreement. The state of Indiana allows the seller a 6 year statute of limitations period to file a claim associated with this payable. As of the date these financial statements are available to be issued, no such claim has been received by the Company.

8. Provider Relief Funds

The Provider Relief fund (PRF), as established by the CARES Act, allows for relief payments to qualified providers of health care services and support for increased health care related expenses or lost revenue due to COVID-19. As of December 31, 2021, the Company received PRF payments in the amount of $145,610. In accordance with ASC 958-605, the Company recognizes PRF payments as income to the extent the Company has incurred associated healthcare related expenses or lost revenues attributable to COVID-19. For the year ended December 31, 2021, the Company recognized $145,610 of PRF payments as other income on the statements of income.

9. Related Party Transactions

The Company leased 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 was for ten years and had 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. During 2022, PSP sold the majority of their property and assets to a third party. As a result, the lease was amended to only include the remaining property owned by PSP post transaction. The new lease agreement with PSP dated July 1, 2022 is for five years with an option to renew under the same terms for three additional five-year terms. Rental expense was $802,512 and $1,574,936 for the years ended December 31, 2022 and 2021, respectively.

At December 31, 2022 the minimum lease payments under the terms of the new lease agreement were as follows for years ending December 31:

2023	$ 30,752
2024	32,292
2025	33,906
2026	35,602
2027	37,382
Thereafter	19,147
	$ 189,081

9. Related Party Transactions, continued

Additionally, as a result of the PSP transaction, the Company's members received a payment related to funds that were held in escrow. The funds were received from PSP by the Company and distributed to the members. The total amount received from the transaction and distributed to members during the year ended December 31, 2022 was $8,029,559.

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 $371,841 and $175,445 for the years ended December 31, 2022 and 2021, respectively. The Company reduces member distributions to recoup the balances owed by these members.

Several members indirectly own a portion of Louisville Lithotripsy, LLC. The Company entered 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 $96,000 as of December 31, 2022. There were no amounts due as of December 31, 2021. The balance due has been included in accounts payable on the balance sheets as of December 31, 2022. The Company paid $1,751,800 and $1,854,365 for the years ended December 31, 2022 and 2021, respectively, under the agreement.

The Company had notes payable to former members related to the redemption of shares by six members. Each member received an initial payment upon redemption with the remaining balance to be paid out over four years. Each note payable had an annual interest rate of 4.75%, payable at various dates. The outstanding balance as of December 31, 2021 was $172,272. All notes were paid off during 2022.

10. Patient Service Revenue

The Company mainly provides services to patients located in Indiana and Kentucky. Revenue recognized from contracts with patients by timing of revenue recognition for the years ended December 31, 2022 and 2021, is as follows:

	2022	2021
Services transferred at a point in time	**$ 59,533,974**	$ 59,335,447
Services transferred over time	**411,528**	351,095
Total revenue	**$ 59,945,502**	$ 59,686,542

10. Patient Service Revenue, continued

The mix of revenue from patients and third-party payors as of December 31, 2022 and 2021 is as follows:

	2022	2021
Medicare	**32 %**	28 %
Other third party-payors	**25**	26
Blue Cross	**20**	25
Self pay	**13**	13
Medicaid	**10**	8
	100 %	100 %

11. 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 Company maintains medical professional liability insurance with a limit of $500,000 per occurrence ($10,000,000 annual aggregate) pursuant to the Indiana Medical Malpractice Act (Act). The Act provides coverage of $1,000,000 per occurrence ($10,000,000 annual aggregate), of which the first $500,000 per occurrence would be covered by the Company's medical professional liability insurance and the remainder by the State of Indiana Patient Compensation Fund.

PSP, a Related Party

At December 31, 2021, the Company guarantees the following debt of PSP in which the Company is jointly and severally liable with PSP.

- $1,574,000 of one-month LIBOR plus 2.05%, 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 $22,600 are due monthly with a final payment due in September 2023.

- $1,031,112 of one-month LIBOR plus 2.05%, 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.

11. Commitments and Contingencies, continued

PSP, a Related Party, continued

- $5,577,750 of one-month LIBOR plus 2.00%, a construction draw payable. The borrowings were for the expansion and renovation of the facility used by the Company. Payments of $29,167 are due monthly with a balloon payment of approximately $4,725,000 due in September 2024.

All of the above notes were paid off during 2022.

Pursuant to the Company's 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.

12. Litigation

The Company is currently, and from time to time, subject to claims and suits arising in the ordinary course of its business, including claims for medical malpractice and damages, for personal injuries. In the opinion of the Company's management, the ultimate resolution of any of these pending claims and legal proceedings will not have a material effect on the Company's financial position or results of operations.

The Company historically performed lab services for which several audits were conducted. As a result of the audits, management identified potential billing errors with payors that the Company has corrected on an ongoing basis.

On July 9, 2020, the Company received notification from the United States Attorney’s Office for the Eastern District of Kentucky of an ongoing False Claims Act investigation (the Investigation) involving the Company. The Investigation alleges the Company submitted false claims for laboratory testing services which were performed under the Company’s previous clinical diagnostic laboratory operations that have since been discontinued as of October 1, 2018. Included in the notification was a Civil Investigative Demand (CID) which requires production of certain documents and written responses pertaining to the Investigation. The Company settled this dispute during 2022 and paid $5,219,000 as a result of the settlement to the third party.

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 ($1,000,000 up front and the remaining $2,000,000 over 18 months at $111,111 monthly). As of December 31, 2021, the entire balance has been paid.

In 2018, a second payor made a recoupment claim against the Company due to alleged overpayments by the Company for lab drug screens. The Company settled this dispute in 2021 and paid $1,150,000 as a result of the settlement to the third party.

12. Litigation, continued

During 2020, a third payor made a recoupment claim against the Company due to alleged overpayments by the Company for lab drug screens. The Company settled with the payor during 2020 and the Company agreed to pay the payor $563,000 (over 18 months at $31,278 monthly). As of December 31, 2021, the entire balance was paid.

The Company has not quantified an estimated exposure amount or been made aware of any additional payors that have not filed a claim related to lab audits. As of October 1, 2018, the Company is no longer providing lab services for drug screens. 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, 2022.

13. Hospital Assessment Fee

The purpose of the Hospital Assessment Fee (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 $848,698 and $823,435 for the years ended December 31, 2022 and 2021, respectively.

14. 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 $369,121 and $350,885 for the years ended December 31, 2022 and 2021, respectively.

15. Employee Benefit Plan

The Company has a 401(k) plan covering all qualifying employees. The plan is funded by employee and Company contributions. The Company made no contributions to the plan for the years ended December 31, 2022 and 2021.

16. Leases

The Company leases several buildings through cancelable and noncancelable operating lease agreements expiring at various dates between April 2027 and May 2037. Generally, the Company is required to pay executory costs such as property taxes, maintenance, and insurance. The Company's operating leases generally do not contain any material restrictive covenants or residual value. Some of the leases include one or more options to renew, generally at the Company's sole discretion. The renewal terms can extend the lease terms up to 5 years. The Company concluded it is not reasonably certain to renew the leases with these terms. The weighted average discount rate for the Company's operating leases is 7.25% as of December 31, 2022. Total cash paid for operating lease agreements was $1,211,349 and $493,633 for the years ended December 31, 2022 and 2021, respectively. For the year ended December 31, 2022 total lease costs consisted of $2,183,251 of operating lease costs.

The Company also leases certain equipment under a finance lease agreement from an unrelated party. The maturity date under this agreement is September 2023 with an interest rate of 5.77%. The Company's finance lease generally does not contain any material restrictive covenants. The net book value of the assets under finance lease was $935,582 and $1,097,129 as of December 31, 2022 and 2021, respectively.

Maturities of lease liabilities as of December 31, 2022 were as follows:

	Financing Leases	Operating Leases
2023	$ 438,559	$ 2,105,561
2024	-	2,148,595
2025	-	2,192,536
2026	-	2,237,403
2027	-	2,257,994
Thereafter	-	23,472,999
Total lease payments	438,559	34,415,088
Less amounts representing interest	(10,121)	(13,594,034)
Present value of lease obligations	428,438	20,821,054
Less current maturities	(428,438)	(625,821)
Long-term portion of lease liabilities	$ -	$ 20,195,233