



Financial Statements

for

PHYSICIANS' MEDICAL CENTER, LLC

Years Ended December 31, 2023 and 2022
with Independent Auditor's Report

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Physicians' Medical Center, LLC (the Company), which comprise the balance sheets as of December 31, 2023 and 2022, 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, 2023 and 2022, 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.

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
Independent Auditor's Report, 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 Doran Allen Ford, PLLC

Louisville, Kentucky
January 29, 2025

PHYSICIANS' MEDICAL CENTER, LLC

Balance Sheets

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current assets:		
Cash	\$ 4,131,369	\$ 1,823,993
Patient accounts receivable, net	6,059,407	7,834,841
Inventories	1,399,193	1,397,534
Prepaid expenses	283,616	985,692
Other current assets	<u>269,735</u>	<u>1,398,343</u>
Total current assets	12,143,320	13,440,403
Property and equipment:		
Medical equipment and instruments	3,480,980	16,730,233
Furniture and furnishings	44,054	596,576
Leasehold improvements	1,611,603	1,892,655
Construction in progress	<u>39,501</u>	<u>-</u>
	5,176,138	19,219,464
Less accumulated depreciation	<u>(371,487)</u>	<u>(13,448,984)</u>
Total property and equipment, net	4,804,651	5,770,480
Noncurrent assets:		
Right of use assets - operating leases	20,033,260	20,821,053
Other intangible assets	6,720,000	7,500,000
Goodwill	<u>105,543,713</u>	<u>106,801,485</u>
Total other assets	132,296,973	135,122,538
Total assets	<u>\$149,244,944</u>	<u>\$154,333,421</u>

	<u>2023</u>	<u>2022</u>
Liabilities and Members' Capital		
Current liabilities:		
Accounts payable	\$ 1,185,296	\$ 2,260,893
Accrued expenses and other current liabilities	3,859,552	1,782,235
Note payable to seller	500,000	500,000
Current portion of finance lease liability	-	428,438
Current portion of operating lease liability	<u>772,344</u>	<u>625,821</u>
Total current liabilities	6,317,192	5,597,387
Noncurrent liabilities:		
Operating lease liability, less current portion	<u>19,565,537</u>	<u>20,195,233</u>
Total liabilities	25,882,729	25,792,620
Members' capital	<u>123,362,215</u>	<u>128,540,801</u>
Total liabilities and members' capital	<u>\$149,244,944</u>	<u>\$154,333,421</u>

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Income

Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net patient service revenue	\$ 59,327,878	\$ 59,945,502
Operating expenses:		
Salaries and other personnel expenses	15,325,151	13,830,865
Employee benefits and payroll taxes	2,558,580	3,053,652
Purchased services	886,625	842,173
Medical supplies	18,008,005	18,671,774
Professional fees	496,731	522,840
Insurance	402,380	384,404
Rent	2,808,174	2,461,123
Utilities	635,046	727,924
Depreciation and amortization	1,655,900	1,365,374
Repairs and maintenance	1,111,063	1,082,446
Hospital assessment fee	1,323,021	848,698
Advertising	39,795	59,954
Computer and software	757,642	756,963
Management fee	750,000	34,375
Taxes and licenses	305,133	227,694
Other operating expenses	<u>1,395,638</u>	<u>751,886</u>
Total operating expenses	<u>48,458,884</u>	<u>45,622,145</u>
Income from operations	10,868,994	14,323,357
Other income (expense):		
Interest, net	33,368	(30,532)
Other income from sale of PSP	-	8,029,559
Settlement loss	<u>-</u>	<u>(5,219,000)</u>
Total other income	<u>33,368</u>	<u>2,780,027</u>
Net income	<u>\$ 10,902,362</u>	<u>\$ 17,103,384</u>

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Changes in Members' Capital

Years ended December 31, 2023 and 2022

	Contributed Capital	Members' Capital	Total
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
Measurement period adjustments	-	(2,683,519)	(2,683,519)
Redemption of members' units	-	(951,543)	(951,543)
Net income	-	10,902,362	10,902,362
Distributions	-	(12,445,886)	(12,445,886)
Balances at December 31, 2023	<u>\$ 74,888,766</u>	<u>\$ 48,473,449</u>	<u>\$123,362,215</u>

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Cash Flows

Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Net income	\$ 10,902,362	\$ 17,103,384
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,655,900	1,365,674
Provision for credit losses	2,807,386	4,004,792
Operating lease expense	787,793	1,907,286
Increase (decrease) in cash due to changes in:		
Patient accounts receivable	(1,564,385)	(4,372,498)
Inventories	(1,659)	83,937
Prepaid expenses	702,076	(311,126)
Other current assets	628,608	(898,326)
Accounts payable	(1,100,211)	298,010
Accrued expenses and other current liabilities	2,028,013	472,567
Operating lease liability	<u>(483,173)</u>	<u>(1,907,286)</u>
Net cash provided by operating activities	16,362,710	17,746,414
Cash flows from investing activities:		
Purchases of property and equipment	(229,467)	(1,268,765)
Business combination, net	<u>-</u>	<u>3,725,849</u>
Net cash (used in) provided by investing activities	(229,467)	2,457,084
Cash flows from financing activities:		
Repayment of notes payable to former members	-	(172,272)
Repayment of long-term debt	-	(41,667)
Repayment of finance leases	(428,438)	(699,967)
Proceeds from issuance of members' units	-	558,000
Redemption of members' units	(951,543)	(717,522)
Distributions to members	<u>(12,445,886)</u>	<u>(18,737,191)</u>
Net cash used in financing activities	(13,825,867)	(19,810,619)
Net increase in cash	2,307,376	392,879
Cash, beginning of year	<u>1,823,993</u>	<u>1,431,114</u>
Cash, end of year	\$ <u>4,131,369</u>	\$ <u>1,823,993</u>

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Cash Flows, continued

Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 9,980	\$ 34,785
Addition of right-of-use asset obtained from operating lease liabilities, net of remeasurement	\$ -	\$ 13,597,911
Measurement period adjustments from finalization of purchase price allocation:		
Accounts receivable	\$ 532,433	\$ -
Property and equipment	\$ 319,396	\$ -
Goodwill	\$ 1,257,772	\$ -
Other current assets	\$ 500,000	\$ -
Accounts payable and accruals	\$ 73,918	\$ -
Members' capital	\$ 2,683,519	\$ -

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements

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 Note 6, the Company leases property from a related party, Physicians' Surgical Properties, LLC (PSP). 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.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Adoption of New Accounting Standard

Effective January 1, 2023, the Company adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and associated amendments. This standard 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 adoption of the new standard did not result in a cumulative-effect adjustment to the opening balance of members' capital.

Patient Accounts Receivable

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 and are generally unsecured. 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.

The Company establishes allowances for credit losses on patient accounts receivable. The allowance for credit losses is the Company's best estimate of the amount of probable credit losses in their existing patient accounts receivable and is based upon historical loss patterns, the number of days that billings are past due, and an evaluation of the potential risk of loss associated with specific accounts. The measurement of credit losses and subsequent changes in the allowance for credit losses are recorded in the statement of income within patient service revenue as the amounts expected to be collected change.

The Company uses the aging method to estimate its expected credit losses on patient accounts receivable. In order to estimate expected credit losses, the Company assesses recent historical experience, current economic conditions and any reasonable and supportable forecasts to identify risk characteristics that are shared within the financial assets. These risk characteristics are then used to bifurcate the aging method into risk pools. Historical credit loss for each risk pool is then applied to the current period aging in the identified risk pools to determine the needed reserve allowance. In the absence of current economic conditions and/or forecasts that may affect future credit losses, the Company has determined that recent historical experience provides the best basis for estimating credit losses.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Patient Accounts Receivable, continued

The determination of past due status on patient accounts receivable is based on the terms indicated on patient invoices. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Recoveries of accounts receivable previously written off are recorded when received. The Company does not charge interest on its past due receivables.

Estimating credit losses based on risk characteristics requires significant judgment by the Company. Significant judgments include but are not limited to assessing current economic conditions and the extent to which they would be relevant to the existing characteristics of the Company's financial assets, the estimated life of financial assets and the level of reliance on historical experience in light of economic conditions. The Company reviews and updates, when necessary, its historical risk characteristics that are meaningful to estimating credit losses, any new risk characteristics that arise in the natural course of business and the estimated life of its financial assets.

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 capitalized all expenses for property and equipment exceeding \$1,000 as of December 31, 2022. During 2023, the capitalization threshold was increased to \$5,000 retroactive to January 1, 2023. 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, 2023 and 2022.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Goodwill and Intangible Assets, continued

The Company recorded intangible assets for non-compete agreements and accreditation costs as a part of the transaction with its Majority Member during 2022. 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. Amortization expense and accumulated amortization related to the intangible assets was \$780,000 for the year ended December 31, 2023. There was no amortization expense or accumulated amortization for the year ended December 31, 2022.

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.

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.

Operating leases are included in operating lease right-of-use assets, and operating lease liabilities (current and non-current) on the balance sheets. 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 sheets. 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.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Leases, continued

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.

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. Certain non-lease components are variable in nature and are recorded in variable lease expense in the period incurred.

Net Patient Service Revenue

Net Patient care service revenue is 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 provide 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.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Net Patient Service Revenue, continued

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.

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.

Advertising

The Company expenses advertising costs as they are incurred. Advertising expense was \$39,795 and \$59,954 for the years ended December 31, 2023 and 2022, respectively.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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, 2023 and 2022.

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.

Reclassification

Certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 presentation with no effect on total assets, liabilities, members' capital, and net income.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through January 29, 2025, the date that the financial statements were available to be issued.

3. Acquisition

During December 2022, 51% of the Company was acquired by the majority member. The acquisition was 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 recorded 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. The carrying amount of goodwill as of December 31, 2022 was \$106,801,485.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

3. Acquisition, continued

Acquisition, continued

During 2023, the Company recorded measurement period adjustments to the estimated fair values initially recorded in 2022. The adjustments resulted in a \$2.6M decrease to total assets, a \$0.1M increase to total liabilities, and a \$2.6M decrease to member's capital. The measurement period adjustments were recorded to better reflect market participant assumptions about fact and circumstances existing as of the acquisition date and did not have a material impact on the statement of income for the year ended December 31, 2022.

4. Net Patient Accounts Receivable

As of December 31, 2023, 2022 and 2021, patient accounts receivable consisted of the following:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Patient accounts receivable	\$ 21,659,818	\$ 19,531,003	\$ 24,958,357
Less allowances for:			
Contractual adjustments	14,774,090	7,691,370	12,523,090
Uncollectible accounts	<u>826,321</u>	<u>4,004,792</u>	<u>4,968,132</u>
 Patient accounts receivable, net	 <u>\$ 6,059,407</u>	 <u>\$ 7,834,841</u>	 <u>\$ 7,467,135</u>

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, 2023, 2022 and 2021 is as follows:

	<u>2023</u>	<u>2022</u>
Medicare	28 %	32 %
Commercial and other	28	25
Blue Cross	26	20
Self pay	12	13
Medicaid	<u>6</u>	<u>10</u>
	<u>100 %</u>	<u>100 %</u>

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

5. Goodwill and Other Intangible Assets

Goodwill and other intangible assets at December 31, 2023 and 2022 consisted of the following:

	Goodwill	Non-Compete Agreements	Accreditation Costs
Balance as of December 31, 2021	\$ 6,700,131	\$ -	\$ -
Amortization	-	-	-
Goodwill and intangible assets acquired due to acquisition	<u>100,101,354</u>	<u>3,900,000</u>	<u>3,600,000</u>
Balance as of December 31, 2022	106,801,485	3,900,000	3,600,000
Amortization	-	(780,000)	-
Measurement period adjustment, net	<u>(1,257,772)</u>	<u>-</u>	<u>-</u>
Balance as of December 31, 2023	<u>\$105,543,713</u>	<u>\$ 3,120,000</u>	<u>\$ 3,600,000</u>

6. 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. The Company wrote off this note payable during 2024.

7. 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 \$30,004 and \$802,512 for the years ended December 31, 2023 and 2022, respectively.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

7. Related Party Transactions, continued

At December 31, 2023 the minimum lease payments under the terms of the new lease agreement were as follows for years ending December 31:

2024	\$	32,292
2025		33,906
2026		35,602
2027		37,382
2028		<u>19,147</u>
	\$	<u>158,329</u>

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 \$742,168 and \$371,841 for the years ended December 31, 2023 and 2022, 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 \$100,000 and \$96,000 as of December 31, 2023 and 2022, respectively. The balance due has been included in accounts payable on the balance sheets as of December 31, 2023 and 2022. The Company paid \$1,290,700 and \$1,751,800 for the years ended December 31, 2023 and 2022, respectively, under the agreement.

8. Net 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, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Services transferred at a point in time	\$ 58,903,992	\$ 59,533,974
Services transferred over time	<u>423,886</u>	<u>411,528</u>
Total revenue	\$ <u>59,327,878</u>	\$ <u>59,945,502</u>

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

8. Net Patient Service Revenue, continued

The mix of revenue from patients and third-party payors as of December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Medicare	28 %	32 %
Other third party-payors	28	25
Blue Cross	26	20
Self pay	12	13
Medicaid	<u>6</u>	<u>10</u>
	<u>100 %</u>	<u>100 %</u>

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 Company maintains medical professional liability insurance with a limit of \$1,000,000 per occurrence (\$3,000,000 annual aggregate) pursuant to the Indiana Medical Malpractice Act (Act). The Act provides coverage of \$1,000,000 per occurrence (\$3,000,000 annual aggregate), of which the first \$1,000,000 per occurrence would be covered by the Company's medical professional liability insurance and the remainder by the State of Indiana Patient Compensation Fund.

10. 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.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

10. Litigation, continued

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.

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.

11. 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 \$1,323,021 and \$848,698 for the years ended December 31, 2023 and 2022, respectively.

12. 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 contributions to the plan of \$379,065 for the year ended December 31, 2023. The Company made no contributions to the plan for the year ended December 31, 2022.

13. Leases

The Company leases several buildings through cancelable and noncancelable operating lease agreements expiring at various dates between April 2027 and May 2037 with interest rates of 7.25%. 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 guarantees. Total cash paid for operating lease agreements was \$2,105,561 and \$1,211,349 for the years ended December 31, 2023 and 2022.

The Company also leased certain equipment under a finance lease agreement from an unrelated party. The lease carried an interest rate of 5.77% and expired in September 2023. The lease was not renewed. The Company's financing lease did not contain any material restrictive covenants or residual value guarantees. The net book value of the assets under finance lease was \$935,582 as of December 31, 2022.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

13. Leases, continued

Some leases include one or more options to renew, generally at the Company's sole discretion, with renewal terms that can extend the lease term up to 5 years. The Company concluded it is not reasonably certain to renew the leases with these terms. In addition, certain leases contain termination options, where the rights to terminate are held by either the Company, the lessor or both parties.

The components of lease expenses for the years ended December 31, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Operating lease costs	\$ 2,397,492	\$ 2,183,251
Short-term lease cost	<u>410,682</u>	<u>277,872</u>
Total lease cost	<u>\$ 2,808,174</u>	<u>\$ 2,461,123</u>
Lease expense:		
Rent	\$ 2,808,174	\$ 2,461,123

The weighted average remaining lease term as of December 31, 2023 and 2022 is 8.375 and 9.375 years for operating leases. The weighted average remaining lease term as of December 31, 2022 was 0.750 years for finance leases.

The weighted average discount rate as of December 31, 2023 and 2022 is 7.25% and 7.25% for operating leases. The weighted average discount rate as of December 31, 2022 was 5.77% for finance leases.

Maturities of operating lease liabilities as of December 31, 2023 were as follows:

	Operating Lease <u>Liabilities</u>
Year ending June 30,	
2024	\$ 2,148,595
2025	2,192,536
2026	2,237,403
2027	2,257,994
2028	2,290,755
Thereafter	<u>21,182,242</u>
	32,309,525
Less amount representing interest under operating lease liabilities	<u>11,971,644</u>
	<u>\$ 20,337,881</u>