

**UNITED SURGEONS, LLC D/B/A
UNITY MEDICAL AND SURGICAL HOSPITAL**
Mishawaka, Indiana

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

UNITED SURGEONS, LLC D/B/A
UNITY MEDICAL AND SURGICAL HOSPITAL
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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Members of
United Surgeons, LLC
d/b/a Unity Medical and Surgical Hospital
Mishawaka, Indiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of United Surgeons, LLC d/b/a Unity Medical and Surgical Hospital, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, members' deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Surgeons, LLC d/b/a Unity Medical and Surgical Hospital, as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 8 to the consolidated financial statements, the Company's current liabilities exceed its current assets along with a members' deficit position that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 8. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Crowe Horwath LLP

Crowe Horwath LLP

Chicago, Illinois
July 8, 2015

UNITED SURGEONS, LLC D/B/A
 UNITY MEDICAL AND SURGICAL HOSPITAL
 CONSOLIDATED BALANCE SHEETS
 December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets:		
Cash	\$ 912,477	\$ 1,992,907
Patient receivables, net	13,144,740	11,730,748
Inventory	608,264	554,793
Prepaid expenses and other assets	128,536	385,424
Affiliates receivables	<u>236,470</u>	<u>293,237</u>
Total current assets	15,030,487	14,957,109
Property and equipment, net	15,464,808	17,837,909
Goodwill, net	394,979	444,352
Intangibles, net	666,668	1,333,334
Deposits	<u>12,324</u>	<u>24,824</u>
	<u>16,538,779</u>	<u>19,640,419</u>
Total assets	<u>\$ 31,569,266</u>	<u>\$ 34,597,528</u>
LIABILITIES AND MEMBERS' DEFICIT		
Current liabilities:		
Line of credit agreements	\$ 4,000,000	\$ 3,000,000
Current portion of long-term debt	2,628,511	3,251,819
Current portion of capital lease obligations	783,024	558,574
Accounts payable	2,387,983	253,767
Accrued expenses	1,517,051	1,171,831
Due to Parent	-	250,000
Third-party settlements	8,079,490	2,333,479
Distributions payable	<u>-</u>	<u>203,923</u>
Total current liabilities	19,396,059	11,023,393
Long-term liabilities:		
Long-term debt, net of current portion	12,110,456	14,462,148
Capital lease obligations, net of current portion	<u>16,521,988</u>	<u>17,495,039</u>
Total long-term liabilities	<u>28,632,444</u>	<u>31,957,187</u>
Total liabilities	48,028,503	42,980,580
Due from Parent	(1,744,702)	(990,565)
Members' deficit	<u>(14,714,535)</u>	<u>(7,392,487)</u>
Total members' deficit	<u>(16,459,237)</u>	<u>(8,383,052)</u>
Total liabilities and members' deficit	<u>\$ 31,569,266</u>	<u>\$ 34,597,528</u>

See accompanying notes to consolidated financial statements.

UNITED SURGEONS, LLC D/B/A
 UNITY MEDICAL AND SURGICAL HOSPITAL
 CONSOLIDATED STATEMENTS OF OPERATIONS
 Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenue:		
Patient service revenue	\$ 27,681,299	\$ 41,608,173
Physician practice	3,276,126	4,824,875
Other	<u>284,861</u>	<u>82,006</u>
Total revenues	31,242,286	46,515,054
 Operating expenses:		
Contract services	14,719,179	14,043,084
Bad debt expense	1,251,125	929,130
Professional fees	860,493	853,890
Medical supplies	10,040,925	10,951,127
Office expense	359,606	682,118
Equipment rent	142,272	171,843
Building rent	434,601	536,750
Repairs and maintenance	342,777	405,339
Utilities	451,733	374,514
Insurance	447,723	287,488
Property taxes	408,000	290,050
Dues, licenses and subscriptions	119,133	97,892
Travel, meals and conferences	104,678	74,908
Depreciation and amortization expense	3,453,462	3,434,255
Collection fees	1,017,149	1,484,046
Human resource expense	44,680	32,689
Education and training	336,909	178,903
Miscellaneous expenses	<u>90,674</u>	<u>36,366</u>
Total operating expenses	<u>34,625,119</u>	<u>34,864,392</u>
 Income (loss) from operations	 (3,382,833)	 11,650,662
 Other income (expense):		
Interest expense	(3,923,834)	(4,145,653)
Rental income	14,700	1,416
Loss on asset disposals	(25,642)	-
Other income (expense)	<u>(552)</u>	<u>2,719</u>
Total other expense	<u>(3,935,328)</u>	<u>(4,141,518)</u>
 Net income (loss)	 <u>\$ (7,318,161)</u>	 <u>\$ 7,509,144</u>

See accompanying notes to consolidated financial statements.

UNITED SURGEONS, LLC D/B/A
 UNITY MEDICAL AND SURGICAL HOSPITAL
 CONSOLIDATED STATEMENTS OF MEMBERS' DEFICIT
 Years ended December 31, 2014 and 2013

	<u>Due from Parent</u>	<u>Members' Deficit</u>	<u>Total</u>
Balances, January 1, 2013	\$ (325,342)	\$ (13,985,262)	\$ (14,310,604)
Net income	-	7,509,144	7,509,144
Advances to Parent (Note 6)	(665,223)	-	(665,223)
Forgiveness of related-party receivables and payables (Note 6)	-	(918,163)	(918,163)
Contributions	<u>-</u>	<u>1,794</u>	<u>1,794</u>
Balances, December 31, 2013	(990,565)	(7,392,487)	(8,383,052)
Net loss	-	(7,318,161)	(7,318,161)
Advances to Parent (Note 6)	(754,137)	-	(754,137)
Distributions	<u>-</u>	<u>(3,887)</u>	<u>(3,887)</u>
Balances, December 31, 2014	<u>\$ (1,744,702)</u>	<u>\$ (14,714,535)</u>	<u>\$ (16,459,237)</u>

See accompanying notes to consolidated financial statements.

UNITED SURGEONS, LLC D/B/A
 UNITY MEDICAL AND SURGICAL HOSPITAL
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Net income (loss)	\$ (7,318,161)	\$ 7,509,144
Adjustments to reconcile net income (loss) to net cash from operating activities		
Depreciation and amortization expense	3,453,462	3,434,255
Bad debt expense	1,251,125	929,130
Loss on disposal of assets	25,642	-
Excess of interest over capital lease payments	485,458	484,581
Change in assets and liabilities		
Patient receivables	(2,665,117)	(4,443,974)
Third party settlements	5,746,011	1,277,525
Affiliate receivables	56,767	(120,961)
Other receivables	-	1,237,400
Prepaid expenses and other assets	256,888	(294,606)
Inventory	(53,471)	214,630
Deposits	12,500	(1,609)
Accounts payable	2,134,216	(6,587,375)
Affiliate payables	(250,000)	(403,865)
Accrued expenses	<u>345,220</u>	<u>(547,013)</u>
Net cash from operating activities	3,480,540	2,687,262
Cash flows from investing activities:		
Proceeds from the sale of fixed assets	3,176	-
Purchase of property and equipment	<u>(393,140)</u>	<u>(172,017)</u>
Net cash from investing activities	(389,964)	(172,017)
Cash flows from financing activities:		
Gross proceeds on line of credit agreements	1,000,000	3,300,000
Proceeds from issuance of long-term debt	-	18,063,967
Payments on long-term debt	(2,975,000)	(19,237,232)
Payments on capital lease obligations	(1,234,059)	(1,093,842)
Distributions	(207,810)	(23,394)
Contributions	-	1,794
Due to seller	-	(1,239,632)
Due from Parent	<u>(754,137)</u>	<u>(415,223)</u>
Net cash from financing activities	<u>(4,171,006)</u>	<u>(643,562)</u>
Net change in cash	(1,080,430)	1,871,683
Cash at beginning of year	<u>1,992,907</u>	<u>121,224</u>
Cash at end of year	<u>\$ 912,477</u>	<u>\$ 1,992,907</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 4,085,847	\$ 4,147,993
Supplemental disclosures of non-cash flow activity		
Assets acquired under capital lease agreements	\$ -	\$ 145,824
Forgiveness of related party receivables and payables	-	918,163
Due from Parent accrued distribution	-	250,000

See accompanying notes to consolidated financial statements.

UNITED SURGEONS, LLC D/B/A
UNITY MEDICAL AND SURGICAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: United Surgeons, LLC d/b/a Unity Medical and Surgical Hospital, LLC ("UMASH"), a subsidiary of Physician's ASC Management, LLC ("PAM" or "Parent"), operates a 29 bed outpatient / inpatient surgical hospital located in Mishawaka, Indiana.

Basis of Consolidation: The accompanying consolidated financial statements include the accounts of UMASH and their wholly owned subsidiaries (collectively "the Company"), and have been prepared in conformity with accounting principles generally accepted in the United States of America. All material intercompany accounts and transactions have been eliminated in consolidation.

Industry: The Company derives a significant portion of its revenue from third-party payer programs. The receipt of future revenues by the Company is subject to, among other factors, federal and state policies affecting the health care industry, economic conditions that may include an inability to control expenses in periods of inflation, increased competition, market pressures on premium rates and other conditions which are impossible to predict.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates associated with the allowances for contractual adjustments and uncollectible patient accounts, third party settlements, and medical malpractice are particularly susceptible to material change in the near term.

Total patient accounts receivable concentrations by payer at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Medicare	26.1 %	29.4 %
Blue Cross	27.5	24.8
Commercial, self pay and other	<u>46.4</u>	<u>45.8</u>
	<u>100.0 %</u>	<u>100.0 %</u>

The Company does not perform credit evaluations of its payers, but does inquire of patients regarding their access to insurance and ability to pay. The Company does not require collateral from its patients, third-party payers or others.

Cash: The Company maintains cash balances with financial institutions which, at times, may exceed federally insured limits.

Patients Receivables and Allowances: Patient receivables represent charges to patients, primarily on open account. The Company does not accrue interest on any of its patient receivables. Adjustments to patient accounts are made in amounts estimated to maintain an adequate allowance to cover contractual allowances and anticipated losses. Patient receivables represent estimated net realizable amounts from patients, third-party payers and others. Estimated contractual adjustments, based on existing contractual relationships, are recorded at the time charges are posted and are adjusted to reflect actual contractual adjustments as claims are settled.

(Continued)

UNITED SURGEONS, LLC D/B/A
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management periodically reviews patient receivables and records an allowance for uncollectible accounts based on current circumstances. Allowance estimates are based on historical experience and other relevant factors. Accounts are charged against the allowance when all attempts to collect the receivable have failed. Patient receivables are shown net of allowances for doubtful accounts of \$11,097,333 and \$7,000,000 on the consolidated balance sheets at December 31, 2014 and 2013, respectively.

Settlements: Settlements under cost reimbursement agreements with third-party payers are estimated and recorded in the period in which the related services are rendered and are adjusted in future periods as final settlements are determined. Final determination of amounts earned under the Medicare and Medicaid programs often occur in subsequent years because of audits by the programs, rights of appeal, and the application of numerous technical provisions. An estimated Medicare and Medicaid settlement payable of \$8,079,490 and \$2,333,479 is recorded at December 31, 2014 and 2013, respectively, in third party settlements on the consolidated balance sheets.

Cost report settlements result from the adjustment of interim payments to final reimbursement under third-party payors that are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Final reimbursement under the Medicare program is subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements. The effect of prior year settlements received resulted in an increase in net revenue of approximately \$26,869 for the fiscal year ended December 31, 2013. The effect of prior year settlements and other cost report matters reports resulted in an decrease in net revenue of approximately \$5,636,804 for the fiscal year ended December 31, 2014. This change in estimate is related primarily to Medicare outliers.

Inventory: Inventory consists primarily of medical and pharmaceutical supplies and is stated at the lower of cost (first-in, first-out) or market value.

Property and Equipment: Property and equipment are stated at cost. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets and includes depreciation on assets leased under capital lease arrangements. When properties are retired or otherwise disposed of, the appropriate accounts are relieved of cost and accumulated depreciation, and any resulting gain or loss is recognized.

Estimated lives used in computing depreciation are as follows:

Building	24 years
Software, computer and medical equipment	3 - 7 years
Furniture, fixtures and office equipment	3 - 7 years
Leasehold improvements	Lesser of life of lease or economic useful life

On an on-going basis, long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of an asset exceeds its estimated discounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of December 31, 2014 and 2013, no such impairment existed.

(Continued)

UNITED SURGEONS, LLC D/B/A
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill: Goodwill represents the excess of the purchase price over the fair value of the net assets of businesses acquired in a business combination.

In January 2014, the Financial Accounting Standards Board (FASB) issued guidance that provides private companies with an alternative for the subsequent measurement of goodwill. Under this alternative, goodwill is amortized and is only tested for impairment when a triggering event occurs that indicates the fair value may be below the carrying amount. Entities that adopt the alternative are required to make a policy decision to test goodwill for impairment either at the entity level or at the reporting unit level. Early adoption is allowed and the alternative must be applied to all existing and future goodwill.

The Company adopted this goodwill accounting alternative and applied its provisions prospectively beginning January 1, 2013, and elected to test goodwill for impairment at the reporting unit level. The effects of adopting this standard resulted in recording goodwill amortization expense of \$49,373 for the year ended December 31, 2014 and 2013, and accumulated goodwill amortization of \$98,746 and \$49,373 as of December 31, 2014 and 2013. Future goodwill amortization expense is estimated to be \$49,373 each year from 2015 through 2022.

Goodwill impairment testing is performed at the reporting unit level only when a triggering event indicates that the carrying value of the reporting unit may exceed its estimated fair value. Management believes no goodwill was impaired at December 31, 2014 and 2013.

Intangible Assets: These assets are amortized on a straight-line basis over their period of expected benefits. The Company entered into a business acquisition and identified a non-compete agreement in the amount of \$2,000,000. The Company recorded amortization expense of \$666,666 in 2014 and 2013 and the non-compete is presented net of accumulated amortization of \$1,333,332 and \$666,666 at December 31, 2014 and 2013, on the consolidated balance sheets. Future non-compete amortization expense is estimated to be \$666,668 in 2015. Management believes no intangible asset impairment existed at December 31, 2014 and 2013.

Revenue Recognition: Revenue is recorded when medical services are rendered. Management fee and contracted service revenues are recorded as services are rendered. Provisions for estimated third-party payer settlements and adjustments are made in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Other Revenue: The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). These provisions were designed to increase the use of electronic health records (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payments program beginning in 2011 for eligible hospitals and providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology; but providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional incentive payments. Medicaid EHR incentive payments are fully funded by the federal government and administered by the states; however, the states are not required to offer EHR incentive payments to providers.

The Company did not receive revenues for HITECH incentives from Medicare for the year ended December 31, 2013. The Company received \$149,393 recognized on the consolidated statements of operations as other revenue for 2014.

(Continued)

UNITED SURGEONS, LLC D/B/A
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Medical Malpractice: The Indiana Medical Malpractice Act limits the maximum recovery for professional liability to \$750,000 per occurrence, \$250,000 of which would be paid through the Company's malpractice insurance coverage, and the balance would be paid by the State of Indiana Patient Compensation Fund. The Company maintains professional liability insurance coverage on a claims-incurred basis. Premiums are expensed in the period to which they relate.

Fair Value of Financial Instruments: The Company's carrying amount for its financial instruments, which include cash, patient accounts receivable, accounts payable, and long-term debt approximates fair value.

Income Taxes: The Company is a limited liability company formed under state statutes and taxed for federal and state purposes as a partnership. Therefore, each member reports their proportionate share of the Company's taxable income or loss on their respective income tax returns.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Company has no amounts accrued for interest or penalties as of December 31, 2014 and 2013. Due to its pass-through status, the Company is not subject to U.S. federal income tax or state income tax. The Company is no longer subject to examination by U.S. federal and State of Indiana taxing authorities for years before January 1, 2011. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Building	\$ 14,379,799	\$ 14,379,799
Software, computer and medical equipment	12,412,050	12,048,140
Furniture, fixtures and office equipment	1,576,410	1,587,356
Leasehold improvements	<u>810,770</u>	<u>800,339</u>
	29,179,029	28,815,634
Accumulated depreciation	<u>(13,714,221)</u>	<u>(10,977,725)</u>
	<u>\$ 15,464,808</u>	<u>\$ 17,837,909</u>

Depreciation expense was \$2,737,425 and \$2,718,216 in 2014 and 2013, respectively.

(Continued)

UNITED SURGEONS, LLC D/B/A
UNITY MEDICAL AND SURGICAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - LINE OF CREDIT AGREEMENT

On December 27, 2013, the Company and Lake City Bank entered into a Loan Restructuring Agreement. Under this agreement, the existing lines of credit were restructured into a new line of credit with available credit of \$3,000,000. The remaining balances outstanding under the lines of credit were incorporated into a new note payable with Lake City Bank (see Note 4). During 2014, the existing line of credit agreement was amended with available credit of \$4,000,000. At December 31, 2014 and 2013, the line of credit had principal outstanding of \$4,000,000 and \$3,000,000, respectively. Interest was 3.25% and 4.25% at December 31, 2014 and 2013, respectively. The line of credit expires annually in December. The Company expects the line of credit to be renewed under similar terms and conditions in December 2015. This agreement is secured by all assets of the Company and the personal guarantees of certain members. The line of credit is subject to certain financial and non-financial covenants (see Note 4).

In April 2015, the Company entered into a loan agreement amendment and received proceeds in the amount of \$1,000,000 under a short-term revolving line of credit arrangement that matures in October 2015. This agreement is secured by all assets of the Company and the personal guarantees of certain members.

NOTE 4 - LONG-TERM DEBT

On December 27, 2013, the Company and Lake City Bank entered into a Loan Restructuring Agreement. Under this agreement certain amounts outstanding under the lines of credit (see Note 3) along with the outstanding notes payable were restructured into a new note payable.

In December 2014, the Company entered into a waiver of principal and interest payments which allowed the December 2014 and January 2015 scheduled payments to be deferred to the maturity of the loan.

In April 2015, the Company entered into a loan agreement amendment which allowed the March, April and May 2015 scheduled principal and interest payments to be deferred to the maturity of the loan.

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

	<u>2014</u>	<u>2013</u>
Lake City Bank – note payable in monthly installments of \$328,564 including interest at 4.25%, maturing in December 2018.	\$ 14,738,967	\$ 17,713,967
Current portion of long-term debt	<u>(2,628,511)</u>	<u>(3,251,819)</u>
Long-term debt, net of current portion	<u>\$ 12,110,456</u>	<u>\$ 14,462,148</u>

The Lake City Bank Loan Restructuring Agreement is secured by all assets of the Company. Certain members also guarantee 56% of the outstanding balance of the note payable with Lake City Bank. The Company makes payments for an irrevocable life insurance policy on a member for which Lake City Bank is the beneficiary, of up to \$5,000,000, in accordance with the terms of the Loan Restructuring Agreement.

The Company is required to maintain certain financial and non-financial covenants with Lake City Bank. As of December 31, 2014, the Company was not in compliance. The Company obtained the appropriate waivers in 2015, respectively, curing covenant non-compliance.

(Continued)

UNITED SURGEONS, LLC D/B/A
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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 - LONG-TERM DEBT (Continued)

Future principal maturities of outstanding debt at December 31, 2014 are as follows:

2015	\$ 2,628,511
2016	3,509,627
2017	3,663,880
2018	4,936,949

NOTE 5 - LEASES

The Company entered into non-cancelable operating leases for medical and office equipment and space through May 2019. Rent expense for equipment and space in 2014 and 2013 was \$576,873 and \$708,593, respectively.

Future payments under operating leases with initial non-cancelable terms of one year or more consisted of the following:

2015	\$ 330,094
2016	162,045
2017	50,848
2018	16,471
2019	<u>802</u>
	<u>\$ 560,260</u>

The Company has a capital lease with Unity Realty, LLC ("UR"), a party related through common ownership, for the building, and also maintains capital leases for certain medical and office equipment with unrelated various parties. Following is a summary of the capital leases at December 31:

	<u>2014</u>	<u>2013</u>
Building	\$ 14,379,799	\$ 14,379,799
Software, computer and medical equipment	3,218,966	3,218,966
Furniture, fixtures and office equipment	<u>11,036</u>	<u>11,036</u>
	17,609,801	17,609,801
Accumulated depreciation	<u>(5,412,278)</u>	<u>(4,649,608)</u>
	<u>\$ 12,197,523</u>	<u>\$ 12,960,193</u>

(Continued)

UNITED SURGEONS, LLC D/B/A
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NOTE 5 - LEASES (Continued)

Future minimum payments on the capital leases are as follows:

2015	\$ 3,529,462
2016	2,638,371
2017	2,699,352
2018	2,766,727
2019	2,868,716
Thereafter	<u>58,413,656</u>
	72,916,284
Amount representing interest	<u>(55,611,272)</u>
Present value of net minimum lease payments (including current portion of \$783,024)	<u>\$ 17,305,012</u>

Interest expense in excess of capital lease payments of \$485,458 and \$484,581, relative to the UR lease, was recognized on the consolidated statements of operations as interest expense for 2014 and 2013.

NOTE 6 - RELATED PARTY TRANSACTIONS

Medical Director Agreements: The Company entered into medical director agreements ("MDA") with individuals who are members of PAM in 2013 which automatically renews for a one year period unless terminated according to the terms of the MDA. The Company incurred \$313,500 and \$220,000 of expenses for medical directory service fees in 2014 and 2013.

Lease Agreement: The Company entered into a net lease for the building with UR, a related party through common ownership (see Note 5). The term of the lease is for 300 months beginning in October 2009. The UR lease is guaranteed by the members of PAM in direct proportion to their membership in PAM.

In the normal course of business, the Company incurs expenses on behalf of affiliated entities, or provides services to related parties, and recognizes a receivable in affiliate receivables.

Related Party Settlement Agreements: Effective December 20, 2013, and in conjunction with Loan Restructuring Agreement with Lake City Bank, the Company entered into certain settlement agreement and general releases with members of PAM and the Company. These agreements also impacted certain related party ownership and relationships.

As part of the related party ownership and relationship changes, related party receivables due to the Company and related party payables owed to other related parties were forgiven. The Company does not have any continuing performance or obligations with these related parties. As the forgiveness, or extinguishment, of these related party transactions occurred in conjunction with ownership changes at PAM and with members of the Company, the Company recognized \$918,163, representing the net amount of forgiven related party amounts, as a capital transaction in member's deficit.

(Continued)

UNITED SURGEONS, LLC D/B/A
 UNITY MEDICAL AND SURGICAL HOSPITAL
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2014 and 2013

NOTE 6 - RELATED PARTY TRANSACTIONS (Continued)

The following is the composition of affiliate receivables forgiven:

<i>Related parties through common ownership:</i>	
Physician's Hospital, LLC d/b/a RiverCrest Specialty Hospital	\$ 160,626
Doctors Hospital - Grand Forks, LLC	214,998
Northern Indiana Rehab Hospital, LLC d/b/a Doctor's Hospital & Neuromuscular Center	645,402
Physician's Hospital System	41,309
<i>Related party through common control:</i>	
Knox Winamac Community Health Center, Inc.	<u>131,514</u>
 Total affiliate receivables forgiven in 2013	 <u>\$ 1,193,849</u>

Following is the composition of affiliate payables forgiven:

<i>Related parties through common ownership:</i>	
Doctors Behavioral Hospital, LLC d/b/a Doctors Neuropsychiatric Hospital	\$ (26,165)
Physician's Management/Employee Leasing Company, LLC	<u>(249,521)</u>
 Total affiliate payables forgiven in 2013	 <u>\$ (275,686)</u>

See Note 7 for details in regards to a claim in conjunction with the settlement agreement and general releases.

Affiliate Receivables: Following is the composition of affiliate receivables at December 31:

	<u>2014</u>	<u>2013</u>
<i>Related parties through common ownership:</i>		
Michiana Multi-Specialty Medical Group	\$ 63,624	\$ 63,624
Due from physician	30,000	180,438
Other related parties	<u>142,846</u>	<u>49,175</u>
 Total affiliate receivables	 <u>\$ 236,470</u>	 <u>\$ 293,237</u>

Due to/from Parent: Following is the composition of due to/from Parent at December 31:

	<u>2014</u>	<u>2013</u>
<i>Physicians ASC Management, LLC:</i>		
Due from Parent	<u>\$ 1,744,702</u>	<u>\$ 990,565</u>
 Due to Parent	 <u>\$ -</u>	 <u>\$ 250,000</u>

(Continued)

UNITED SURGEONS, LLC D/B/A
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NOTE 6 - RELATED PARTY TRANSACTIONS (Continued)

The Company has certain transactions with its Parent and from time to time receivables due from the Parent. Management has determined that the repayment of these receivables is dependent upon future distributions received from the Company, and therefore, has classified these receivables in members' deficit.

NOTE 7 - CONTINGENCIES AND COMMITMENTS

Litigation: The Company is, at times, involved in general and professional liability claims arising from the use of the hospital, and from provision of medical services in the physician practices, which are defended and handled in the ordinary course of business.

In January 2015, the Company was notified of a claim from certain related parties in conjunction with the December 20, 2013 settlement agreement and general releases (see Note 6). Management indicated that they are in the initial stages of assessing the claim and that it is too early to estimate a potential outcome.

At December 31, 2014 and 2013, management believes that the Company does not have any significant claims or other litigation in which the ultimate resolution is probable and could have a material financial impact, and therefore has not reflected any liabilities, or corresponding receivables, in the consolidated balance sheets.

NOTE 8 - MANAGEMENT'S PLAN

The Company incurred a net loss in 2014 and its current liabilities exceed its current assets by \$4,365,572 and has a members' deficit of \$16,459,237 at December 31, 2014. Additionally, the Company did not meet their loan agreement financial covenants for 2014 and obtained a waiver from their lender in 2015 to cure the noncompliance. In April 2015 the Company received additional loan proceeds from the lender of \$1,000,000 under a short-term revolving line of credit agreement along with deferring the loan agreement scheduled payments in March, April and May 2015 until loan maturity in 2018. The Company continues to work with their lender for financing purposes and is focusing on increasing net patient service revenues along with cost reduction and margin improvement initiatives. The Company's continued existence is based upon its ability to achieve profitable operations and maintain adequate lender financing.

NOTE 9 - SUBSEQUENT EVENTS

In April 2015, the Company made a \$668,622 member distribution for tax purposes.

Management has performed an analysis of the activities and transactions subsequent to December 31, 2014 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2014. Management has performed their analysis through July 8, 2015, the date the financial statements were available for issuance and has determined that all material subsequent events have been properly disclosed.