PHYSICIANS' MEDICAL CENTER, LLC

PHYSICIANS' MEDICAL CENTER, LLC

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 AND 2011

CPAs / ADVISORS

blue

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REPORT OF INDEPENDENT AUDITORS

To the Members of the Board
Physicians' Medical Center, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Physicians' Medical Center, LLC (the "Company"), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of income, changes in members' capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Blue & Co., LLC

Louisville, Kentucky
July 31, 2013

PHYSICIANS' MEDICAL CENTER, LLC

BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Current assets:		
Cash	$ 180,669	$ 146,511
Patient receivables, less allowance for contractuals and doutful accounts	1,619,049	1,614,316
Other receivables	0	14,696
Inventories	440,004	312,850
Prepaid expenses	54,723	37,562
Total current assets	2,294,445	2,125,935
Property and equipment:		
Medical equipment and instruments	3,670,828	3,432,189
Other equipment	219,208	219,208
Furniture and furnishings	266,772	185,597
Improvements	4,280	0
Software	89,592	84,631
Computer equipment	76,199	40,448
	4,326,879	3,962,073
Less accumulated depreciation	2,762,613	2,108,211
Property and equipment, net	1,564,266	1,853,862
Other assets:		
Due from related parties	1,731,560	1,377,427
Goodwill	6,700,131	0
Deferred loan costs, net of amortization of $6,766 in 2012 and $5,167 in 2011	2,533	3,333
Total other assets	8,434,224	1,380,760
Total assets	$ 12,292,935	$ 5,360,557

See accompanying notes to financial statements.

	2012	2011
LIABILITIES AND MEMBERS' CAPITAL		
Current liabilities:		
Line of credit - bank	$ 640,000	$ 480,000
Accounts payable	911,700	565,965
Obligation under capital lease	733,332	733,332
Note payable	148,600	0
Notes payable - former members	54,204	52,498
Accrued personnel costs	196,076	159,431
Estimated third-party settlements	206,170	0
Payroll taxes withheld	3,697	8,725
Accrued expenses	300,796	371,223
Total current liabilities	3,194,575	2,371,174
Long-term liabilities:		
Obligation under capital lease	133,333	933,332
Note payable	582,017	0
Notes payable - former members	0	27,535
Fair value adjustment on interest rate swap	8,124	0
Total long-term liabilities	723,474	960,867
Total liabilities	3,918,049	3,332,041
Commitments and contingencies		
Members' capital	8,374,886	2,028,516
Total liabilities and members' capital	$ 12,292,935	$ 5,360,557

PHYSICIANS' MEDICAL CENTER, LLC

STATEMENTS OF INCOME AND COMPREHENSIVE LOSS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012		2011	
	Amount	Percent	Amount	Percent
Revenues, net of contractual adjustments of $30,445,132 in 2012 and $31,158,151 in 2011	$ 11,067,751	100.00	$ 10,460,536	100.00
Operating expenses	10,783,622	97.39	9,766,524	93.39
Income from operations	284,129	2.61	694,012	6.61
Other income (expense):				
Miscellaneous income	0	0.00	657	0.01
Interest income	102,994	0.93	37,502	0.36
Interest expense	(42,974)	(0.39)	(46,516)	(0.44)
Loss on interest rate swap	(8,124)	(0.07)	0	0.00
Other income (expense), net	51,896	0.47	(8,357)	(0.07)
Net income	$ 336,025	3.08	$ 685,655	6.54

See accompanying notes to financial statements.

PHYSICIANS' MEDICAL CENTER, LLC

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

	Capital Contributions	Members' Capital	Total
Balance - January 1, 2011	$ 810,000	$ 892,861	$ 1,702,861
Distributions	0	(360,000)	(360,000)
Net income	0	685,655	685,655
	0	325,655	325,655
Balance - December 31, 2011	810,000	1,218,516	2,028,516
Capital contributions	7,270,713	0	7,270,713
Redemption of interest	(60,000)	(683,000)	(743,000)
Distributions	0	(517,368)	(517,368)
Net income	0	336,025	336,025
	7,210,713	(864,343)	6,346,370
Balance - December 31, 2012	$ 8,020,713	$ 354,173	$ 8,374,886

See accompanying notes to financial statements.

PHYSICIANS' MEDICAL CENTER, LLC

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

	2012	2011
Operating activites:		
Net income	$ 336,025	$ 685,655
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	654,402	646,063
Amortization	1,600	1,908
Bad debts	410,793	425,550
Accrued interest on advances to related parties	(103,116)	(37,328)
Loss on interest rate swap	8,124	0
Changes in operating assets and liabilities:		
Patient receivables	(415,526)	(806,448)
Other receivables	(8,191)	(7,353)
Inventories	(127,154)	53,500
Prepaid expenses	(17,161)	11,709
Accounts payable	(397,265)	127,770
Accrued personnel costs	36,645	(6,597)
Estimated third-party settlements	206,170	0
Payroll taxes withheld	(5,028)	2,895
Accrued expenses	(70,427)	89,322
Net cash flows from operating activities	509,891	1,186,646
Investing activities:		
Purchase of property and equipment	(64,937)	(63,886)
Advances to related parties	(266,314)	(572,984)
Advances from related parties	15,297	196,872
Net cash flows from investing activities	(315,954)	(439,998)
Financing activities:		
Net borrowings (payments) on line of credit	160,000	420,000
Loan costs	(800)	0
Principal payments on capital lease	(799,999)	(866,666)
Principal borrowings on note payable	743,000	0
Principal payments on note payable	(12,383)	0
Proceeds from issuance of member's units	270,713	0
Distributions to members	(494,481)	(329,860)
Payments on notes payable - former member	(25,829)	(16,000)
Net cash flows from financing activities	(159,779)	(792,526)
Net change in cash	34,158	(45,878)
Cash, beginning of year	146,511	192,389
Cash, end of year	$ 180,669	$ 146,511

See accompanying notes to financial statements.

Supplemental disclosure of cash flow information:

Cash paid for interest	$	43,495	$	50,602

Supplemental disclosure of noncash investing and financing activities:

Distributions used to reduce other receivables	$	22,887	$	30,140
Redemption of members' units through notes payable	$	743,000	$	0

During 2012, the Company entered into an asset purchase agreement with Southern Indiana Endoscopy, LLC for the issuance of 1,960 membership units with a fair value of $7,000,000 in exchange for certain tangible assets with a fair value of $299,869 and goodwill with a fair value of $6,700,131.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Physicians' Medical Center, LLC (the “Company”) is a physician-owned hospital located in New Albany, Indiana. Services provided include both outpatient and inpatient 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’ equity. Net income or loss is apportioned among the members in accordance with membership interest percentage. The period of duration of the Company specified in its operating agreement is perpetual.

Management’s Estimates

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

Patient Accounts Receivable and Net Patient Service Revenue

The Company recognizes net patient service revenues on the accrual basis of accounting in the reporting period in which services are performed based on the current gross charge structure, less actual adjustments and estimated discounts for contractual allowances, principally for patients covered by Medicare, Medicaid, managed care, and other health plans. Gross patient service revenue is recorded in the accounting records using the established rates for the types of service provided to the patient. The Company recognizes an estimated contractual allowance to reduce gross patient charges to the estimated net realizable amount for service rendered based upon previously agreed-to rates with a payor. The Company estimates the contractual allowances on a payor-by-payor basis based on the rates in effect for each primary third-party payor. The Company’s management continually reviews the contractual estimation process to consider and incorporate updated laws and regulations and the frequent changes in managed care contractual terms that result from contract negotiations and renewals.

Payors include federal and state agencies, including Medicare and Medicaid, managed care health plans, commercial insurance companies, and patients. These third-party payors provide payments to the Company at amounts different from its established rates based on negotiated reimbursement agreements. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and fee schedule payments. Retroactive adjustments under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Allowance for Uncollectible Patient Receivables

The Company estimates an allowance for uncollectible patient receivables based on an evaluation of the aging of the accounts, historical losses, current economic conditions, and other factors unique to their service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

Inventories

Inventories consist of medical supplies and are stated at the lower of cost (using the first-in, first-out method) or market.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 3 to 7 years.

Goodwill

Goodwill is subject to at least an annual assessment for impairment. As of December 31, 2012, the Company determined there was no impairment of the reported goodwill.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was $45,615 for 2012 and $82,304 for 2011.

Income Taxes

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

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

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

Professional Liability Insurance

The Company is insured against medical professional liability claims under a claims made-based policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Company bears the risk of the ultimate costs of any individual claim exceeding $250,000 or aggregate claims exceeding $5,000,000 for claims asserted in the policy year. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term, but reported subsequently, will be uninsured.

Subsequent Events

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

Reclassifications

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

2. PATIENT RECEIVABLES

The detail of patient receivables is set forth below:

	2012	2011
Patient receivables	$ 6,659,042	$ 5,343,816
Less allowances for:		
Contractual adjustments	4,641,580	3,032,026
Uncollectible accounts	398,413	697,474
Patient receivables, net	$ 1,619,049	$ 1,614,316

The Company grants credit without collateral to its patients, most of whom are local residents who are insured under third-party payor agreements.

The mix of receivables from patients and third party payors at December 31, 2012 and 2011 is as follows:

	2012		2011	
	Revenues	Receivables	Revenues	Receivables
Anthem	31%	25%	35%	23%
Medicare	39%	32%	34%	28%
Medicaid	9%	6%	9%	14%
Commerical	5%	9%	6%	8%
Cigna	3%	3%	4%	5%
Humana	2%	6%	4%	2%
United Healthcare	4%	5%	3%	2%
Aetna	2%	3%	2%	1%
Workers Compensation	2%	2%	2%	2%
Government	3%	2%	1%	1%
Patient Pay	0%	7%	0%	14%
	100%	100%	100%	100%

3. CAPITAL LEASE

The Company leases property from Fifth Third Bank under a capital lease. The economic substance of the capital lease is financing the acquisition of the assets through the lease. The capital lease was initially for $3,999,995 with $1,135,112 in assets transferred to a related party. The Company recognizes the entire obligation under the capital lease on its balance sheet. The assets transferred out are reflected in the balance shown as due from the related party.

The following is a summary of the property under the capital lease:

	2012	2011
Medical equipment and instrument	$ 2,584,557	$ 2,584,557
Other equipment	102,660	102,660
Furniture and furnishings	116,307	116,307
Software	61,359	61,359
	2,864,883	2,864,883
Accumulated depreciation	1,957,660	1,524,372
Total property and equipment	$ 907,223	$ 1,340,511

Each member has personally guaranteed their pro rata share of the capital lease.

The lease agreement calls for fixed lease payments plus a variable interest component at one month LIBOR plus 1.8%. The following is a schedule by year of future minimum maturities under the lease as of December 31, 2012:

Year ending December 31:	
2013	$ 733,332
2014	133,333
Total minimum lease payments	$ 866,665

4. LINE OF CREDIT

The Company has a line of credit with a local bank. The line is for a maximum of $1,000,000 with interest at a floating rate per annum equal to 2.2% in excess of the LIBOR rate (LIBOR rate was .2108% at December 31, 2012). The line is subject to annual renewal in September and is collateralized by substantially all business assets. Borrowings on the line of credit were $640,000 at December 31, 2012 and $480,000 at December 31, 2011.

The line of credit agreement contains a covenant which requires the Company, jointly with Physicians' Surgical Properties, LLC to maintain a specified level of debt service coverage as defined by the bank. The debt service coverage at December 31, 2012 is below that required by the financial covenant. The bank has waived the covenant requirement at December 31, 2012.

5. NOTE PAYABLE

Note payable at December 31 consists of the following:

	2012	2011
Note payable to a bank at LIBOR plus 2.75% (LIBOR was .2108% at December 31, 2012), monthly payments of $12,383 including interest, through November 2017, collateralized by substantially all business assets.	730,617	0
	730,617	0
Current maturities	148,600	0
	$ 582,017	$ 0

Aggregate maturities on the note payable are as follows:

Year ending December 31:	
2013	$ 148,600
2014	148,600
2015	148,600
2016	148,600
2017	136,217
Total	$ 730,617

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

6. NOTES PAYABLE – FORMER MEMBERS

Notes payable – former members consists of the following:

	2012	2011
Unsecured note payable to a former member bearing interest at 3.25%, annual payments of $5,695 including principal and interest, through December 2013.	$ 10,858	$ 16,033
Unsecured note payable to a former member bearing interest at 3.25%, annual payments of $11,367 including principal and interest, through December 2013.	21,673	32,000
Unsecured note payable to a former member bearing interest at 3.25%, annual payments of $11,367 including principal and interest, through December 2013.	21,673	32,000
	54,204	80,033
Current maturities	54,204	52,498
	$ 0	$ 27,535

Aggregate maturities required on the notes payable to former member are:

Year ending December 31:	
2013	$ 54,204

7. ASSET PURCHASE AGREEMENT

On November 15, 2012, the Company entered into an asset purchase agreement with Southern Indiana Endoscopy, LLC for the issuance of 1,960 membership units with a fair value of $7,000,000. As a result of the agreement, the Company expects increased profitability through the use of unused capacity and the reduction of costs through economies of scale.

The following table summarizes the fair value of identifiable assets acquired and the resulting goodwill as of the agreement date:

	Fair Value
Medical equipment and instruments	$ 222,319
Office equipment	77,550
Goodwill	6,700,131
Total	$ 7,000,000

Goodwill was calculated as the purchase price paid over the equipment acquired. The goodwill recorded as part of the asset purchase agreement reflects the value of adding Southern Indiana Endoscopy, LLC to the Company. The factors resulting in the recognition of goodwill were a history of operating margins and profitability. The goodwill recognized is not tax deductible.

8. DERIVATIVES

The Company makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, forward interest rate swaps are used to manage the risk associated with interest rates on variable-rate borrowings and to lower its overall borrowing costs.

At December 31, 2012, the Company has outstanding an interest rate swap agreement with a commercial bank having a principal amount of $ 730,617. The agreement effectively changed the Company's interest rate exposure on its floating rate note due in 2017 to a fixed rate of 3.65%. The interest rate swap agreements mature at the time the related note matures. The Company is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. However, the Company does not anticipate nonperformance by the counterparties.

These derivatives are not designed as hedging instruments and are marked-to-market on the balance sheet at fair value. The related gains and losses are included in net income for the reporting period. Cash flows from interest rate swap contracts are classified as an operating activity in the statement of cash flows.

The derivatives are reported as noncurrent liabilities on the balance sheet. At December 31, 2012 the fair value of the derivative recorded in the balance sheet is as follows:

		Liabilities
Interest rate swap agreements	$	8,124
Total	$	8,124

The amount of gain recognized in the income statement as other income (expense) is as follows:

		Gain (Loss)
Interest rate swap agreement	$	(8,124)
Total gain (loss)	$	(8,124)

9. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012.

- Interest rate swap agreements: Valued using pricing models derived principally from observable market data based on discounted cash flows and interest rate yield curves at quoted intervals for the full term of the swap.

The following table sets forth the level within the hierarchy, the Company's liabilities measured at fair value on a recurring basis as of December 31, 2012 are as follows:

	Liabilities at Fair Value as of December 31, 2012			
	Level 1	*Level 2*	*Level 3*	*Total*
Interest rate swap agreement	$ 0	$ 8,124	$ 0	$ 8,124

10. NET PATIENT REVENUES

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

- **Medicare.** The Company is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The Company is reimbursed for Medicare inpatient services based on a fixed price per discharge for each diagnosis related grouping and Medicare outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Company's year end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. As of December 31, 2012, the Company's submitted Medicare cost reports have been final settled with the Fiscal Intermediary through December 31, 2009.
- **Medicaid.** The Company is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The Company is reimbursed for Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Company's year end, a cost report is filed with the Medicaid program computing reimbursement amounts

related to Medicaid patients. There is no cost settlement for either of the inpatient or outpatient programs.

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

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

11. RELATED PARTY TRANSACTIONS

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

At December 31, 2012 the minimum lease payments under the terms of all lease agreements were as follows:

Year ending December 31:	
2013	$ 907,410
2014	920,820
2015	920,820
2016	920,820
2017	920,820
Thereafter	460,410
Total	$ 5,051,100

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

The Company is required to pay Indiana income tax on behalf of its non-resident members. If there is any balance due from members at year end, it is included in other receivables on the balance sheet. The amount due from members was $13,959 at December 31, 2011. There were no amounts due at December 31, 2012. The amount paid on behalf of non-resident members was $15,658 in 2012 and $22,578 in 2011. The Company reduces 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 $21,898 at December 31, 2012. The Company paid $189,641 for the year ended December 31, 2012 under the agreement. During 2011, the agreement was with Metro Lithotripsy, LLC, a company in which several members indirectly had ownership. The Company had a balance due to Metro Lithotripsy, LLC of $10,123 at December 31, 2011. The Company paid $281,634 for the year ended December 31, 2011 under the agreement.

12. HOSPITAL ASSESSMENT FEE

During 2012, the Hospital Assessment ("HAF") Program for the period July 1, 2011 through June 30, 2013 was approved by Centers for Medicare & Medicaid Services retroactive to July 1, 2011. The purpose of the HAF Program is to fund the State share on enhanced Medicaid payments and Medicaid Disproportionate Share ("DSH") payments for Indiana hospitals as reflected as hospital assessment fee reported in the schedules of operating expenses. 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. During 2012, the Company recognized HAF expense of $266,954.

13. COMMITMENTS AND CONTINGENCIES

The Company entered into a reimbursement agreement with Physicians' Surgical Properties, LLC, a related party, to guarantee a bond issued by Physicians' Surgical Properties, LLC for the construction of the facility used by the Company. At December 31, 2012 the balance remaining on the bonds was $3,630,000.
Effective December 14, 2012, the Company was a co-borrower with Physicians' Surgical Properties, LLC on a term note for the purpose of refinancing the bonds.

The borrowings on the term note were advanced to Physicians' Surgical Properties, LLC on January 17, 2013.

At December 31, 2012, the Company has also guaranteed a term note held by Physicians' Surgical Properties, LLC. At December 31, 2012, the balance remaining on the term note was $1,070,000.

The Company is obligated under the terms of the notes to perform if the primary obligor should fail to meet its requirements under the debt agreement. The maximum potential amount of future payments the Company would be required to make if this guarantee was invoked subsequent to December 31, 2012, is dependent on the related outstanding balance on the term notes. The Company has not been called upon to perform under this guarantee and has suffered no losses as a result of the guarantee. Should the Company be required to pay any portion of the total amount of the loans it has guaranteed, the Company could attempt to recover some or the entire amount from Physician's Surgical Properties, LLC. The Company holds no collateral in respect of the guarantee. The loan agreements contain a covenant which requires Physicians' Surgical Properties, LLC jointly with the Company to maintain a specified level of debt service coverage as defined by the bank. The debt service coverage at December 31, 2012 is below that required by the financial covenant. The bank has waived the covenant requirement at December 31, 2012.

14. CONCENTRATION OF CREDIT RISK

The Company maintains a bank deposit account at a financial institution which at times may exceed insured limits. At December 31, 2012, the Company has no uninsured balances.

SUPPLEMENTARY INFORMATION

PHYSICIANS' MEDICAL CENTER, LLC

SCHEDULES OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012		2011	
	Amount	Percent	Amount	Percent
Salaries	$ 2,796,799	25.27	$ 2,798,639	26.75
Employee benefits	323,580	2.92	308,200	2.95
Payroll taxes	221,712	2.00	227,657	2.18
Other personnel expenses	29,173	0.26	32,446	0.31
Rent	900,000	8.13	924,000	8.83
Medical supplies	2,770,211	25.03	2,121,896	20.28
Depreciation	654,402	5.91	646,063	6.18
Amortization	1,600	0.01	1,908	0.02
Consulting fees	184,099	1.66	192,161	1.84
Utilities	174,848	1.58	178,999	1.71
Bad debts	410,793	3.71	425,550	4.07
Support services	67,950	0.61	94,201	0.90
Billing services	365,703	3.30	303,702	2.90
Coding services	15,881	0.14	68,030	0.65
Transcription services	18,041	0.16	19,889	0.19
Sterilization services	19,397	0.18	13,566	0.13
Office supplies	46,814	0.42	62,651	0.60
Janitorial expense	85,234	0.77	92,529	0.88
Repairs	325,328	2.94	275,423	2.63
Taxes and licenses	121,652	1.10	163,320	1.56
Insurance	54,334	0.49	62,612	0.60
Bank charges	36,336	0.33	27,736	0.27
Travel	724	0.01	1,704	0.02
Computer support	30,275	0.27	37,195	0.36
Miscellaneous	42,560	0.38	29,997	0.29
Mileage reimbursement	1,201	0.01	4,734	0.05
Laundry, linen, and apparel	59,608	0.54	55,862	0.53
Telephone	12,229	0.11	14,171	0.14
Waste removal	8,264	0.07	9,493	0.09
Meals and entertainment	1,946	0.02	2,578	0.02
Dues and subscriptions	7,433	0.07	26,748	0.26
Professional fees	383,347	3.46	117,733	1.13
Other outside services	299,579	2.71	342,827	3.28
Hospital assessment fee	266,954	2.41	0	0.00
Advertising	45,615	0.41	82,304	0.79
Total operating expenses	$ 10,783,622	97.39	$ 9,766,524	93.39

See report of independent auditors on page 1.