

Physicians' Medical Center, LLC
Financial Statements

Years Ended December 31, 2015 and 2014
with Report of Independent Auditors

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Report of Independent Auditors

Board of Managers
Physicians' Medical Center, LLC
New Albany, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Physicians' Medical Center, LLC (the Company) which comprise the balance sheet as of December 31, 2015, and the related statements of income, changes in members' capital and cash flows for the year 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 audit. We conducted our audit 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 Physicians' Medical Center, LLC as of December 31, 2015, 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.

Other Matter

The financial statements of the Company, as of and for the year ended December 31, 2014, were audited by other auditors whose report dated September 30, 2015 expressed an unmodified opinion on those statements.

REPORT DATE
Louisville, Kentucky

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PHYSICIANS' MEDICAL CENTER, LLC

Balance Sheets

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current assets:		
Cash	\$ 2,792,038	\$ 649,658
Patient accounts receivable, net of allowances for uncollectible accounts of \$3,406,223 and \$2,127,174 in 2015 and 2014, respectively	7,815,412	2,934,561
Other receivables	103,526	129,796
Inventories	878,981	788,641
Prepaid expenses	<u>251,331</u>	<u>106,362</u>
Total current assets	11,841,288	4,609,018
Property and equipment:		
Medical equipment and instruments	4,918,044	4,002,714
Other equipment	237,757	223,387
Furniture and furnishings	366,274	277,920
Improvements	685,184	41,983
Software	348,035	348,035
Computer equipment	<u>246,158</u>	<u>220,721</u>
	6,801,452	5,114,760
Less accumulated depreciation	<u>(4,701,367)</u>	<u>(4,029,204)</u>
	2,100,085	1,085,556
Construction in process	<u>311,515</u>	<u>156,407</u>
Total property and equipment, net	2,411,600	1,241,963
Other assets:		
Due from related party	1,534,730	1,442,553
Goodwill	<u>6,700,131</u>	<u>6,700,131</u>
Total other assets	<u>8,234,861</u>	<u>8,142,684</u>
Total assets	<u>\$ 22,487,749</u>	<u>\$ 13,993,665</u>

	<u>2015</u>	<u>2014</u>
Liabilities and Members' Capital		
Current liabilities:		
Accounts payable	\$ 951,198	\$ 782,574
Accrued expenses	524,096	388,148
Accrued personnel costs	461,762	317,974
Estimated cost report settlements payable	150,000	150,000
Due to United States Medical Scientific Indiana (USMSI), LLC (Note 10)	3,977,867	-
Current portion of long-term debt	<u>458,600</u>	<u>148,600</u>
Total current liabilities	6,523,523	1,787,296
Long-term liabilities:		
Long-term debt, net of current portion	1,151,217	284,817
Interest rate swap	<u>376</u>	<u>995</u>
Total long-term liabilities	<u>1,151,593</u>	<u>285,812</u>
Total liabilities	7,675,116	2,073,108
Members' capital	<u>14,812,633</u>	<u>11,920,557</u>
Total liabilities and members' capital	<u>\$ 22,487,749</u>	<u>\$ 13,993,665</u>

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Income

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Net patient service revenue (net of contractual allowances and discounts)	\$ 43,715,971	\$ 24,668,270
Provision for bad debts	<u>(2,973,884)</u>	<u>(1,285,527)</u>
Net patient service revenue less provision for bad debts	40,742,087	23,382,743
Operating expenses:		
Salaries and other personnel expenses	7,499,697	5,442,146
Employee benefits and payroll taxes	1,353,881	967,372
Purchased services	9,004,060	1,319,263
Medical supplies	8,182,192	5,026,035
Professional fees	327,469	322,111
Insurance	111,414	96,823
Rent	1,071,317	922,074
Utilities	324,462	242,913
Depreciation	672,163	627,268
Hospital assessment fee	107,020	154,380
Other operating expenses	<u>1,460,061</u>	<u>1,113,973</u>
Total operating expenses	<u>30,113,736</u>	<u>16,234,358</u>
Income from operations	10,628,351	7,148,385
Other income (expense):		
Interest income	60,144	52,495
Interest expense	(58,181)	(37,592)
Gain on interest rate swap	378	1,551
Miscellaneous income	<u>-</u>	<u>40,769</u>
Total other income	<u>2,341</u>	<u>57,223</u>
Net income	<u>\$ 10,630,692</u>	<u>\$ 7,205,608</u>

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Changes in Members' Capital

Years ended December 31, 2015 and 2014

	<u>Capital Contributions</u>	<u>Members' Capital</u>	<u>Total</u>
Balances at December 31, 2013	\$ 7,926,853	\$ 1,485,517	\$ 9,412,370
Capital contributions	240,000	-	240,000
Distributions	-	(4,937,421)	(4,937,421)
Net income	<u>-</u>	<u>7,205,608</u>	<u>7,205,608</u>
Balances at December 31, 2014	8,166,853	3,753,704	11,920,557
Capital contributions	3,130,000	-	3,130,000
Redemption of members' units	(1,979,816)	-	(1,979,816)
Distributions	-	(8,888,800)	(8,888,800)
Net income	<u>-</u>	<u>10,630,692</u>	<u>10,630,692</u>
Balances at December 31, 2015	<u>\$ 9,317,037</u>	<u>\$ 5,495,596</u>	<u>\$ 14,812,633</u>

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Cash Flows

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net income	\$ 10,630,692	\$ 7,205,608
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	672,163	627,268
Provision for uncollectible accounts	2,973,883	1,285,527
Loss on sale of assets	20,977	-
Accrued interest on advances to related parties	-	(52,495)
Gain on interest rate swap	(619)	(1,551)
Increase (decrease) in cash due to changes in:		
Patient accounts receivable	(7,854,734)	(990,978)
Other receivables	26,270	367,737
Inventories	(90,340)	(212,450)
Prepaid expenses	(144,969)	(20,968)
Accounts payable	168,624	(806,452)
Accrued expenses	135,948	(301,402)
Accrued personnel costs	143,788	56,171
Due to USMSI, LLC	<u>3,977,867</u>	<u>-</u>
Net cash provided by operating activities	10,659,550	7,156,015
Cash flows from investing activities:		
Purchase of property and equipment	(1,862,777)	(266,962)
(Increase) decrease in due from related party	<u>(92,177)</u>	<u>88,715</u>
Net cash used in investing activities	(1,954,954)	(178,247)
Cash flows from financing activities:		
Change in line of credit	-	(1,400,000)
Repayment of capital lease	-	(66,667)
Proceeds from long-term debt	1,550,000	-
Repayment of long-term debt	(373,600)	(148,600)
Proceeds from issuance of members' units	3,130,000	240,000
Redemption of members' units	(1,979,816)	-
Distributions to members	(8,888,800)	(4,937,421)
Payments on notes payable - former member	<u>-</u>	<u>(156,695)</u>
Net cash used in financing activities	<u>(6,562,216)</u>	<u>(6,469,383)</u>
Net increase in cash	2,142,380	508,385
Cash, beginning of year	<u>649,658</u>	<u>141,273</u>
Cash, end of year	<u>\$ 2,792,038</u>	<u>\$ 649,658</u>

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Cash Flows, continued

Years ended December 31, 2015 and 2014

	<u>2015</u>		<u>2014</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest expense	\$ 58,181	\$	37,592
Supplemental disclosure of noncash investing and financing activities:			
Purchase of property and equipment by accounts payable	\$ -	\$	135,924

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 Notes 4, 5, 6 and 10, the Company leases property from a related party, Physicians' Surgical Properties, LLC (PSP) and, as discussed in Note 10, has guaranteed PSP's debt. The Company has elected to utilize a practical expedient available to private companies (the Financial Accounting Standards Board's Accounting Standards Update No. 2014-07, *Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*) provided for 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 accounting principles generally accepted in the United States (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:

Patient Accounts Receivable and Net Patient Service Revenue

Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. A provision for uncollectible accounts is recorded based upon management's evaluation of current industry conditions, historical collection experience and other relevant factors which, in the opinion of management, require recognition in estimating the allowance for uncollectible accounts.

Inventories

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

Property and Equipment

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

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets and liabilities as part of the 2012 purchase of Southern Indiana Endoscopy, LLC. The carrying value of goodwill is tested annually to determine if facts and circumstances suggest that the asset may be impaired or that the useful life may need to be changed. The Company considers internal and external factors, including cash flow, contract changes, and other trends. If these factors and the projected discounted cash flows of the Company over the remaining useful life indicate that goodwill will not be recoverable, the carrying value will be adjusted to the estimated fair value.

Interest Rate Swaps

The Company uses interest rate swap contracts as cash flow hedges to eliminate the cash flow exposure of interest rate movements on variable rate debt. Interest rate swap contracts designated and qualifying as cash flow hedges are reported at fair value.

Advertising

The Company expenses advertising costs as they are incurred. Advertising expense was \$64,795 and \$25,797 for 2015 and 2014, respectively.

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.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through REPORT DATE, the date that the financial statements were available to be issued. Except as discussed at Note 10, no material subsequent events were identified.

New Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, requiring all leases to be recognized on the Company's balance sheet as a right-of-use asset and a lease liability, unless the lease is a short term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, the Company will recognize: 1) a lease liability for Company's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents the Company's right to use, or control the use of, the specified asset for the lease term. Upon adopting the ASU, the Company will be required to recognize and measure its leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 will be effective for the Company for the year ending December 31, 2020, with early adoption permitted. The Company is currently evaluating the effect that the new standard will have on its financial statements.

3. Patients Accounts Receivable

As of December 31, 2015 and 2014, patient accounts receivable consisted of the following:

	<u>2015</u>	<u>2014</u>
Patient accounts receivable	\$ 38,306,485	\$ 10,959,824
Less allowances for:		
Contractual adjustments	(27,084,850)	(5,898,089)
Uncollectible accounts	<u>(3,406,223)</u>	<u>(2,127,174)</u>
Patient accounts receivable, net	\$ <u>7,815,412</u>	\$ <u>2,934,561</u>

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

4. Line of Credit

The Company has a line of credit with a local bank. The line is for a maximum of \$2,000,000 with interest at a floating rate per annum equal to 2.35% in excess of the one-month London Interbank Offered Rate (LIBOR) (2.71% at December 31, 2015). The line is subject to annual renewal in September and is collateralized by substantially all business assets. There were no borrowings on the line of credit as of both December 31, 2015 and 2014.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

4. Line of credit, continued

The line of credit agreement contains a covenant which requires the Company, jointly with PSP, to maintain a specified level of debt service coverage as defined by the bank.

The Company and PSP are jointly and severally liable on the line. In the event of a year-end balance, the full amount of the obligation will be recorded on the Company's financial statements.

5. Long-Term Debt

As of December 31, 2015 and 2014, long-term debt consisted of the following:

	<u>2015</u>	<u>2014</u>
Bank note payable, maturing November 2017, bearing interest equal to LIBOR, plus 2.75% (3.11% as of December 31, 2015). Interest is due monthly in addition to monthly payments of \$12,383 through the maturity date. The note is secured by substantially all business assets.	\$ 284,817	\$ 433,417
Bank note payable, maturing March 2020, bearing interest at 4.15% per annum due monthly in addition to monthly principal payments for a total of \$9,167 through the maturity date. The note is secured by substantially all business assets.	458,333	-
Bank note payable, maturing May 2020, bearing interest equal to LIBOR, plus 2.35% (2.71% as of December 31, 2015). Interest is due monthly in addition to monthly payments of \$16,667 through the maturity date. The note is secured by substantially all business assets.	<u>866,667</u>	<u>-</u>
	1,609,817	433,417
Less: amounts due within one year	<u>458,600</u>	<u>148,600</u>
Long-term portion of debt	<u>\$ 1,151,217</u>	<u>\$ 284,817</u>

The Company's note payable agreements contains covenants which, among other things, require the Company, jointly with PSP, to maintain a specified level of debt service coverage as defined by the bank. Management believes the Company was in compliance with all debt covenants as of December 31, 2015.

The Company and PSP are jointly and severally liable on the notes listed above. The full amount of these obligations have been recorded in the Company's financial statements.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

5. Long-Term Debt, continued

Future maturities of long-term debt are as follows:

2016	\$	458,600
2017		446,217
2018		310,000
2019		310,000
2020		<u>85,000</u>
	\$	<u>1,609,817</u>

6. Related Party Transactions

The Company leases 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 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 \$920,820 in both 2015 and 2014.

At December 31, 2015 the minimum lease payments under the terms of all lease agreements were as follows:

2016	\$	920,820
2017		920,820
2018		<u>460,410</u>
	\$	<u>2,302,050</u>

The Company had a balance due from PSP of approximately \$1,535,000 and 1,443,000 at December 31, 2015 and 2014, respectively. 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 sheets. The amount due (to)/from members was \$(726) and \$1,057 at December 31, 2015 and 2014, respectively, and has been included in other receivables on the balance sheets. The amount paid on behalf of non-resident members was \$59,371 in 2015 and \$67,820 in 2014. The Company reduces distributions to recoup the balances owed by these members.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

6. Related Party Transactions, continued

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 \$3,600 and \$2,400 as of December 31, 2015 and 2014, respectively. The balance due has been included in accounts payable on the balance sheets as of December 31, 2015 and 2014. The Company paid \$394,377 for the year ended December 31, 2015 and \$416,906 for the year ended December 31, 2014 under the agreement.

7. Net Patient Service Revenue

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 (DRG) 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. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Company's classification of patients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the Company. As of December 31, 2014, the Company's submitted Medicare cost reports have been final settled with the Fiscal Intermediary through December 31, 2013.

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 from Medicare and Medicaid programs. The Company believes it is in compliance with all applicable laws and regulations.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

7. Net Patient Service Revenue, continued

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.

8. Hospital Assessment Fee

During 2012, the Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by Centers for Medicare & Medicaid Services (CMS) retroactive to July 1, 2011. During March 2014, the HAF program was reinstated by CMS retroactive to July 1, 2013. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) 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 Hospital recognized HAF program expense of \$107,020 and \$154,380 for the years ended 2015 and 2014, respectively.

9. Concentrations of Credit Risk

Cash

The Company has a concentration of credit risk in that it periodically maintains bank accounts which, at times, may exceed the federally insured limits. The Company has not experienced any losses on such accounts. The Company believes it is not exposed to any significant credit risk.

Patients Accounts Receivable

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, 2015 and 2014 is as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Revenues</u>	<u>Receivables</u>	<u>Revenues</u>	<u>Receivables</u>
Medicare	24 %	19 %	38 %	27 %
Medicaid	27	33	7	8
Blue Cross	21	17	25	18
Commercial and other	26	26	29	27
Self pay	<u>2</u>	<u>5</u>	<u>1</u>	<u>20</u>
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

10. Commitments and Contingencies

PSP, a Related Party

The Company is jointly and severally liable with PSP, on \$3,049,000 of LIBOR plus 2.75% (3.11% at December 31, 2015) secured long-term borrowings. The Company entered into a reimbursement agreement with PSP to guarantee a bond issued by PSP for the construction of the facility used by the Company. The bonds were refinanced during 2012. Therefore, effective December 14, 2012, the Company was a co-borrower with PSP on a term note for the purpose of refinancing the bonds. The borrowings on the term note were advanced to PSP on January 17, 2013. Payments of \$20,167 are due monthly with a final payment due in January 2018. The agreement with PSP calls for PSP to pay all of the required principal and interest payments. The Company is obligated under the terms of the notes to perform if PSP 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, 2015, is dependent on the related outstanding balance on the term notes plus any accrued interest. At December 31, 2015 and 2014, the balance remaining on the term note was \$3,049,000 and \$3,248,200, respectively. The Company has not been called upon to perform under this guarantee and has suffered no losses as a result of the guarantee. Accordingly, the Company has recorded no additional debt related to this guarantee for both 2015 and 2014. 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 PSP. The Company holds no collateral in respect of the guarantee. The loan agreements contain a covenant which requires PSP jointly with the Company to maintain a specified level of debt service coverage as defined by the bank.

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.

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.

PHYSICIANS' MEDICAL CENTER, LLC

Notes to the Financial Statements, continued

10. Commitments and Contingencies, continued

Operating Leases

The Company is obligated under certain noncancellable operating leases for office space. Rent expense for office space, exclusive of contributed facilities, amounted to \$81,793 for the year ended December 31, 2015.

These leases have terms expiring between May 2016 and February 2017. Future minimum rental payments under the terms of these leases as of December 31, 2015 are as follows:

2016	\$	77,975
2017		<u>5,250</u>
	\$	<u>83,225</u>

Construction in Process

On March 14, 2016, the Company committed to a \$5,946,000 expansion project expanding and renovating its New Albany campus. It is expected to be owned/financed by and leased from PSP similarly to current leasing agreements (see Note 6).