Physicians' Medical Center, LLC
Financial Statements

Years Ended December 31, 2016 and 2015
with Report of Independent Auditors

CONTENTS

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DEAN DORTON ALLEN FORD, PLLC

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 sheets as of December 31, 2016 and 2015, 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 Physicians' Medical Center, LLC as of December 31, 2016 and 2015, 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.

Dean Dorton Allen Ford, PLLC

July 13, 2017
Louisville, Kentucky

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PHYSICIANS' MEDICAL CENTER, LLC

Balance Sheets

December 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash	$ **3,244,585**	$ 2,792,038
Patient accounts receivable, net of allowances for uncollectible accounts of $5,249,438 and $3,406,223 in 2016 and 2015, respectively	**11,840,473**	7,815,412
Other receivables	**114,119**	103,526
Inventories	**812,919**	878,981
Prepaid expenses	**650,279**	251,331
Total current assets	**16,662,375**	11,841,288
Property and equipment:		
Medical equipment and instruments	**5,281,167**	4,918,044
Other equipment	**314,934**	237,757
Furniture and furnishings	**406,000**	366,274
Improvements	**940,896**	685,184
Software	**348,035**	348,035
Computer equipment	**300,848**	246,158
	7,591,880	6,801,452
Less accumulated depreciation	**(5,197,347)**	(4,701,367)
	2,394,533	2,100,085
Construction in progress	**276,919**	311,515
Total property and equipment, net	**2,671,452**	2,411,600
Other assets:		
Due from related party	**10,000**	1,534,730
Goodwill	**6,700,131**	6,700,131
Total other assets	**6,710,131**	8,234,861
Total assets	$ **26,043,958**	$ 22,487,749

	2016	2015
Liabilities and Members' Capital		
Current liabilities:		
Accounts payable	$ **1,531,515**	$ 951,198
Accrued expenses	**1,118,947**	524,096
Accrued personnel costs	**723,006**	461,762
Estimated cost report settlements payable	**150,000**	150,000
Due to United States Medical Scientific Indiana (USMSI), LLC	**6,265,618**	3,977,867
Current portion of long-term debt	**1,151,217**	458,600
Total current liabilities	**10,940,303**	6,523,523
Long-term liabilities:		
Long-term debt, net of current portion	**-**	1,151,217
Interest rate swap	**50**	376
Total long-term liabilities	**50**	1,151,593
Total liabilities	**10,940,353**	7,675,116
Members' capital	**15,103,605**	14,812,633
Total liabilities and members' capital	$ **26,043,958**	$ 22,487,749

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Income

Years ended December 31, 2016 and 2015

	2016	2015
Net patient service revenue (net of contractual allowances and discounts)	$ 76,327,097	$ 43,715,971
Provision for bad debts	(10,935,016)	(2,973,884)
Net patient service revenue less provision for bad debts	65,392,081	40,742,087
Operating expenses:		
Salaries and other personnel expenses	8,688,492	7,499,697
Employee benefits and payroll taxes	1,684,426	1,353,881
Purchased services	26,331,325	9,004,060
Medical supplies	10,296,585	8,182,192
Professional fees	863,305	327,469
Insurance	81,548	111,414
Rent	1,158,310	1,071,317
Utilities	392,729	324,462
Depreciation	495,980	651,186
Hospital assessment fee	41,066	107,020
Other operating expenses	1,592,849	1,460,302
Total operating expenses	51,626,615	30,093,000
Income from operations	13,765,466	10,649,087
Other (expense) income:		
Interest income	40,302	60,144
Interest expense	(47,464)	(58,181)
Loss on disposals of property and equipment	-	(20,977)
Gain on interest rate swap	326	619
Total other (expense) income	(6,836)	(18,395)
Net income	$ 13,758,630	$ 10,630,692

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Changes in Members' Capital

Years ended December 31, 2016 and 2015

	Capital Contributions	Members' Capital	Total
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	-	10,630,692	10,630,692
Balances at December 31, 2015	9,317,037	5,495,596	14,812,633
Capital contributions	**950,000**	-	**950,000**
Redemption of members' units	**(260,000)**	-	**(260,000)**
Distributions	-	**(14,157,658)**	**(14,157,658)**
Net income	-	**13,758,630**	**13,758,630**
Balances at December 31, 2016	**$ 10,007,037**	**$ 5,096,568**	**$ 15,103,605**

See accompanying notes.

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Cash Flows

Years ended December 31, 2016 and 2015

		2016		2015
Cash flows from operating activities:				
Net income	$	**13,758,630**	$	10,630,692
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		**495,980**		651,186
Provision for uncollectible accounts		**10,935,016**		2,973,884
Loss on disposals of property and equipment		**-**		20,977
Gain on interest rate swap		**(326)**		(619)
Increase (decrease) in cash due to changes in:				
Patient accounts receivable		**(14,960,077)**		(7,854,735)
Other receivables		**(10,593)**		26,270
Inventories		**66,062**		(90,340)
Prepaid expenses		**(398,948)**		(144,969)
Accounts payable		**580,317**		168,624
Accrued expenses		**594,851**		135,948
Accrued personnel costs		**261,244**		143,788
Due to USMSI, LLC		**2,287,751**		3,977,867
Net cash provided by operating activities		**13,609,907**		10,638,573
Cash flows from investing activities:				
Purchase of property and equipment		**(755,832)**		(1,841,800)
Decrease (increase) in due from related party		**1,524,730**		(92,177)
Net cash provided by (used in) investing activities		**768,898**		(1,933,977)
Cash flows from financing activities:				
Proceeds from long-term debt		**-**		1,550,000
Repayment of long-term debt		**(458,600)**		(373,600)
Proceeds from issuance of members' units		**950,000**		3,130,000
Redemption of members' units		**(260,000)**		(1,979,816)
Distributions to members		**(14,157,658)**		(8,888,800)
Net cash used in financing activities		**(13,926,258)**		(6,562,216)
Net increase in cash		**452,547**		2,142,380
Cash, beginning of year		**2,792,038**		649,658
Cash, end of year	$	**3,244,585**	$	2,792,038

PHYSICIANS' MEDICAL CENTER, LLC

Statements of Cash Flows, continued

Years ended December 31, 2016 and 2015

		2016		2015
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	**$**	**47,464**	$	58,181

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, 7 and 11, the Company leases property from a related party, Physicians' Surgical Properties, LLC (PSP) and, as discussed in Note 11, has guaranteed PSP's debt. The Company has elected to utilize a practical expedient available to private companies (the Financial Accounting Standards Board's 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.

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 contacts as cash flow hedges to eliminate the cash flow exposure of interest rate movements on variable rate debt. Interest rate swap contacts 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 $47,366 and $64,795 for 2016 and 2015, 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.

Reclassification

Certain 2015 amounts have been reclassified to conform with current year presentation with no effect on net income or members' capital.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through July 13, 2017, the date that the financial statements were available to be issued. Except as discussed at Note 12, no material subsequent events were identified.

2. Summary of Significant Accounting Policies, continued

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The core principle of ASU 2014-09 is to recognize revenues when a customer obtains control of a good or service, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 by one year. The updated standard will be effective for the year ending December 31, 2019. Early application is permitted only as of annual reporting periods beginning after December 31, 2017. The Company has not yet selected a transition method and is currently evaluating the effect that the new standard will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, 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, 2016 and 2015, patient accounts receivable consisted of the following:

	2016	2015
Patient accounts receivable	$ **71,173,347**	$ 38,306,485
Less allowances for:		
Contractual adjustments	**(54,083,436)**	(27,084,850)
Uncollectible accounts	**(5,249,438)**	(3,406,223)
Patient accounts receivable, net	$ **11,840,473**	$ 7,815,412

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 $5,000,000 with interest at a floating rate per annum equal to 2.00% in excess of the one-month London Interbank Offered Rate (LIBOR) (2.77% at December 31, 2016). 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, 2016 and 2015.

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, 2016 and 2015, long-term debt consisted of the following:

	2016	2015
Bank note payable, maturing November 2017, bearing interest equal to LIBOR, plus 2.75% (3.52% as of December 31, 2016). 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.	$ **136,217**	$ 284,817
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.	**348,333**	458,333
Bank note payable, maturing May 2020, bearing interest equal to LIBOR, plus 2.35% (3.12% as of December 31, 2016). 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.	**666,667**	866,667
	1,151,217	1,609,817
Less: amounts due within one year	**1,151,217**	458,600
Long-term portion of debt	$ **-**	$ 1,151,217

5. Long-Term Debt, continued

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.

The Company and PSP are in violation of certain debt covenants as of December 31, 2016. As such, all related debt has been reclassified as current on the December 31, 2016 balance sheets.

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.

	Debt
2017	$ 446,217
2018	310,000
2019	310,000
2020	85,000
	$ 1,151,217
Less lease interest	

6. Interest Rate Swap

In November 2012, the Company entered into a swap agreement whereby the Company agreed to pay a fixed interest rate, 0.90%, on a notional amount of $743,000 in exchange for receiving payments on a floating interest rate equal to one-month LIBOR (0.77% as of December 31, 2016). The notional amount, which declines with the debt repayment, was $136,217 as of December 31, 2016. This agreement terminates on October 15, 2017. The Company is exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreement. However, the Company does not anticipate nonperformance by the counterparties.

7. 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 2016 and 2015.

At December 31, 2016 the minimum lease payments under the terms of all lease agreements were as follows:

2017	$ 920,820
2018	460,410
	$ 1,381,230

7. Related Party Transactions, continued

The Company had a balance due from PSP of approximately $1,535,000 at December 31, 2015. This balance was paid in full during the year ended December 31, 2016. 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 members was $1,201 and $726 at December 31, 2016 and 2015, respectively, and has been included in other receivables on the balance sheets. The amount paid on behalf of non-resident members was $220,589 and $59,371 in 2016 and 2015, respectively. 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 $61,134 and $3,600 as of December 31, 2016 and 2015, respectively. The balance due has been included in accounts payable on the balance sheets as of December 31, 2016 and 2015. The Company paid $639,615 and $394,377 for the years ended December 31, 2016 and 2015, respectively, under the agreement.

8. 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, 2016, the Company's submitted Medicare cost reports have been final settled with the Fiscal Intermediary through December 31, 2014.

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.

8. Net Patient Service Revenue, continued

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.

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.

9. 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 $41,066 and $107,020 for the years ended December 31, 2016 and 2015, respectively.

10. 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, 2016 and 2015 is as follows:

10. Concentration of Credit Risk, continued

Patient Accounts Receivable, continued

	2016		2015	
	Revenues	**Receivables**	Revenues	Receivables
Medicare	**26 %**	**13 %**	24 %	19 %
Medicaid	**29**	**58**	27	33
Blue Cross	**21**	**9**	21	17
Commercial and other	**22**	**15**	26	26
Self pay	**2**	**5**	2	5
	100 %	**100 %**	100 %	100 %

11. Commitments and Contingencies

PSP, a Related Party

The Company is jointly and severally liable with PSP, on $2,826,500 of LIBOR plus 2.75% (3.52% at December 31, 2016) 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, 2016, is dependent on the related outstanding balance on the term notes plus any accrued interest. At December 31, 2016 and 2015, the balance remaining on the term note was $2,826,500 and $3,049,000, 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 2016 and 2015. 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.

11. Commitments and Contingencies, continued

PSP, a Related Parties, continued

At December 31, 2016, the Company is jointly and severally liable with PSP, a related party, on $1,564,445 of LIBOR plus 2.25% (3.02% at December 31, 2016) a secured term note. The borrowings were for the construction of the facility used by the Company. Payments of $8,889 are due monthly with a final payment due in September 2021. 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, 2016, is dependent on the related outstanding balance on the term notes plus any accrued interest. At December 31, 2016, the balance remaining on the term note was $1,564,445. 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 2016. 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.

At December 31, 2016, the Company is jointly and severally liable with PSP, a related party, on $3,102,984 of LIBOR plus 2.00% (2.77% at December 31, 2016) a construction draw payable. The borrowings were for the expansion and renovation of the facility used by the Company. Interest payments are due monthly with the total amount drawn due when the loan matures in September 2024. The agreement with PSP calls for PSP to pay all of the required 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, 2016, is dependent on the related outstanding balance on the construction loan plus any accrued interest. At December 31, 2016, the balance remaining on the construction loan was $3,102,984. 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 2016. 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.

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.

11. Commitments and Contingencies, continued

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.

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 $163,613 and $81,793 for the years ended December 31, 2016 and 2015, respectively.

These leases have terms expiring between October 11, 2017 and December 31, 2018. Future minimum rental payments under the terms of these leases as of December 31, 2016 are as follows:

2017	$	175,071
2018		108,461
	$	283,532

Construction in Progress

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 7). The remaining commitment as of December 31, 2016 on this project is approximately $2,843,000.

Billing Errors

On July 18, 2016, the Kentucky Cabinet for Health and Family Services (the Cabinet) requested documentation for a number of Company lab charges related to its drug testing panels. Management has identified billing errors outside of the Cabinet's request that the Company has corrected on an ongoing basis. Two additional payors have inquired about the issue as well and have requested information and/or resolution. Management is working to quantify the amount for past billing errors for repayments and has accrued an estimated liability. Much work remains toward the ultimate resolution of this contingency but an initial analysis computes the possible future repayments for the Company to total as much as $2.8 mil.

12. Subsequent Events

In January 2017, the Company purchased two urgent care facilities for a total of $2,500,000.