MCR Health, Inc. and
AllCare Options, LLC
Palmetto, Florida

CONSOLIDATED AUDITED FINANCIAL STATEMENTS

December 31, 2019 and 2018

CRI CARR RIGGS & INGRAM
CPAs and Advisors
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MCR Health, Inc. and AllCare Options, LLC
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REPORT

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To the Board Members of
MCR Health, Inc.
Palmetto, Florida

To the Board Members of
AllCare Options, LLC
Palmetto, Florida

We have audited the accompanying consolidated financial statements of MCR Health, Inc. (a nonprofit organization) and AllCare Options, LLC (an affordable care act organization), collectively the "Organization," which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MCR Health, Inc. and AllCare Options, LLC as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended, respectively, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Correction of an Error

As described in Note 3 to the consolidated financial statements, an error resulting in an understatement of the consolidated net assets without donor restrictions as of December 31, 2018 in the amount of $1,055,480 was discovered by management of the Organization during the current year. Accordingly, amounts reported have been restated in the 2018 consolidated financial statements presented and adjustments have been made to net assets without donor restrictions as of December 31, 2018 to correct the error. Our opinion is not modified with respect to these matters.

Emphasis of Matter – New Accounting Standards

As discussed in Note 2 to the consolidated financial statements, on January 1, 2019, the Organization adopted Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* using the full retrospective approach. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules of consolidating financial position, activities, and cash flows and the schedule of revenue – MCR Health, Inc. are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles,* and *Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2020, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C

CARR, RIGGS & INGRAM, LLC

Bradenton, Florida
July 22, 2020

FINANCIAL STATEMENTS

December 31,	**2019**	2018 As Restated
Assets		
Current assets		
Cash and cash equivalents	**$ 361,790**	$ 365,141
Patient accounts receivable	**9,870,229**	7,782,402
Other receivables	**4,647,814**	4,035,825
Prepaid expenses	**404,056**	644,513
Inventory	**492,302**	456,855
Total current assets	**15,776,191**	13,284,736
Property and equipment		
Land, buildings and equipment at cost, less accumulated depreciation of $13,615,490 and $11,953,432	**13,622,337**	13,986,472
Construction in progress	**325,444**	343,410
Total property and equipment, net	**13,947,781**	14,329,882
Other assets		
Deposits	**34,905**	11,564
Restricted investments held for benefit of 457B employee benefit plan	**755,027**	794,224
Investments	**107,339**	107,339
Goodwill	**11,207,475**	2,453,098
Total other assets	**12,104,746**	3,366,225
Total assets	**$ 41,828,718**	$ 30,980,843

The accompanying notes are an integral part of these consolidated financial statements.

MCR Health, Inc. and AllCare Options, LLC
Consolidated Statements of Financial Position (Continued)

December 31,	**2019**	2018 As Restated
Liabilities and Net Assets		
Current liabilties		
Accounts payable	**$ 4,235,609**	$ 4,855,912
Accrued expenses	**2,960,654**	2,789,865
Bank overdraft	**589,432**	72,833
Insurance overpayments	**526,957**	466,785
Deferred revenue	**989**	3,497
Current obligations under capital leases	**80,440**	-
Lines of credit	**1,735,173**	1,550,000
Short term note payable	**800,867**	-
Notes payable, current portion	**3,073,975**	1,527,191
Total current liabilities	**14,004,096**	11,266,083
Long-term liabilities		
Obligations under capital leases, minus current portion	**127,535**	-
Lines of credit	**8,000,000**	4,100,000
Notes payable, less current portion and deferred loan costs (See Notes 9 and 10)	**14,910,577**	6,652,514
Deferred gain on sale leaseback	**1,184,464**	1,273,299
457B salary deferrals	**755,027**	794,224
Total liabilities	**38,981,699**	24,086,120
Net assets, without donor restrictions		
MCR Health	**2,847,019**	8,097,034
Noncontrolling interests in AllCare	**-**	(1,202,311)
Total net assets without donor restrictions	**2,847,019**	6,894,723
Total liabilities and net assets	**$ 41,828,718**	$ 30,980,843

The accompanying notes are an integral part of these consolidated financial statements.

For the years ended December 31,	**2019**	2018 As Restated
Changes in Net Assets Without Donor Restrictions:		
Unrestricted Revenues, Gains, and Other Support		
Patient service revenue	**$ 64,620,096**	$ 51,975,195
Pharmacy patient service revenue, net of cost of goods sold of $5,717,737 and $3,597,098, respectively	**8,110,743**	6,385,561
Federal agencies	**10,906,653**	10,944,361
Capitation income	**7,369,724**	7,717,705
Low income pool	**2,497,528**	3,809,842
Pharmacy contract revenue	**6,682,632**	4,378,218
Financial assistance - other	**2,509,229**	2,624,561
Incentive income	**2,214,542**	657,291
Donations	**159,741**	139,577
Amortization of gain on sale leaseback	**88,835**	59,223
Other revenue	**454,895**	321,057
Total revenues, gains, and other support	**105,614,618**	89,012,591
Expenses and Losses		
Program services	**81,251,931**	69,746,409
Support services	**26,838,068**	19,217,899
Total expenses	**108,089,999**	88,964,308
Excess Expenses Over Revenues and Changes in Net Assets Without Donor Restrictions	**(2,475,381)**	48,283
Net Assets Without Donor Restrictions, Beginning of Year	**6,894,723**	6,846,440
Purchase of noncontrolling interest	**(1,572,323)**	-
Net Assets Without Donor Restrictions, End of Year	**$ 2,847,019**	$ 6,894,723

MCR Health, Inc. and AllCare Options, LLC
Consolidated Statement of Functional Expenses

For the year ended December 31, 2019

	Program Services	Support Services	Total
Salaries	$ 45,454,321	$ 9,774,430	$ 55,228,751
Employee benefits	8,428,331	1,674,740	10,103,071
Total salaries and related expenses	53,882,652	11,449,170	65,331,822
Operating supplies	3,150,723	1,391,565	4,542,288
Telephone	2,123,863	154,345	2,278,208
Non-employee insurance	509,697	285,678	795,375
Rents and leases	2,687,726	608,198	3,295,924
Interest	-	1,079,443	1,079,443
Internal meetings	23,545	120,880	144,425
Utilities	785,881	98,168	884,049
Dues and subscriptions	589,931	696,994	1,286,925
Travel - local and out of area	204,481	268,698	473,179
Building repair and maintenance	597,803	430,361	1,028,164
Professional and contracted services	15,023,960	5,384,440	20,408,400
Advertising	-	169,523	169,523
Data processing	1,508,479	2,018,222	3,526,701
Training	98,232	65,550	163,782
Postage	20,586	95,241	115,827
Pantry food supplies	16,600	10,000	26,600
Administrative fees	-	145,355	145,355
Miscellaneous and in-kind services	27,772	73,980	101,752
Total expenses before depreciation and amortization	81,251,931	24,545,811	105,797,742
Depreciation and amortization	-	2,292,257	2,292,257
Loss on impairment	-	-	-
Total expenses	$ 81,251,931	$ 26,838,068	$ 108,089,999

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Functional Expenses

For the year ended December 31, 2018

	Program Services	Support Services	Total
Salaries	$ 38,918,888	$ 8,021,206	$ 46,940,094
Employee benefits	6,741,360	1,190,794	7,932,154
Total salaries and related expenses	45,660,248	9,212,000	54,872,248
Operating supplies	2,841,652	749,890	3,591,542
Telephone	1,599,684	229,332	1,829,016
Non-employee insurance	564,108	182,775	746,883
Rents and leases	1,078,501	780,985	1,859,486
Interest	-	1,397,939	1,397,939
Internal meetings	13,340	86,505	99,845
Utilities	431,217	97,736	528,953
Dues and subscriptions	420,380	404,206	824,586
Travel - local and out of area	203,717	154,652	358,369
Building repair and maintenance	488,160	225,289	713,449
Professional and contracted services	15,446,796	2,714,798	18,161,594
Advertising	-	225,060	225,060
Data processing	813,556	429,094	1,242,650
Training	126,283	9,496	135,779
Postage	14,139	61,467	75,606
Pantry food supplies	15,000	-	15,000
Administrative fees	-	135,706	135,706
Miscellaneous and in-kind services	29,628	69,204	98,832
Total expenses before depreciation and amortization	69,746,409	17,166,134	86,912,543
Depreciation and amortization	-	1,988,765	1,988,765
Loss on impairment	-	63,000	63,000
Total expenses	$ 69,746,409	$ 19,217,899	$ 88,964,308

The accompanying notes are an integral part of these consolidated financial statements.

MCR Health, Inc. and AllCare Options, LLC
Consolidated Statements of Cash Flows

For the years ended December 31,		**2019**		2018 As Restated
Cash Flows From Operating Activities:				
Change in net assets	**$**	**(2,475,381)**	$	48,283
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Depreciation		**1,662,058**		1,822,988
Amortization		**630,199**		165,777
Amortization of gain on sale leaseback		**(88,835)**		(59,223)
Loss on impairment		**-**		63,000
Loan costs amortized to interest		**190,788**		520,224
Provision for bad debts		**31,391**		-
(Increase) decrease in operating assets:				
Accounts receivable - patients		**(2,087,827)**		872,536
Accounts receivable - other		**(706,896)**		(436,931)
Prepaid expenses and deposits		**217,116**		(243,657)
Interest receivable		**-**		11,482
Inventory		**(35,447)**		(108,647)
Increase (decrease) in operating assets:				
Accounts payable		**(620,303)**		(611,634)
Accrued expenses		**170,790**		(94,444)
Insurance overpayments		**60,172**		154,167
Deferred revenue		**(2,508)**		(6,811)
457B salary deferrals		**39,197**		149,602
Net cash (used in) provided by operating activities		**(3,015,486)**		2,246,712
Cash Flows From Investing Activities:				
Purchase of investment		**(1,572,321)**		(107,339)
Notes receivable		**63,516**		128,436
Investments in benefits for 457B plan		**(39,197)**		(149,602)
Assets (goodwill) acquired in business combination		**-**		(500,000)
Proceeds from sale of property in sale leaseback transaction		**-**		11,410,000
Purchase of property and equipment		**(1,006,496)**		(338,737)
Net cash (used in) provided by investing activities		**(2,554,498)**		10,442,758
Cash Flows From Financing Activities:				
Proceeds from notes payable		**9,600,867**		6,940,500
Payments on notes payable and capital lease		**(8,518,227)**		(14,558,398)
Net proceeds (payments) on lines of credits		**4,085,173**		(4,250,000)
Bank overdraft		**516,598**		(698,684)
Loan costs on new loans		**(117,778)**		(215,841)
Net cash provided by (used in) financing activities		**5,566,633**		(12,782,423)
Net Change in Cash and Cash Equivalents		**(3,351)**		(92,953)
Beginning Cash and Cash Equivalents		**365,141**		458,094
Ending Cash and Cash Equivalents	**$**	**361,790**	$	365,141
Supplemental Disclosure of Cash Flow Information:				
Assets purchased under capital lease	**$**	**273,460**	$	-
Acquisition of assets (goodwill) and related note payable	**$**	**9,384,577**	$	1,000,000
Interest paid	**$**	**1,079,444**	$	1,397,939

The accompanying notes are an integral part of these consolidated financial statements.

Note 1: DESCRIPTION OF ORGANIZATION

Description of Organization

MCR Health, Inc., ("MCR Health"), formerly known as Manatee County Rural Health Services, Inc., is a nonprofit organization, incorporated as a non-stock corporation in the State of Florida operating as a Federally Qualified Health Center ("FQHC") which provides health care services, including medical, behavioral and dental, to the underserved and underinsured communities of southwest Florida. Additionally, behavioral health services are provided to skilled nursing facilities and assisted living facilities throughout the state of Florida. These services are administered by over 250 health care providers working from 35 healthcare sites and 13 pharmacies. MCR Health is supported primarily through patient fees and Federal and State awards that it receives as an FQHC.

Effective October 1, 2018, Manatee County Rural Health Services, Inc. amended its name to MCR Health, Inc.

AllCare Options, LLC, (AllCare), of which MCR Health is a 100% owner, is incorporated in the State of Florida operating as an affordable care organization under the Medicare Shared Savings Program ("MSSP"). On June 1, 2015, a third party purchased a 20% stake in AllCare (Note 18), which had previously been wholly-owned subsidiary of MCR Health. On September 17, 2019, MCR Health re-purchased the 20% stake to become the 100% owner. See Note 18.

MCR Health and AllCare share key personnel and MCR Health provides staffing and support for AllCare; however MCR Health and AllCare have different governing boards.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of MCR Health and AllCare, collectively the "Organization." All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Organization follows the guidance of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) 958-205 *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. As of December 31, 2019 and 2018, there were no net assets with donor restrictions.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an original maturity of three months or less to be cash equivalents.

Restricted Investments held for benefit of 457B Employee Benefit Plan

The Organization holds investments in a nonqualified 457B defined contribution plan. The assets are held in a rabbi trust which is subject to the Organization's creditors in case of insolvency. Employer contributions are not permitted. New participants are not allowed to join as the plan is frozen. The Organization has a liability for the same amount as the assets included in the consolidated statements of financial position.

Investments

The Organization purchased a 1.25% share in HealthCare For All, LLLP in 2018 for $107,338. This minority share is included as a noncurrent investment on the accompanying consolidated statements of financial position.

Inventory

Inventory is stated at net realizable value, determined by the first-in, first-out basis, and consists primarily of pharmaceutical, other medical supplies and office supplies.

Property and Equipment

Property and equipment are carried at cost, except for donated assets, which are recorded at the fair market value at the time of the gift. The Organization follows the practice of capitalizing all expenditures for land, building, and equipment in excess of $2,500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to forty years.

Long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured based on an asset's estimated future undiscounted cash flows compared to the asset's book value. If the aggregated cash flows are less than the asset's carrying amount, an impairment charge is recorded to reduce the carrying amount to its fair value. Long-lived assets to be disposed of are required to be reported at the lower of carrying amount or fair value less cost to sell. There were no triggering events requiring assessment of impairment in 2019 and 2018.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets – Goodwill

The Organization has recognized goodwill relating to purchases of business activities. Management has adopted ASU 2019-06, *Intangibles – Goodwill and Other (Topic 350) Business Combinations (Topic 805) and Not-for-Profit Entities (Topic 958)*, effective January 1, 2018. The Organization has elected not to breakout intangible assets from goodwill as permitted by the standards. Goodwill is amortized on a straight line basis over 10 years. Goodwill is tested for impairment upon a triggering event. Amortization expense recognized for the year ended December 31, 2019 and December 31, 2018 was $630,199 and $165,777, respectively.

Deferred Loan Costs

The costs of obtaining debt are capitalized and amortized over the life of the debt (see Note 10). The total net deferred loan costs as of December 31, 2019 and 2018 were $111,657 and $184,669, respectively, as disclosed in the accompanying consolidated statements of financial position.

Income Taxes

MCR Health, Inc. qualifies as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. There was no such unrelated business income for the years ending December 31, 2019 and 2018. AllCare Options, LLC has elected to be treated as a partnership for federal and state income tax purposes. The effect of this election provides that, in lieu of corporate income taxes, the partners are taxed on their proportionate share of AllCare's taxable income. Accordingly, no provision for income taxes is included in the consolidated financial statements. During 2019 MCR Health acquired the minority interest in AllCare. As a result, effective September 19, 2019, AllCare is considered a disregarded entity for tax purposes.

Management has evaluated the effect of an accounting standard relating to accounting for uncertainty in income taxes. Management has determined that the Organization had no uncertain income tax positions that could have a significant effect on the consolidated financial statements for the years ended December 31, 2019 and 2018.

Revenue Recognition

Patient Service Revenue

Patient service revenue is reported at an amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. The Organization derives its patient service revenue from primary care, hospitals, third party nursing home and assisted living facilities, and pharmacy services in Florida. These amounts are due from patients, third-party payers (including health insurers and government payers), and others. Generally, the Organization bills the patients and third-party payers several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as the performance obligations are satisfied.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Patient Service Revenue (Continued)

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs.

There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization. In addition, the contracts the Organization has with commercial payers also provide for retroactive audit and review of claims.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Organization's policy, or implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience within each class of patients.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history with those patients.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients and offers those uninsured patients a discount from standard charges under Health and Resources Services Administration (HRSA) requirements. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Patient Service Revenue (Continued)

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payers (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Type of patient services provided (for example: primary care, behavioral health, outpatient, pharmacy, imaging, and so on)
- Method of reimbursement (fee for service or capitation)

Medicare and governmental programs: Revenues associated with Medicare and Medicaid programs are estimated based on: (a) the payment rates that are established by statute or regulation for the portion of payment rates paid by the government payer and (b) regarding the portion not paid by the primary government payer, estimates of the amounts ultimately collectible from other government programs paying secondary coverage, the patient's commercial health plan secondary coverage, or the patient.

Medicaid: Federally Qualified Health Centers (FQHC) will periodically receive Medicaid payments from Managed Care Organizations (MCOs). Often some of these amounts remain unreimbursed at quarter end. The request for supplemental payment is submitted quarterly by FQHCs to receive reimbursement (wrap around payment). The payment is based on the total number of primary care visits for covered services provided to Medicaid patients during the quarter. The total number is multiplied by the state approved rate set for MCR Health as an FQHC. The Organization reports the revenue at the amount it expects to receive.

Commercial and Managed Care: The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. The Organization also has agreements with managed care and other organizations to provide physician services based on negotiated fee schedules. Accordingly, the Organization reports revenues at the amount that it expects to receive.

Capitation fee for service: The Organization earns capitation income under risk agreements with certain managed care plans and other commercial payers in which the Organization receives a monthly payment amount from these payers for each covered member on a per member, per month basis. Pursuant to its capitated contracts, the Organization can charge for services that are specifically excluded from the per member, per month arrangement. The Organization reports these revenues at the amount that it expects to receive.

Self-pay: The Organization offers medical services to self-pay and uninsured patients at rates discounted from its standard fee schedules. The Organization assesses the ultimate collectability of self-pay accounts based on the aging of accounts receivable balances, historical collection experience and other relevant factors.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Patient Service Revenue (Continued)

Commercial: Revenue is recorded on an accrual basis based upon the date of service at amounts equal to the estimated per-visit transaction price. Price concessions, including contractual allowances for the differences between standard rates and the applicable contracted rates, as well as estimated uncollectible amounts from patients, are recorded as decreases to the transaction price.

Incentive Income

Incentive income is comprised of additional variable consideration earned by the Organization through its arrangements with the Medicare Shared Savings Program ("MSSP") and other commercial programs. The Organization recognizes incentive income to the extent that it is probable that a significant reversal in the amount of incentive income recognized will not occur, considering the estimate's susceptibility to factors outside the Organization's influence, the Organization's experience with each respective program, and the length of time before any uncertainty is resolved. Adjustments to previous estimates are reported in incentive income in the periods that such adjustments become known.

Medicare Shared Savings Program ("MSSP"): The MSSP offers healthcare providers an opportunity to create an accountable care organization ("ACO") that agrees to be held accountable for the quality, cost, and experience of care of an assigned Medicare fee-for-service ("FFS") beneficiary population. The MSSP has different risk arrangements that allow ACOs to select an arrangement that makes the most sense for their organization.

The Shared Savings Program is an important innovation for moving the Center for Medicare and Medicaid Services ("CMS") payment system away from volume and toward value and outcomes. It is an alternative payment model that:

- Promotes accountability for a patient population,
- Coordinates items and services for Medicare FFS beneficiaries, and
- Encourages investment in high quality and efficient services.

AllCare participates in Track 1 of the MSSP administered by CMS. Under Track 1, an entity receives up to 50% of shared savings calculated as prescribed by the CMS model, if it meets overall quality and patient spending benchmarks. A Track 1 participant assumes no financial risk for a portion of any losses attributable to not meeting overall quality and patient spending benchmarks.

The Organization estimates its share of savings under the MSSP based on CMS' published benchmarks, the Organization's prior year final savings metrics, the estimated total ACO patient panel size, and its estimated current year performance related to CMS' defined metrics.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Incentive Income (Continued)

The Organization did not accrue the 2018 shared savings award in 2018. Based on Management's estimates in comparison with the required benchmarks for 2018, the Organization would not qualify for any shared savings. However, on October 4, 2019, the Organization did receive $1,820,722 related to the year ended December 31, 2018, which was recorded as revenue in 2019 and presented in incentive income on the consolidated statement of activities. The Organization has not accrued any MSSP as of December 31, 2019 based on the required benchmarks for 2019.

Shared surplus under managed care and other commercial plans: Amounts represent variable consideration earned by the Organization under its capitated risk arrangements with managed care plans for the provision of population health management services on an at-risk basis. In addition to capitation income (see below), the Organization can earn additional incentive revenue based upon the relationship of total health care costs of the covered members to funding allocated to the Organization by the Plans. The Organization recognizes its share of any generated surplus as incentive revenue in the period in which services are provided and it is reasonably assured it has been earned and will be paid.

Under certain shared savings agreements with HMOs, if certain quality risk metrics are met, as defined in the agreements, the Organization may receive a percentage of the surplus of the HMO's premiums over the capitation payments and fee-for-service payments to the Organization or other payers for services provided to the covered members, including an estimate of medical expenses incurred but not reported. The Organization recognizes incentive payments as revenue when it is reasonably assured that the quality risk metrics have been achieved. In 2019 and 2018, the Organization recorded $393,820 and $657,291, respectively, as capitation incentive revenue on the accompanying consolidated statements of activities.

Capitation Income

The Organization earns capitation income under risk agreements with certain Health Maintenance Organizations ("HMOs") and other commercial payers in which the Organization receives a monthly payment amount from the HMO for each covered member. The payment amount may vary depending on the demographics and health status of each member. Under these risk agreements, the Organization assumes the economic risk of the covered members' healthcare services, which is limited to the covered members' primary care services and related administrative costs. The Organization recognizes capitation income in the period in which the Organization's covered members are entitled to receive healthcare services.

Periodically, the number of the Organization's covered members is subject to retroactive adjustment for enrollment changes not yet processed or reported. Additionally, actual claims experience may differ from estimates of claims incurred but not reported. These retroactive adjustments could, in the near term, materially impact the incentive and capitation revenue previously reported. The Organization records any adjustments at the time the information necessary to make the determination of the adjustment is available. Due to mergers of plans there are receivables of $602,220 included in other receivables at December 31, 2019.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Capitation Income (Continued)

Capitation revenue disaggregated by payor type at December 31, 2019 and 2018 were as follows:

December 31,	**2019**	**%**	2018	%
Medicaid	**$ 7,231,068**	**98%**	$ 7,184,955	93%
Medicare	**76,505**	**1%**	265,140	3%
3rd party insurance	**62,151**	**1%**	267,610	4%
	$ 7,369,724	**100%**	$ 7,717,705	100%

Federal Grants

Grants are recognized as revenue when earned. Expense-driven grants are recognized as revenue when the qualifying expenses have been incurred and all other grant requirements have been met. The Organization received funds from the United States Department of Health and Human Services (DHHS) through the Health Resources and Services Administration. In accordance with DHHS policies, all funds disbursed should be in compliance with specific terms of the grant agreements.

DHHS may, at its discretion, request reimbursement for expenses or return of unexpended funds, or both, as a result of non-compliance by the Organization with the terms of the grants. In addition, if the Organization terminates the activities of the grants, all unexpended federal funds are to be returned to DHHS. The grant agreement requires the Organization to provide primary healthcare to all requesting individuals; however, the amount an individual actually pays is based on the individual's income.

Low Income Pool

The low income pool fund is available to FQHC facilities through the Florida Association of Community Health Centers based on the General Appropriations Act passed each year by the Florida Legislature. The purpose is to provide increased health services for the uninsured and underinsured in the State of Florida. The Organization must meet the specified reporting requirements and the funds are disbursed based on the fiscal year ending June 30^{th}. The Organization recognizes the funds as earned.

Pharmacy Contract Revenue

The Organization contracts with third party pharmacies to accept prescriptions from patients under the Organization's 340B drug pricing program (see Note 12). The resulting contract pharmacy revenue is recognized at the time pharmaceuticals are delivered to patients. Pharmacy revenue is reported at the net realizable amounts due from customers or third-party payors. Pharmacy contract revenues were $6,682,632 and $4,378,218, for the years ended December 31, 2019 and 2018, respectively. The Organization records pharmacy contract receivables for amounts billed to third-parties for prescriptions dispensed, but not paid as of the end of the year.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Pharmacy Contract Revenue (Continued)

Accounts receivables for pharmacy contract revenue were $1,559,429 and $639,309 for the years ended December 31, 2019 and 2018, respectively, and are included in other receivables on the accompanying consolidated statements of financial position.

Pharmacy contract revenue at December 31, 2019 and 2018 were as follows:

December 31,	**2019**	**%**	2018	%
CVS - Wellpartners	**$ 2,955,063**	**44%**	$ 1,146,920	26%
Walgreens	**2,550,832**	**38%**	1,739,480	40%
Walmart - Rx Strategies	**876,480**	**14%**	941,615	21%
Winn Dixie - SunRx	**15,862**	**0%**	-	0%
DeSoto	**284,395**	**4%**	527,450	12%
Net Rx & Rx Options	**-**	**0%**	22,753	1%
	$ 6,682,632	**100%**	$ 4,378,218	100%

Financial Assistance – Other

Other grants are received from various organizations such as the State of Florida and local hospitals, and the related receivables and revenue are recognized as revenue when earned.

The Organization also participates in the Electronic Health Record Incentive program. The Health Information Technology for Economic and Clinical Health Act, established by the American Recovery and Reinvestment Act of 2009, provides for Medicare and Medicaid incentive payments for eligible organizations and providers that adopt and meaningfully use certified electronic health record (EHR) technology. For the years ended December 31, 2019 and 2018, the Organization recorded EHR incentive revenue of $997,280 and $1,051,558 respectively within the financial assistance - other category of the accompanying consolidated statements of activities.

Attestation of the Organization's compliance with meaningful use criteria is subject to audit by the federal government or its designee and EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were determined. If the Hospital is selected for a future audit, there is a possibility that incentive payments could be reduced or recouped based on the results of the audit.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as without restriction. Otherwise, when a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without restriction and reported in the consolidated statements of activities as net assets released from restrictions. There were no donor-restricted contributions during the years ended December 31, 2019 and 2018.

Contributed Services

During the year ended December 31, 2019 and 2018, the value of contributed services meeting the requirements for recognition in the financial statements was not significant and has not been recorded.

Accounts Receivable

Patient Accounts Receivable

Patient accounts receivable represent amounts due for medical services provided in their clinics (primary care), hospitals, and third party nursing home and assisted living facilities. The Company grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. Patient accounts receivable is reported net of estimated contractual adjustments and implicit price concessions.

Accounts are written off after all collection efforts have been exhausted. Subsequent adjustments that are determined to be the result of an adverse change in a payer's ability to pay are recognized as bad debt expense and are reported in operating expenses. After the full retrospective adoption of ASC 606, there was no bad debt expense for the years ended December 31, 2019 and 2018.

The Organization has recognized a liability for insurance overpayments in the consolidated statement of financial position in the amount of $526,957 and $466,785 as of December 31, 2019 and 2018, respectively. This amount relates to overpayments from the various payor sources related to specific patient visits which the Organization is resolving with those various sources

Accounts Receivable, Other

Accounts receivable, other consists primarily of estimated amounts due under certain grants, certain estimated incentive payments, other commercial payers based on quality reporting and other programs, and contract pharmacies.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Charity Care

In the ordinary course of business, the Organization renders services to patients who are financially unable to pay for medical care. The Organization provides care to these patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Charity care eligibility is based on limited or no insurance coverage, income compared to published poverty levels, and family size, as well as other factors. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

MCR Health maintains records to identify and monitor the level of charity care it provides. Charity care is measured based on the estimated direct and indirect costs of providing charity care services. That estimate is based by multiplying the amount of charges forgone by the estimates cost to charge ratio. The cost of charity care provided during the years ended December 31, 2019 and 2018 was estimated as $7,417,409 and $6,755,917, respectively.

Functional Expenses

The consolidated financial statements report certain categories of expenses that are attributable to program and supporting functions of the Organization. Expenses are allocated based on their association with the administrative locations or provider locations. Expenses associated with the administrative locations are considered support services and the expenses associated with the provider locations are considered program expenses. Expenses such as depreciation, amortization, impairment loss, interest expense and advertising are considered to be support services.

Non-Direct Response Advertising

The Organization expenses advertising costs as incurred. Advertising expenses amounted to $169,523 and $225,060 for the years ended December 31, 2019 and 2018, respectively.

Paid Time Off (PTO) Policy

The Organization has a policy for PTO that utilizes an accrual chart that is based on years of service with the Organization. The longer the length of service, the more hours an employee is allowed to carry over. Any PTO hours that are in excess of allowed amounts are forfeited if not used by the end of the calendar year. The PTO accrual as of December 31, 2019 and 2018 is $129,740 and $215,387, respectively and is included in accrued expenses.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Excess (Deficiency) of Revenues Over Expenses

The consolidated statements of activities include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include donor-restricted contributions and grants of long-lived assets (including assets acquired using contributions or grants which by donor or granting agency restriction were to be used for the purpose of acquiring such assets). In addition, during 2019 MCR Health acquired the minority interest in AllCare for an amount in excess of the carrying value of assets and liabilities, the impact of the realized loss is recognized in the consolidated net assets, see Note 18.

Estimates

The preparation of consolidated financial statements in accordance with GAAP requires Management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. In Management's judgement, the areas involving the most significant use of estimates are the valuation of patient accounts receivables, accrued incentive revenue and provider compensation costs related to the MSSP, and the valuation and related impairment recognition, if any, of long-lived assets, including goodwill. These estimates are based on Management's knowledge of current events and anticipated future events. The Organization adjusts these estimates each period as more current information becomes available. The impact of any changes in estimates is included in the determination of earnings in the period in which the estimate is adjusted. Accordingly, actual results may differ materially from those estimates.

In the ordinary course of business, the Organization is subject to review by regulatory agencies concerning the accuracy of billings and sufficiency of supporting documentation for procedures performed. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, it is at least reasonably possible that the Organization's financial results will be adversely impacted by a significant amount in the near term.

Reclassifications

Certain accounts for fiscal year 2018 financial statements have been reclassified to conform to the 2019 consolidated financial statements presentation with no impact on total net assets or changes in net assets.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842),* which requires a lessee to recognize a right-of-use asset and a lease liability for operating leases, initially measured at the present value of the lease payments in its balance sheet. This standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. This guidance is effective for the Organization beginning January 1, 2021. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Organization's operating results or cash flows. The Organization is evaluating the impact of adopting ASU 2016-02 on its consolidated financial position and will base the evaluation on leases outstanding at the time of adoption.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Standards

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This new guidance is effective for transactions in which the Organization serves as a resource recipient for fiscal years beginning after December 15, 2018.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 supersedes existing revenue recognition standards with a single model unless those contracts are within the scope of other standards. The revenue recognition principle in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Companies can adopt the new standard either using the full retrospective approach, a modified retrospective approach with practical expedients, or a cumulative effect upon adoption approach.

Effective January 1, 2019, the Organization adopted ASC 606 using the full retrospective method. The Organization performed an analysis of revenue streams and transactions under ASU 2014-09. Upon adoption, the majority of what was previously classified as a provision for uncollectable accounts and presented as a reduction to patient service revenue on the statement of activities is treated as a price concession that reduces the transactions price, which is reported as patient service revenue. ASU 2014-19 also required enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The impact of adopting ASU 2014-09 was not material to the Organizations net loss or total net assets.

Adoption of Topic 606 and ASU 2018-08, impacted the Organization’s previously reported results as follows:

	As previously reported	Topic 606 Adjustments	As Adjusted
	For the Year Ended December 31, 2018		
Consolidated Statements of Activities:			
Patient service revenue	$ 55,040,533	$ (3,065,338)	$ 51,975,195
Provision for bad debts	(3,065,338)	3,065,338	-
Net patient service revenue	$ 51,975,195	$ -	$ 51,975,195
Consolidated Statements of Cash Flows:			
Provision for bad debts	$ 3,065,338	$ (3,065,338)	$ -
(Increase) decrease in operating assets: Accounts receivable - patients	$ (3,065,338)	$ 3,065,338	$ -

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, July 22, 2020. See Note 20 for relevant disclosure(s). No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

Note 3: PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2019, it was determined that pharmacy receivables were understated by $1,055,480 as of December 31, 2018 and patient pharmacy service revenue was understated by $1,055,480 for the year ended December 31, 2018. The impact of the understatement is that excess revenues over expenses and net assets without donor restrictions were understated as of December 31, 2018 by $1,055,480.

The prior period adjustment has the following effects on net assets without donor restriction and excess of revenues over expenses as of December 31, 2018:

Net assets at December 31, 2018:	
Net assets, without donor restriction, as previously stated	$ 5,839,243
Understatement of pharmacy contract revenue	1,055,480
Net assets at December 31,2018, without donor restriction, restated	$ 6,894,723
Excess of expenses over revenues as originally stated at December 31, 2018	$ (1,007,197)
Understatement of pharmacy contract revenue	1,055,480
Excess of revenues over expenses as restated at December 31, 2018	$ 48,283

Note 4: PATIENT ACCOUNTS RECEIVABLE AND PATIENT SERVICE REVENUE

The Organization's disaggregated patient accounts receivable balances by payor type as of December 31, 2019 and 2018 were as follows:

December 31,	**2019**	**%**	2018	%
Medicaid	**$ 1,456,520**	**15%**	$ 1,208,544	16%
Medicare	**5,160,886**	**52%**	1,221,716	16%
Self Pay	**1,951,537**	**20%**	1,979,885	25%
Private insurance	**1,301,286**	**13%**	3,372,257	43%
	$ 9,870,229	**100%**	$ 7,782,402	100%

Note 4: PATIENT ACCOUNTS RECEIVABLE AND PATIENT SERVICE REVENUE (Continued)

Patient service revenue disaggregated by payor type for the years ended December 31, 2019 and 2018, respectively, as follows:

December 31,	**2019**	**%**	2018	%
Medicaid	**$ 19,510,598**	**30%**	$ 22,260,283	43%
Medicare	**29,838,945**	**46%**	22,774,949	44%
3rd party insurance	**9,832,381**	**15%**	4,752,481	9%
Self pay	**5,438,172**	**9%**	2,187,482	4%
	$ 64,620,096	**100%**	**$ 51,975,195**	100%

Pharmacy patient service revenue disaggregated by payor type for the years ended December 31, 2019 and 2018, respectively, as follows:

December 31,	**2019**	**%**	2018	%
Medicaid	**$ 293,229**	**2%**	$ 181,115	1%
3rd party insurance	**11,579,002**	**79%**	9,404,188	78%
Self pay	**2,762,259**	**19%**	2,517,995	21%
	14,634,490	**100%**	12,103,298	100%
Less: Cost of goods sold	**(6,523,747)**		(5,717,737)	
	$ 8,110,743		$ 6,385,561	

Note 5: OTHER RECEIVABLES

Other receivable balances disaggregated by payor type as of December 31, 2019 and 2018 were as follows:

December 31,	**2019**	**%**	2018	%
State of Florida	**$ 7,475**	**0%**	$ 14,950	0%
Low income pool	**1,274,755**	**27%**	1,421,388	35%
Pharmacy contract	**1,559,429**	**34%**	1,694,789	43%
Various local governmental units	**110,019**	**2%**	91,533	2%
Healthy Start	**190,000**	**4%**	183,750	5%
ER Diverson	**408,333**	**9%**	-	0%
Note receivable, related party	**-**	**0%**	94,907	2%
Other	**1,097,803**	**24%**	534,508	13%
	$ 4,647,814	**100%**	$ 4,035,825	100%

Note 6: FAIR VALUE MEASUREMENTS

ASC 820, Fair Value Measurements, establishes a framework for measuring fair value. That framework 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 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets.

Level 2 Inputs other than quoted prices within Level 1 that are observable for the asset or liability either directly or indirectly.

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 used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodology used at December 31, 2019.

Insurance Company Unitized Funds - The insurance company unitized funds are priced at fair value by using quoted net asset values plus any dividends and capital gains declared. The insurance company then calculates a gross investment rate which is used to compute the unit value. The unit value is the value that the Organization can buy and sell these funds. The inputs to this valuation method are all observable. These investments are deemed to have a readily determinable fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 6: FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, the fair value hierarchy, of investments at fair value:

December 31	2019			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 2
457B Plan Assets:				
Insurance Company Unitized Funds:				
Balanced	$ 305,400	$ -	$ 305,400	$ -
Bonds	394,055	-	394,055	-
Money Market	55,572	-	55,572	-
	$ 755,027	$ -	$ 755,027	$ -

December 31	2018			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 2
457B Plan Assets:				
Insurance Company Unitized Funds:				
Balanced	$ 317,634	$ -	$ 317,634	$ -
Bonds	421,618	-	421,618	-
Money Market	54,972	-	54,972	-
	$ 794,224	$ -	$ 794,224	$ -

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value to another. In such instances, the transfer is reported at the beginning of the reporting period.

We evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. For the year ended December 31, 2019 and 2018 there were no transfers in or out of levels 1, 2, or 3.

Note 7: PROPERTY AND EQUIPMENT

On May 30, 2018, the Organization sold nine of its clinic buildings and land to HealthCare For All, LLLP. The Organization received cash of $11,400,000, and used a portion of the proceeds to repay mortgages held with CenterState Bank and Bank of America, N.A. The Organization is leasing the nine buildings (Notes 13 and 17) back from HealthCare For All, LLLP., through a sale leaseback transaction. The resulting gain related to the sale leaseback, totaling $1,332,522, is recognized as a deferred gain on sale leaseback and is included on the accompanying consolidated financial statements for the year ended December 31, 2018. The deferred gain on sale leaseback is amortized to revenue over the life of the lease.

Property and equipment consisted of the following:

December 31,	**2019**	2018
Land	**$ 2,426,538**	$ 2,426,538
Office furniture and equipment (3-7 years)	**6,066,775**	5,698,983
Medical and dental equipment (3-10 years)	**3,640,978**	3,174,287
Buildings and leasehold improvements (10-40 years)	**15,103,536**	14,640,096
Land, buildings and equipment, at cost	**27,237,827**	25,939,904
Less: accumulated depreciation	**(13,615,490)**	(11,953,432)
Land, buildings and equipment, net	**13,622,337**	13,986,472
Construction in progress	**325,444**	343,410
	$ 13,947,781	$ 14,329,882

Depreciation expense for the years ended December 31, 2019 and 2018 was $1,662,058 and $1,885,672, respectively.

Note 8: GOODWILL

In April of 2013, the Organization paid $1,000,000 to Huntingdon Healthcare, Inc., ("Huntingdon"), and entered into an agreement whereby Huntingdon would abide by certain restrictive covenants to maintain their brand name and good standing and assist in the transition of the business activity of mental health to MCR Health, Inc. At the time, the $1,000,000 was recognized as an investment as no tangible assets were purchased. The agreement had a four year term and at the end of four years, the Organization elected to purchase the assets and intellectual property of Huntingdon. The election was made in the fall of 2016 and the purchase of the assets occurred in 2017. The $1,000,000 investment was then recognized as goodwill. The purchase of the assets for $322,501 and intellectual property (software) for $390,000 was recognized as a part of property and equipment and is being amortized over their useful lives. In addition a non-compete agreement in the amount of $37,500 was recognized as well and is being amortized over five years. This amount has been included in goodwill on the accompanying consolidated statements of financial position. There was no impairment of this goodwill during the 2019 or 2018 fiscal year for Huntingdon. Effective January 1, 2018 the Organization elected to amortize goodwill.

Note 8: GOODWILL (Continued)

On October 5, 2018, the Organization purchased the business activities of Insight Provider Group, Inc. (“Insight”). Insight is a provider of behavioral health services and the purpose of the purchase was to expand the Organization’s behavioral health services. The purchase price was $1,500,000 ($500,000 paid in cash and $1,000,000 financed through a promissory note) and the entire amount has been recognized as goodwill of $1,500,000 as no tangible assets were purchased and the Organization elected to amortize goodwill and not breakout intangible assets. The Insight providers became employees of the Organization and continue to provide behavioral health services. There was no impairment of this goodwill during the 2018 or 2019 fiscal year for Insight. The operating results were in including in the consolidated statement of activities beginning October 5, 2018 through December 31, 2018 and for the year ended December 31, 2019.

On August 16, 2019, the Organization purchased the business activities of PsychCare Services PR, LLC (PsychCare). PsychCare is a provider of behavioral health services and the purpose of the purchase was to expand the Organization’s behavioral health services. The purchase price of $10,224,000 was financed through a non interest bearing promissory note which was discounted to $9,384,577. The Organization recognized the $9,384,577 as goodwill as no tangible assets were purchased and the Organization elected to amortize goodwill and not breakout intangible assets. The PsychCare providers became employees of the Organization and continue to provide behavioral health services. There was no impairment of this goodwill during the 2019 fiscal year for PsychCare. The operating results were in including in the consolidated statement of activities beginning August 16, 2019 through December 31, 2019.

In 2015, MCR Health purchased the business activities of the Jacaranda physician practice which provided primary care. The purpose was to expand the primary care services. The purchase price was $150,000 and was all recognized as goodwill. The goodwill segments are considered for impairment by management at least annually. In 2018, management determined goodwill for the Jacaranda segment had been impaired as a result of a physician retirement and the closing of that location. Patients were able to select a different physician and location; however the number of patients from the Jacaranda practice decreased approximately 42%, based on the decrease in encounters from 2017 to 2018. As a result, management estimated that 42% of the goodwill of the Jacaranda goodwill segment, which is approximately $63,000, is impaired. A loss on impairment for that amount is included on the accompanying consolidated financial statements for the year ended December 31, 2018. Effective January 1, 2018, the Organization elected to amortize goodwill. There was no impairment of this goodwill during the 2019 fiscal year.

Note 8: GOODWILL (Continued)

Goodwill consists of the following as of December 31, 2019 and 2018:

	Huntingdon Segment	Jacarranda Segment	Insight Segment	PsychCare Segment	Total
Balance as of January 1, 2018:					
Goodwill	$ 1,000,000	$ 150,000	$ -	$ -	$ 1,150,000
Non-compete agreement	37,500	-	-	-	37,500
Accumulated amortization	(5,625)	-	-	-	(5,625)
	$ 1,031,875	$ 150,000	$ -	$ -	$ 1,181,875
Goodwill acquired during the year	$ -	$ -	$ 1,500,000	$ -	$ 1,500,000
Amortization of non-compete	(7,500)	-	-	-	(7,500)
Amortization of goodwill	(111,111)	(9,666)	(37,500)	-	(158,277)
Impairment loss	-	(63,000)	-	-	(63,000)
Balance as of December 31, 2018:					
Goodwill	1,000,000	150,000	1,500,000	-	2,650,000
Non-compete agreement	37,500	-	-	-	37,500
Accumulated amortization	(124,236)	(9,666)	(37,500)	-	(171,402)
Accumulated impairment losses	-	(63,000)	-	-	(63,000)
	$ 913,264	$ 77,334	$ 1,462,500	$ -	$ 2,453,098
Goodwill acquired during the year	$ -	$ -	$ -	$9,384,577.0	$9,384,577.0
Amortization of non-compete	(7,500)				(7,500)
Amortization of goodwill	(111,111)	(9,667)	(150,000)	(351,922)	(622,700)
Balance as of December 31, 2019:					
Goodwill	1,000,000	150,000	1,500,000	9,384,577	12,034,577
Non-compete agreement	37,500				37,500
Accumulated amortization	(242,847)	(19,333)	(187,500)	(351,922)	(801,602)
Accumulated impairment losses	-	(63,000)	-		(63,000)
	$ 794,653	$ 67,667	$ 1,312,500	$ 9,032,655	$ 11,207,475

Note 9: LINES OF CREDIT

The Organization has the following lines of credit secured by the Organization's assets.

The first line of credit loan is payable to Bank of America, maximum available of $10,000,000, with interest at 5.0% per year. The agreement was amended in May 2018 and the maximum available on the line was restated to $2,000,000. The line matured on May 30, 2019, and was secured by real property. The terms require the Organization to pay $25,000 and accrued interest each month until the expiration date of May 30, 2019. The Bank of America Line of Credit had a balance of $1,550,000 as of December 31, 2018. This line of credit was paid off in full in May 2019.

Note 9: LINES OF CREDIT (Continued)

A second Synovus Bank Line of Credit was obtained in May 2018. It had a maximum available of $5,500,000 and a balance of $4,100,000 as of December 31, 2018. Effective in May 2019, the available balance was reduced to $5,000,000 per the loan agreement. The terms require the Organization to pay any accrued interest each month until the expiration date of May 31, 2020. The interest rate is *The Wall Street Journal*'s Prime Rate with interest to be effective as of the date of change as published. This rate was 5.5% as of December 31, 2018. The loan is secured by real property located at the 700 8th Avenue West location in Palmetto, FL, inventory, equipment and machinery, accounts receivable, and intangibles. This line of credit was paid off in full and the agreement was terminated in September 2019.

In September 2019, the Organization obtained a line of credit with Servis1st Bank in the amount of $8,000,000. The line accrues interest at a variable rate of interest equal to The Wall Street Journal's Prime Rate of Interest, but no less than 4.75%. At December 31, 2019 the rate of interest was 4.75%. In December 2019 the line was increased to $10,000,000. Monthly payments of interest only are due and payable beginning January 16, 2020. On June 30, 2020, a principal payment is due to reduce the principal amount to $8,000,000. The Servis1st line of credit had a balance of $9,735,173 as of December 31, 2019, of which $1,735,173 is included in the current portion on the consolidated statement of financial position. The line matures on September 16, 2021.

Note 10: NOTES PAYABLE

Notes payable at December 31, 2019 and 2018, consisted of the following (all are MCR Health, Inc. unless noted (AllCare Options, LLC)):

December 31,	**2019**	2018
AllCare Options, LLC related party note payable, paid off in September 2	**$ -**	$ 400,000
Fixed rate note payable to Huntingdon Healthcare, Inc, payable in annual installments plus accrued interest at 2.05% compounded annually; first installment amount is $60,000 due April 2018, the next three installments are $100,000. Matures April 1, 2021.	**200,000**	300,000
Fixed rate note payable to Insight Provider Group, Inc., payable in two annual installments of $250,000 beginning October 5, 2019, and 36 monthly installments of $13,888 beginning November 5, 2018.	**555,557**	972,224
Fixed rate note payable to Synovus Bank, payable in monthly installments of principal and interest of $37,767. The interest rate was 4.49% and the loan was paid off in September 2019.	**-**	5,849,363

Note 10: NOTES PAYABLE (Continued)

December 31,	**2019**	2018
Fixed rate note payable to Synovus Bank, payable in monthly installments of principal and interest of $29,776.70. The interest rate was 4.49% and the loan was paid off in September 2019.	**-**	842,787
Fixed rate note payable to Servis1st Bank, payable in monthly installments of principal and interest of $36,740. The interest rate is 4.45%, the loan matures on September 16, 2024 and is secured by real estate.	**8,708,036**	-
Fixed rate note payable to Thomas A Walsh, payable in 48 monthly installments of $213,000 beginning on September 16, 2019.	**8,632,616**	
Total	**18,096,209**	8,364,374
Less: current maturities	**(3,073,975)**	(1,527,191)
Total long-term debt	**$ 15,022,234**	$ 6,837,183

Maturities of notes payable are as follows:

For the year ending December 31,	Amount
2020	$ 3,073,975
2021	2,913,674
2022	2,796,501
2023	2,067,004
2024	7,245,055
Total	$ 18,096,209

The Organization is subject to certain financial and nonfinancial covenants and restrictions related to its Servis1st debt, including line of credit, which require, among other things, a minimum debt service coverage ratio and audited financial statements. There are also limits to the amount of additional indebtedness that can be incurred. The Organization was not in compliance with all covenants, and received a waiver on June 30, 2020 from Servis1st to waive the covenant defaults.

Note 11: DEFERRED LOAN COSTS

Debt issuance costs consisted of the following at December 31, 2019 and 2018:

	2019		2018	
Notes payable:	**Principal**	**Debt Issuance Costs**	Principal	Debt Issuance Costs
Synovus line of credit	$ -	$ -	$ 4,100,000	$ 38,510
Synovus note payable	-	-	5,849,363	120,105
Servis1st line of credit	**9,735,173**	**18,405**	-	-
Servis1st note payable	**8,708,036**	**93,252**	-	-
Synovus note payable	-	-	842,787	17,080
Huntingdon note payable	**200,000**	-	300,000	8,974
	$ 18,643,209	**$ 111,657**	$ 11,092,150	$ 184,669

The Organization has incurred certain costs associated with obtaining financing that are deferred and amortized over the life of the loan. These costs are netted against the notes payable liability in the consolidated statements of financial position and shown in conjunction with the long-term portion of the notes payable. Associated interest expense for the years ended December 31, 2019 and 2018 was $190,788 and $520,224, respectively.

Note 12: LIQUIDITY

The Organization has $15,372,135 of financial assets available within one year of the balance sheet date consisting of cash and cash equivalents totaling $361,790, inventory of $492,302 and accounts receivable of $14,518,043. None of the financial assets are subject to donor or other contractual restrictions or bank covenants that make them unavailable for general expenditure for operations of the Organization within one year of the balance sheet date. The Organization also has a line of credit in the amount of $10 million, of which $264,827 is available as of December 31, 2019 to draw from in the event of an unanticipated liquidity need.

The Organization's cash flows are driven primarily by patient encounters which have generally been trending upwards since 2015 and typically leads to increased billings and improved cash flows. As part of the Organization's liquidity management, it has a policy to structure its liquid financial assets to be available as its general expenditures, liabilities and other obligations come due by drawing upon its available funds from various Federal and State grants and availability on its line of credit. Additionally, cash flow projections are revised monthly to forecast the use of funding sources over the next twelve months to cover day-to-day operations. On January 2, 2020, the Organization received a renewed HRSA grant in the amount of $9,484,296, of which $3,951,790 became readily available to fund operations.

Note 13: 340B DRUG PRICING PROGRAM

The Organization participates in the 340B Drug Pricing Program (340B Program), enabling the Organization to receive discounted prices from drug manufacturers on pharmaceutical purchases. The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Organization operates an internal pharmacy and has partnered with a network of participating local pharmacies that dispense the pharmaceuticals to its patients under a contractual arrangement with the Organization. The Organization nets the 340B expenses against the pharmacy contract revenue in the Statement of Activities.

This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 14: LEASES

Operating Leases

The Organization leases facilities and equipment with expiration dates exceeding one year. The Organization also leases facilities equipment under short-term operating leases. Lease expense for the years ended December 31, 2019 and 2018 was $3,293,052 and $1,859,487, respectively.

Future minimum lease payments applicable to these leases are as follows:

For the year ending December 31,		Amount
2020	$	3,002,281
2021		2,287,505
2022		1,907,985
2023		1,547,165
2024 and thereafter		14,024,044
Total	$	22,768,980

Lease Revenues

The Organization sublets office space with an expiration date of July 31, 2023 and leases out a portion of their headquarters building with an expiration date of September 30, 2021. Lease revenues for the years ended December 31, 2019 and 2018 were $263,808 and $220,581, respectively.

Note 14: LEASES (Continued)

Lease Revenues (Continued)

Future minimum rental revenues applicable to these leases are as follows:

For the year ending December 31,		Amount
2020	$	265,531
2021		197,800
2022		60,923
2023		36,426
2024 and thereafter		-
Total	$	560,680

Capital Lease

The Organization leases a medical van under a capital lease expiring in 2022. The assets and liabilities under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are amortized over their related lease term or their estimated productive life, whichever is less. Amortization of these assets is included in depreciation and amortization expense.

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

		Amount
Medical van	$	273,460
Less: accumulated amortization		(21,035)
	$	252,425

Minimum future lease payments are as follows:

For the year ending December 31,		Amount
2020	$	80,440
2021		84,079
2022		43,456
2023		-
2024 and thereafter		-
Total	$	207,975

The interest rate utilized for the capitalized lease is 4.45% and is imputed based on the lower of the Organization's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return. Interest expense of $2,531 was included in the accompanying statement of activities.

Note 15: RETIREMENT PLAN

The Organization sponsors a profit sharing plan covering all employees meeting certain eligibility requirements. Contributions to the plan are discretionary and are based upon a percentage of compensation. The Organization shall determine, at its sole discretion, the annual contributions as determined by the Board of Directors. There were no contributions to the plan for the years ended December 31, 2019 and 2018.

Note 16: CONCENTRATIONS

The Organization maintains its bank accounts at various financial institutions located in Manatee County, Florida. Accounts at banking institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 and from time to time various bank accounts may exceed these limits. At December 31, 2019 and 2018, MCR Health had $532,351 and $263,229, respectively, in bank accounts over this limit.

The Organization purchased approximately 78% and 85% of its pharmaceutical supplies from one major vendor during 2019 and 2018, respectively.

Note 17: CONTINGENCIES

Laws and Regulations

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse.

Violations of these laws and regulations could result in exclusion from government healthcare program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Organization is subject to similar regulatory reviews, management believes the outcome of any such regulatory review will not have a material adverse effect on the Organization's financial position.

In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers.

Note 17: CONTINGENCIES (Continued)

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement a Recovery Audit Contractor (RAC) program on a permanent and nationwide basis no later than 2010. The program uses RACs to search for potentially improper Medicare payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year ago but not longer than three years ago. Once a RAC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare/Medicaid reimbursement in an amount estimated to equal the overpayment.

The Organization will deduct from revenue any amounts assessed under the RAC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. RAC assessments are possible; however, the outcome of such assessments is unknown and cannot be reasonably estimated.

Economic Conditions

Current local and national economic conditions have created challenges for not-for-profit healthcare organizations including rising costs, and declines in contributions. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Organization’s future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in future adjustments to the allowances for accounts and contributions receivable that could negatively impact the Organization. The consolidated financial statements have been prepared using values and information currently available to the Organization.

Risk Management

Effective December 1, 1993, The U.S. Department of Health and Human Services deemed the Organization and its practicing providers covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Organization's claim experience, no such accrual has been made. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

Note 18: RELATED PARTY TRANSACTIONS AND BALANCES

Quest Diagnostics

During June 2015, MCR Health sold a 20% interest of AllCare, a previously wholly owned subsidiary, to Quest Diagnostics ("Quest") for $1,760,000 in cash. Included in the sale was a loan to AllCare from the buyer in the form of a $1,000,000, 6.00% note payable. Required annual payments consist of principal, in the lessor amount of (i) $200,000 or (ii) 10% of net cash available for distribution on each anniversary of the note, plus annual interest.

In September 2019, MCR Health repurchased the 20% interest of AllCare from Quest for $1,774,245, of which $201,924 was applied to pay off the loan to AllCare from Quest, and the balance of $1,572,321 was paid to Quest as full payment of the balance of Quest's initial capital contribution to MCR Health. The carrying value of the 20% non-controlling interest purchased as of September 18, 2019 was $(1,376,909). This resulted in a realized loss on the purchase of the 20% interest which is recognized in net assets on MCR Health in the amount of $2,949,321. The impact of the purchase of the 20% interest is a decrease in consolidated net assets in the amount of $1,572,323 on the consolidated statement of activity.

The balance of the AllCare loan from Quest was $0 and $400,000 as of December 31, 2019 and 2018, respectively, and is included in the notes payable balances on the accompanying consolidated statements of financial position.

HealthCare For All

On May 17, 2018, MCR Health, Inc. purchased a 1.25% share in HealthCare For All, LLLP for $107,338. This minority share is included as a noncurrent investment on the accompanying consolidated statements of financial position. On May 30, 2018, HealthCare For All, LLLP purchased nine properties from MCR Health, resulting in a deferred gain on the sale leaseback transaction of $1,322,522. HealthCare For All, LLLP, has current lease agreements with MCR Health through 2033. The minimum future lease payments on those properties is $17,814,562 through 2033. These lease agreements are included in Note 13. The current CEO of the Organization is also an investor in HealthCare For All, LLLP at 0.25% ownership. The former CEO who retired on December 31, 2017 is also an investor in HealthCare For All, LLLP with 0.50% ownership. The former CEO has a three year, $250,000 per year consulting agreement with the MCR Health which commenced on January 1, 2018 to provide consulting services as an independent contractor, in order to facilitate the leadership transition.

HALOS Systems LLC

During 2015, AllCare entered into a $250,000, 18 month, convertible promissory note bearing interest at 12%. The note was convertible into a 25% membership interest in HALOS Systems LLC, ("HALOS"), a proprietary health care analytics and logistics software company. AllCare had the option to purchase a 25% portion of HALOS for $250,000 until June 6, 2017, regardless of whether repayment of the note receivable had occurred; however this option was not exercised. The note is secured by a pledge of all the intellectual property associated with the HALOS system together with a pledge of all membership interests in HALOS.

Note 18: RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

On May 18, 2018 a forbearance agreement was entered into due to the loan being in default under the loan agreement and note terms, which included a payment schedule and any remaining balance and accrued interest due on November 1, 2018. On November 21, 2018, the Organization entered into an addendum to the original forbearance agreement (dated May 18, 2018), whereby payments of principal and interest payments of $20,000 would be due the 1st of each month beginning September 1, 2018 through April 1, 2019 with any remaining outstanding balances of principal and interest due on May 1, 2019. In 2019, $31,391 was written off and included in miscellaneous expense. The balance of $63,516 was paid in full. The balance of this related party note receivable was $0 and $94,907 as of December 31, 2019 and 2018, respectively, and is included in the other receivables balances on the accompanying consolidated statements of financial position.

The owner of HALOS performed certain consulting services for AllCare in return for $10,000 per month through April 30, 2018. The related consulting expenses to HALOS for the year ended December 31 2018 was $40,000.

MCR Foundation

On December 18, 2019, the Organization entered into an $800,000 promissory note with Manatee County Rural Health Services Foundation, Inc., a related party. The note accrued interest at a rate of 2.4% and was due with all principal and interest on February 29, 2020. The balance of the note at December 31, 2019 was $800,867. The note was paid in full in February 2020.

Note 19: NON-CONTROLLING INTEREST

The financial information of the Organization's partly-owned subsidiary with material non-controlling interest ("NCI") is provided in the schedule below. Transfers to (from) the NCI are shown for the corresponding interest in expenses over revenue from December 31, 2018 to December 31, 2019.

	Total	Controlling Interest	Noncontrolling Interest
Balance January 1, 2018	$ 6,846,440	$ 7,788,058	$ (941,618)
Excess (expenses) over revenue	48,283	308,976	(260,693)
Balance December 31, 2018	$ 6,894,723	$ 8,097,034	$ (1,202,311)
Purchase of noncontrolling interest	(1,572,323)	(2,949,231)	1,376,908
Excess (expenses) over revenue	(2,475,381)	(2,300,784)	(174,597)
Balance December 31, 2019	$ 2,847,019	$ 2,847,019	$ -

Note 20: SUBSEQUENT EVENTS

On March 2, 2020, MCR Health opened a new cardiology practice, AMA Heart and Vascular, and a new pediatric practice, Venice Pediatrics.

Note 20: SUBSEQUENT EVENTS (Continued)

On February 18, 2020, MCR Health entered into a partnership, 101 Riverfront, LLC. MCR Health has a 33.334% interest in the partnership. At the time the partnership was formed it was estimated that MCR Health's capital contribution would be approximately $505,000, which represents 33.334% of the amount required to investigate and perform due diligence regarding the purchase of property and to acquire the property in the auction process. Through May 31, 2020, MCR Health has contributed $548,455.

In June 2020, MCR Health entered into a commitment with Servis1st Bank to increase their existing line of credit to $10,000,000 through December 31, 2020 at which time MCR Health is required to reduce the outstanding principal balance to an amount not greater than $8,000,000. The loan modification is expected to be executed on July 22, 2020.

In May 2020, MCR Health entered into an agreement with a construction contractor for the MCR Colonial Village project. The construction cost is estimated at $656,254.

COVID-19

In December 2019, a novel strain of coronavirus, SARS-CoV-2, was reported to have surfaced in Wuhan, China. Since then, SARS-CoV-2, known as COVID-19, has spread to most countries, and all 50 states within the United States. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Further, the President of the United States declared the COVID-19 pandemic a national emergency, invoking powers under the Stafford Act, the legislation that directs federal emergency disaster response. The Governor of Florida declared a public health emergency in Florida due to COVID-19 and imposed "shelter-in-place" orders, quarantines, executive orders and similar government orders and restrictions for Florida residents to control the spread of COVID-19. These orders have resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions and cancellation of events, among other effects, thereby negatively impacting an unknown percentage of our patients, health care network partners, employees and offices, among others.

The COVID-19 outbreak has negatively impacted, and may continue to negatively impact, the Organization's operations, net patient revenues, expenses, capital expenditures, liquidity, and overall financial condition by disrupting or delaying provision of services to patients in the Organization's offices throughout Florida. The Organization initially implemented a reduction in workforce as a result of COVID-19, but has begun to backfill positions. In addition, the Organization has implemented work-from-home policies for certain employees, which may impact productivity and disrupt business operations. Renewed shelter-in-place, quarantine, or executive order related measures to combat the spread of COVID-19 for an extended period of time, or the perceived need by our patients and prospective patients to continue such practices into the future to avoid infection, would harm results of operations and net revenue, our business and financial condition. These measures may also result in delays in openings of new medical offices and clinics, entry into new markets and expansion in existing markets.

Note 20: SUBSEQUENT EVENTS (Continued)

COVID-19 (Continued)

However, the Organization has received federal stimulus and grants related to the COVID-19 pandemic. These funds are intended to maintain the capacity of community health centers in the event of lost revenue, as well as to expand the capacity of these centers to prevent, prepare, and respond to COVID-19 in the local communities. The Organization received $2,609,982 in federal stimulus funds from the Public Health and Social Services Emergency Fund under multiple federal grants. The Organization was awarded $1,927,309 for expanded capacity for coronavirus testing; $2,794,715 from the Coronavirus Aid, Relief and Economic Security (CARES) Act; $163,985 from the Coronavirus Preparedness and Response Supplemental Appropriations Act; and $81,250 from the Ryan White HIV/AIDS Treatment Extension Act. The Organization also received $6,210,397 in advance Medicare payments.

While the economic impact brought by and the duration of COVID-19 is impossible to assess or predict, the widespread pandemic has resulted in, and may continue to result in, significant disruption of global financial markets and, thereby potentially reducing the Organization’s ability to access capital, which could (in the future) negatively affect our liquidity. In addition, a recession or prolonged economic contractions resulting from the spread of COVID-19 could materially affect operations, including requiring us to consider potential layoffs or office closures. The COVID-19 pandemic has also resulted in a significant increase in unemployment in the United States which may continue even after the pandemic. The occurrence of any such events may lead to reduced disposable income for our patients, cutbacks in employer benefits programs and reduced size of workforces, which could reduce revenue and in-clinic and onsite clinic utilization and harm the Organization’s business, financial condition and results of operations.

SUPPLEMENTARY INFORMATION

MCR Health, Inc. and AllCare Options, LLC
Consolidating Schedule of Financial Position

December 31, 2019	MCR Health	AllCare	Elimination & Consolidation Entries	Consolidated	2018 As Restated
Assets					
Current assets					
Cash and cash equivalents	$ 267,071	$ 94,719	$ -	$ 361,790	$ 365,141
Patient receivables	9,870,229	-	-	9,870,229	7,782,402
Other receivables	4,647,814	-	-	4,647,814	4,035,825
Prepaid expenses	393,066	10,990	-	404,056	644,513
Inventory	492,302	-	-	492,302	456,855
Total current assets	15,670,482	105,709	-	15,776,191	13,284,736
Property and equipment					
Land, buildings and equipment at cost, less accumulated depreciation of $13,615,490 and $12,049,218	13,622,337	-	-	13,622,337	13,986,472
Construction in progress	325,444	-	-	325,444	343,410
Total property and equipment	13,947,781	-	-	13,947,781	14,329,882
Other assets					
Deposits	34,905	-	-	34,905	11,564
Restricted investments held for benefit of 457B employee benefit plan	755,027	-	-	755,027	- 794,224
Due from ACO	2,671,836	-	(2,671,836)	-	-
Investments	(2,555,087)	-	2,662,425	107,338	107,339
Goodwill	11,207,476	-	-	11,207,476	2,453,098
Total other assets	12,114,157	-	(9,411)	12,104,746	3,366,225
Total assets	$ 41,732,420	$ 105,709	$ (9,411)	$ 41,828,718	$ 30,980,843
Liabilities and Net Assets					
Current liabilties					
Accounts payable	$ 4,209,168	$ 26,441	$ -	$ 4,235,609	$ 4,855,912
Accrued expenses	2,960,654	-	-	2,960,654	2,789,865
Bank overdraft	519,575	69,857	-	589,432	72,833
Insurance overpayments	526,957	-	-	526,957	466,785
Due to MCR Health	-	2,671,836	(2,671,836)	-	-
Deferred revenue	989	-	-	989	3,497
Current obligations under capital leases	80,440	-	-	80,440	-
Lines of credit	1,735,173	-	-	1,735,173	1,550,000
Short term note payable	800,867	-	-	800,867	-
Notes payable, current portion	3,073,975	-	-	3,073,975	1,527,191
Total current liabilities	13,907,798	2,768,134	(2,671,836)	14,004,096	11,266,083
Long-term liabilities					
Obligations under capital leases, less current portion	127,535	-	-	127,535	-
Lines of credit	8,000,000	-	-	8,000,000	4,100,000
Notes payable, less current portion and deferred loan costs (See Notes 9 and 10)	14,910,577	- -	- -	- 14,910,577	6,652,514
Deferred gain on sale leaseback	1,184,464	-	-	1,184,464	1,273,299
457B salary deferrals	755,027	-	-	755,027	794,224
Total liabilities	38,885,401	2,768,134	(2,671,836)	38,981,699	24,086,120
Net assets, without donor restrictions					
MCR Health	2,847,019	-	-	2,847,019	8,097,034
Members (deficit)	-	(2,662,425)	2,662,425	-	-
Noncontrolling interests in AllCare	-	-	-	-	(1,202,311)
Total net assets without donor restriction	2,847,019	(2,662,425)	2,662,425	2,847,019	6,894,723
Total liabilities and net assets	$ 41,732,420	$ 105,709	$ (9,411)	$ 41,828,718	$ 30,980,843

MCR Health, Inc. and AllCare Options, LLC
Consolidating Schedule of Activities

For the year ended December 31, 2019	MCR Health	AllCare	Elimination & Consolidation Entries	Consolidated	2018 As Restated
Changes in Net Assets Without Donor Restrictions:					
Unrestricted Revenues, Gains, and Other Support					
Patient service revenue	$ 64,620,096	$ -	$ -	$ 64,620,096	$ 51,975,195
Pharmacy patient service revenue, net of cost of goods sold	8,110,743	-	-	8,110,743	6,385,561
Federal agencies	10,906,653	-	-	10,906,653	10,944,361
Capitation income	7,369,724	-	-	7,369,724	7,717,705
Low income pool	2,497,528	-	-	2,497,528	3,809,842
Pharmacy contract revenue	6,682,632	-	-	6,682,632	4,378,218
Financial assistance - other	2,509,229	-	-	2,509,229	2,624,561
Incentive income	393,820	1,820,722	-	2,214,542	657,291
Donations	159,741	-	-	159,741	139,577
Amortization of gain on sale leaseback	88,835	-	-	88,835	59,223
Miscellaneous	448,324	6,571	-	454,895	321,057
Total revenues, gains, and other support	103,787,325	1,827,293	-	105,614,618	89,012,591
Expenses and Losses					
Program services	81,251,931	-	-	81,251,931	67,811,459
Support services	24,793,436	2,044,632	-	26,838,068	21,152,849
ACO loss	42,742	-	(42,742)	-	-
Total expenses and losses	106,088,109	2,044,632	(42,742)	108,089,999	88,964,308
Excess Expenses Over Revenues and Changes in Net Assets Without Donor Restrictions, before controlling interests	(2,300,784)	-	-	(2,300,784)	308,976
Non-Controlling Interest of Subsidiary's loss	-	(217,339)	42,742	(174,597)	(260,693)
Excess Expenses Over Revenues and Changes in Net Assets Without Donor Restrictions, after controlling interests	(2,300,784)	(217,339)	42,742	(2,475,381)	48,283

MCR Health, Inc. and AllCare Options, LLC
Consolidating Schedule of Cash Flows

For the year ended December 31, 2019	MCR Health	AllCare	Elimination & Consolidation Entries	Consolidated	2018 As Restated
Cash Flows From Operating Activities:					
Change in net assets	$ (2,300,784)	$ (217,339)	$ 42,742	$ (2,475,381)	$ 48,283
Adjustments to reconcile change in net assets					
to net cash provided by (used in) operating activities:					
Depreciation	1,662,058	-	-	1,662,058	1,822,988
Amortization	630,199	-	-	630,199	165,777
Amortization of gain on sale leaseback	(88,835)	-	-	(88,835)	(59,223)
Loss on impairment	-	-	-	-	63,000
Loan cost amortized to interest expense	190,788	-	-	190,788	520,224
Provision for bad debts	-	31,391	-	31,391	-
Gain on sale of property	-	-	-	-	-
(Increase) decrease in operating assets:					-
Accounts receivable - patients	(2,087,827)	-	-	(2,087,827)	872,536
Accounts receivable - other	(706,896)	-		(706,896)	(436,931)
Prepaid expenses and deposits	215,137	1,979	-	217,116	(243,657)
Interest receivable	-	-	-	-	11,482
Notes receivable	-	-	-	-	-
Inventory	(35,447)	-	-	(35,447)	(108,647)
Increase (decrease) in operating assets:					-
Accounts payable	(580,610)	(39,693)	-	(620,303)	(611,634)
Due from/to MCR Health	(507,213)	507,213	-	-	-
Accrued expenses	189,513	(18,723)	-	170,790	(94,444)
Insurance overpayments	60,172	-	-	60,172	154,167
Deferred revenue	(2,508)	-	-	(2,508)	(6,811)
457B salary deferrals	39,197	-	-	39,197	149,602
Net cash (used in) provided by operating activities	(3,323,056)	264,828	42,742	(3,015,486)	2,246,712
Cash Flows From Investing Activities:					
Decrease in AllCare investment	42,742	-	(42,742)	-	-
Purchase of investment	(1,572,321)	-	-	(1,572,321)	(107,339)
Investements in benefits for 457B plan	(39,197)	-	-	(39,197)	(149,602)
Asset (goodwill) acquisition in business combination	-	-	-	-	(500,000)
Notes receivable	-	63,516	-	63,516	128,436
Proceeds from sale of property in sale leaseback transaction	-	-	-	-	11,410,000
Purchase of property and equipment	(1,006,496)	-	-	(1,006,496)	(338,737)
Net cash (used in) provided by investing activities	(2,575,272)	63,516	(42,742)	(2,554,498)	10,442,758
Cash Flows From Financing Activities:					
Proceeds from notes payable	9,600,867	-	-	9,600,867	6,940,500
Payments on notes payable and capital lease	(8,118,227)	(400,000)	-	(8,518,227)	(14,558,398)
Net proceeds (payments) on lines of credits	4,085,173	-	-	4,085,173	(4,250,000)
Bank overdraft	446,741	69,857	-	516,598	(698,684)
Loan costs on new loans	(117,776)	-	-	(117,776)	(215,841)
Net cash provided by (used in) financing activities	5,896,778	(330,143)	-	5,566,635	(12,782,423)
Net Change in Cash and Cash Equivalents	(1,550)	(1,799)	-	(3,349)	(92,953)
Beginning Cash and Cash Equivalents	268,621	96,518	-	365,139	458,094
Ending Cash and Cash Equivalents	$ 267,071	$ 94,719	$ -	$ 361,790	$ 365,141
Supplemental Disclosure of Cash Flow Information:					
Assets purchased under capital lease	$ 273,460	$ -	$ -	$ 273,460	$ -
Acquisition of assets (goodwill) and related note payable	$ 9,384,577	$ -	$ -	$ 9,384,577	$ 1,000,000
Interest paid	$ 1,063,624	$ 15,820	$ -	$ 1,079,444	$ 1,397,939

MCR Health, Inc.
Schedule of Revenue

For the year ended December 31, 2019

Source of Revenue	Program or Contract Title	Amount
U.S. Department of Health and Human Services	Bureau of Health Care and Delivery Assistance	$ 9,969,156
U.S. Department of Health and Human Services	Ryan White Title III Early Intervention Services	540,000
U.S. Department of Health and Human Services	Hurricane Grant	139,772
State of Florida	ER Diverson	408,333
State of Florida	EMR Incentives	997,280
Various Grants	Multiple	752,470
Hillsborough County, Florida	Ryan White Title II Case Management	257,725
Florida Department of Health	Lab Reimbursement	82,283
	Low Income Pool	2,497,528
Healthy Start	Case Management	227,500
Manatee County Board of County Commissioners	Primary Care	41,363
Patients and Insurance Companies	Patient fees	96,201,111
Banks	Interest	254
Various	Other income	271,560
Total Revenue		$ 112,386,335

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

To the Board of Directors
MCR Health, Inc.
Palmetto, Florida

To the Board Members of
AllCare Options, LLC
Palmetto, Florida

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of MCR Health, Inc. (a nonprofit organization) and AllCare Options, LLC (an affordable care act organization), collectively the "Organization", which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, respectively, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 22, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. We did identify certain deficiencies in internal control, as described in the accompanying schedule of findings and questioned costs as items 2019-01 and 2019-02 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

MCR Health's Response to Findings

MCR Health's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. MCR Health's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS AND INGRAM, LLC

Bradenton, Florida
July 22, 2020

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To The Board of Directors
MCR Health, Inc.
Palmetto, Florida

Report on Compliance for Each Major Federal Program

We have audited MCR Health, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of MCR Health, Inc.'s major federal programs for the year ended December 31, 2019. MCR Health, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of MCR Health, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MCR Health, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of MCR Health, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, MCR Health, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of MCR Health, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MCR Health, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MCR Health, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal controls over compliance that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C

CARR, RIGGS & INGRAM, LLC

Bradenton, Florida
July 22, 2020

December 31, 2019

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures	Transfers to Subrecipients
FEDERAL FINANCIAL AWARDS				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Health Center Program Cluster	93.224	N/A	$ 9,441,129	$ -
18CARE Grant to provide Capital Assistance for Hurricane Response and Recovery Efforts	93.224	N/A	139,772	
Substance Use Disorder and Mental Health Services	93.527	N/A	129,500	
Integrated Behavioral Health Services	93.527	N/A	167,000	
Health Center Quality Improvement	93.527	N/A	231,525	
Total Health Center Programs Cluster			10,108,926	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	540,000	-
				-
Passed through the Florida Department of Health				
HIV CARE Formula Grants	93.917	PSB71	198,718	-
Total Florida Department of Health passed through			198,718	-
Passed through the Healthy Start Coalition of Manatee County, Inc.				
Medical Assistance Programs (Medicaid Cluster)	93.778	RHS1415MEDB	40,000	
Medical Assistance Programs (Medicaid Cluster)	93.778	MCRH19-1231MED	187,500	-
Total Healthy Start Coalition passed through			227,500	-
Total Department of Health and Human Services			11,075,144	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT`				
Passed through the Florida Department of Health				
Housing Opportunities for Persons with AIDS	14.241	HB356	20,891	
Housing Opportunities for Persons with AIDS	14.241	HB379	20,745	-
Total Department of Housing and Urban Development			41,636	-
TOTAL FEDERAL FINANCIAL AWARDS			$ 11,116,780	$ -

See notes to schedule of expenditures of federal awards.

For the year ended December 31, 2019

1. Basis of Presentation

The accounting policies and presentation of the Single Audit Report of MCR Health, Inc. have been designed to conform to generally accepted accounting principles, including the reporting and compliance requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The amounts reported on the schedule have been reconciled to and are in material agreement with amounts recorded in the Organization's accounting records from which the basic financial statements have been reported.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Organization has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

The Organization did not expend federal awards in the form of loans or loan guarantees.

For the year ended December 31, 2019

Part I – Summary of Auditors' Results

Basic Financial Statement Section	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(es) identified?	Yes
Noncompliance material to financial statements noted?	None Noted
Federal Awards	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(es) identified?	None Noted
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	None Noted

Identification of major program:

CFDA Number	Name of Program
93.224/93.527	Health Center Program Cluster

Dollar threshold used to distinguish between Type A and Type B Federal programs:	$750,000
Auditee qualified as low-risk auditee	No

Part II – Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements and abuse related to the financial statements for which *Government Auditing Standards* requires reporting.

Part II – Schedule of Financial Statement Findings (Continued)

2019-01 Accounts Receivable/Revenue – ER Diversion Grant – Significant Deficiency

Condition/Criteria: Generally accepted accounting principles require that this revenue stream be recognized when the conditions have been met and the revenue is earned. The grant was originally recorded on a straight line basis beginning July 1, 2019. However the contract was not effective until November 1, 2019 and the conditions were not met nor the revenue earned under a straight line methodology.

Effect: Accounts receivable and revenue were overstated as of December 31, 2019.

Cause: The accounting department was under the understanding that the contract was effective as of July 1, 2019 and were accruing the amount of revenue estimated to be earned based on the information they had. However, they had not received the contract.

Auditor Recommendation: CRI recommends that the appropriate accounting personal receive contracts/agreements, etc. to review and ensure that all transactions impacting the Organization from a financial perspective are properly accounted for.

Planned Corrective Actions: No contract revenue will be recorded until supporting documentation is provided to the Finance Department. Monthly grant meetings will also be scheduled with the finance and grant departments to improve communication.

Part II – Schedule of Financial Statement Findings (Continued)

2019-02 Accounts Receivable/Revenue – Pharmacy – Significant Deficiency

Condition/Criteria: In prior years, policies and procedures were not in place to ensure that all pharmacy related accounts receivable and revenue were properly recorded. In addition, there was not consistent follow up on expected payments. In 2019, the Organization implemented and updated the policies and procedures relating to pharmacy accounts receivable and revenue.

Effect: The implementation of the new policies resulted in collections of amounts due from previous years that had not been accrued.

Cause: The process of implementing the new policies and following up of payments not collected from previous years was to receive payments relating those prior years, which resulted in the need for a prior period adjustment.

Auditor Recommendation: CRI recommends that management consider the need for prior period adjustment when amounts are identified that relate to prior years and were not previously accrued.

Planned Corrective Actions: MCR Health will consider the need for prior period adjustments when amounts are identified that relate to prior periods, and will seek guidance from our auditors for situations where the appropriate treatment is uncertain. A Pharmacy Financial Analyst position was created to assist in maintaining the record keeping for our pharmacy department. Processes, including the creation of this position, has been in place since fall of 2019 to ensure that pharmacy cash receipts are recorded and tracked properly.

Part III – Schedule of Findings and Questioned Costs – Federal Programs

None

Part IV – Other Matters

None.

Part V – Prior Year Findings and Questioned Costs

2018-001 Financial Close and Reconciliation of Asset, Liability and Net Asset Accounts – Material Weakness. Repeat Finding, 2017-001.

Condition/Criteria: The financial close of the monthly and annual financials require a process to be in place in which the asset, liability and equity accounts and other related accounts are reconciled to their detail sub-ledgers to ensure the information is properly recorded and cut-off has been appropriately applied and that all balances are in accordance with generally accepted accounting principles.

Auditor Recommendation: CRI recommends including in the monthly closing process the reconciliation of the asset, liability and equity accounts to their detail sub-ledger and the reconciliation has evidence of the review and approval. It is possible some accounts could be reconciled quarterly or annually only. In addition, management should consider adding the appropriate staff in order to perform these procedures, throughout the year.

Current Status: No similar findings were identified in the current audit.

2018-002 Patient Service Receivable, Allowances and Revenue – Material Weakness.

Condition/Criteria: Processes (internal controls) are not in place to ensure that the patient service receivables, allowances and revenues are recorded in accordance with generally accepted accounting principles.

Auditor Recommendation: CRI recommends that at least two employees obtain additional training with the patient service software. Procedures should be put in place to ensure that the patient service accounts receivables are stated at year end and that allowance for contractuals and bad debts are properly stated as of year-end. In addition, we recommend a review and approval procedure be put in place to ensure the appropriate amounts are posted to the general ledger.

Current Status: No similar findings were identified in the current audit

Part V – Prior Year Findings and Questioned Costs - Continued

2018-003 Journal Entry Approval – Material Weakness. Repeat Finding 2017-001

Condition/Criteria: Internal controls should be in process to ensure that all accounts/amounts are in accordance with generally accepted accounting principles. In addition 2 CFR 510(b) requires that an Organization prepare a schedule of expenditures of Federal awards for the period covered by the Organization's financial statements. The schedule of expenditures of Federal awards has the potential to be impacted by the journal entries.

Auditor Recommendation: CRI recommends that internal procedures be put in place which evidence the review and approval of the journal entries posted to the general ledger during the year.

Current Status: No similar findings were identified in the current audit

2018-004 CFDA Number 93.224 Health Center Program Cluster – Significant Deficiency

Criteria: Per 2 CFR 200.303, internal control over compliance requirements for Federal awards should be designed and implemented to ensure proper recording, reporting, and other safeguards are in place. In designing our testing for internal controls around Federal awards, it was noted there was no evidence of controls in place at MCR Health for the review of journal entries that charge expenses to the grant.

Condition: There is not a procedure in place to provide evidence of review and approval by an appropriate person before the journal entry is recorded. We understand there is an informal process that is not documented. Further, we do understand that the individual expenditures and payroll charged to the grant were reviewed when expensed for MCR Health. However, MCR Health then makes a journal entry to move expenses to the grant fund. These are the journal entries with no evidence of review and approval.

Auditor Recommendation: A procedure for evidence of review and approval of journal entries should be implemented.

Current Status: No similar findings were identified in the current audit

MCR HEALTH

June 25, 2020

Lorri Kidder, CPA
Partner
Carr, Riggs & Ingram, LLC
1001 3rd Avenue West, Ste 500
Bradenton, FL 34205

Dear Ms. Kidder,
The following are management responses to the internal control findings:

2019-01 Accounts Receivable/Revenue – ER Diversion Grant – Significant Deficiency

Agree with finding. MCR Health will not record any contractual revenues without first having appropriate supporting documentation and will not rely on the verbal assertions of management in the future. Finance & Budget Manager or Senior Accountant will coordinate monthly meetings with the Grants & Special Programs Manager for greater communication between the Grants & Finance department. These meetings will be initiated beginning July 2020.

2019-02 Accounts Receivable/Revenue – Pharmacy – Significant Deficiency

Agree with finding. MCR Health will consider the need for prior period adjustments when amounts are identified that relate to prior periods, and will seek guidance from our auditors for situations where the appropriate treatment is uncertain. A Pharmacy Financial Analyst position was created to assist in maintaining the record keeping for our pharmacy department. Processes, including the creation of this position, has been in place since Fall of 2019 to ensure that pharmacy cash receipts are recorded and tracked properly.

If anything needs to be addressed, please do not hesitate to give me a call at # 941-776-4008 x306.

Sincerely,

David Scharoun, CFO
700 8th Ave. West, Suite # 101
Palmetto, FL 34221