MED CENTRO, INC.

FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITORS' REPORT

AND SCHEDULES AND REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND THE UNIFORM GUIDANCE

DECEMBER 31, 2019

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Rodríguez, Rivera & Toro P.S.C.

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Med Centro, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **Med Centro, Inc. ("Med Centro"),** a nonprofit organization, which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Med Centro, Inc.** as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in **Note 2** to the financial statements, in 2019, **Med Centro** adopted the provisions of Accounting Standards Updates ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*; ASU No. 2016-15 *Statement of Cash Flows (Topic 230):Classification of Certain Cash Receipts and Cash Payments;* ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*; and ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2020 on our consideration of **Med Centro'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 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 **Med Centro's** internal control over financial reporting and compliance.

Rodríguez, Rivera + Toro, PSC

Mayagüez, Puerto Rico
December 21, 2020

License number 243, which expires on
December 1, 2022.

The stamp number E435556 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

AICPA GAQC Member

AICPA EBPAQC Member

MED CENTRO, INC.

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019

ASSETS		
Current assets:		
Cash and cash equivalents (Note 16)	$	12,996,241
Certificates of deposit		280,607
Contracts receivable - Grants (Note 3)		1,926,131
Accounts receivable, net (Notes 4 and 16)		4,185,517
Inventories (Note 5)		550,801
Prepaid expenses		201,017
Total current assets		20,140,314
Certificates of deposit		2,103,071
Property, plant and equipment - net (Note 6)		42,428,465
Land (Note 6)		12,459,908
Other assets (Note 7)		882,310
TOTAL	$	78,014,068
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Accounts payable	$	964,597
Accrued expenses (Note 8)		138,381
Payroll and payroll taxes payable		3,605,568
Total current liabilities		4,708,546
Deferred compensation plan obligation (Note 10)		1,018,824
Total liabilities		5,727,370
Net assets (Note 11):		
Without donor restrictions		70,453,439
With donor restrictions		1,833,259
Total net assets		72,286,698
TOTAL	$	78,014,068

See notes to financial statements

MED CENTRO, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Total	With donor restrictions	Without donor restrictions
REVENUES AND SUPPORT:			
Federal and state grants and contracts	$ 13,744,420	$ 13,744,420	$ -
Premium revenue (Note 9)	56,155,064	-	56,155,064
Net patient service revenue (Note 14)	4,783,729	-	4,783,729
Net pharmacy revenue	4,639,792	-	4,639,792
Wraparound payments (Note 2)	6,638,192	-	6,638,192
Other revenues	1,745,139	428,997	1,316,142
Net assets released from restrictions			
Satisfaction of program restrictions		(13,300,299)	13,300,299
Satisfaction of inventory and property and equipment acquisition restrictions		(1,930,867)	1,930,867
Total revenues and support	87,706,336	(1,057,749)	88,764,085
EXPENSES:			
Personnel services	16,479,917	-	16,479,917
Fringe benefits	3,388,726	-	3,388,726
Professional services	3,219,640	-	3,219,640
Claims paid and IBNR reserves	51,393,968	-	51,393,968
Travel	129,294	-	129,294
Equipment	856,672	-	856,672
Medical supplies and drugs	2,291,914	-	2,291,914
Rental and utilities	1,381,663	-	1,381,663
Depreciation and amortization	2,508,071	-	2,508,071
Other	2,417,283	-	2,417,283
Total expenses	84,067,148	-	84,067,148
CHANGE IN NET ASSETS	3,639,188	(1,057,749)	4,696,937
NET ASSETS, BEGINNING OF YEAR	68,647,510	2,891,008	65,756,502
NET ASSETS, END OF YEAR	$ 72,286,698	$ 1,833,259	$ 70,453,439

See notes to financial statements

MED CENTRO, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Total	Program Services	Management and General
EXPENSES:			
Personnel services	$ 16,479,917	$ 12,430,815	4,049,102
Fringe benefits	3,388,726	2,148,922	1,239,804
Professional services	3,219,640	1,230,675	1,988,965
Claims paid and IBNR reserve	51,393,968	51,393,968	-
Travel	129,294	34,119	95,175
Equipment	856,672	345,804	510,868
Consumable supplies	2,291,914	1,975,451	316,463
Rental and utilities	1,381,663	96,045	1,285,618
Depreciation and amortization	2,508,071	604,547	1,903,524
Other	2,417,283	398,922	2,018,361
Total expenses	$ 84,067,148	$ 70,659,268	$ 13,407,880

See notes to financial statements

MED CENTRO, INC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 3,639,188
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,508,071
Provision for uncollectible accounts and other discount concessions	161,431
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Grants and contracts receivable	(460,121)
Accounts receivable	157,815
Inventories	(8,476)
Prepaid expenses	(80,975)
Other assets	(9,409)
Increase (decrease) in:	
Accounts payable	(1,402,212)
Deferred revenues	(184,539)
Accrued expenses and estimated provision for claims	79,800
Payroll and payroll taxes payable	127,250
Deferred compensation plan obligation	209,412
Net cash provided by operating activities	4,737,235
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(1,422,059)
Purchases of land	(2,438,014)
Construction in progress	(6,150,784)
Advances for deferred compensation plan	(209,412)
Advances for acquisition of equipment	(52,743)
Increase in certificates of deposit- other short and long-term investments	(7,624)
Net cash used in investing activities	(10,280,636)
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(5,543,401)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	18,539,642
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	**$ 12,996,241**

See notes to financial statements

RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH WITHIN THE STATEMENT OF FINANCIAL POSITION AND THE TOTAL SHOWN IN THE STATEMENT OF CASH FLOWS:

Cash and cash equivalents at beginning of year	$ 18,355,103
Restricted cash for acquisition of equipment at beginning of year	184,539
Cash cash equivalents and restricted cash, beginning of year	**$ 18,539,642**
Cash and cash equivalents at end of year	$ 12,996,241
Cash, cash equivalent and restricted cash, end of year	**$ 12,996,241**

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid	$ -
Income taxes paid	$ -
Write off - receivables	$ 1,442

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Reclassification of construction in progress to Property, plant and equipment	$ 12,193,118
Reclassification of other assets to Property, plant and equipment	$ 1,346,761
Decrease in assets resulting from the disposition of assets:	
Equipment cost	$ 75,762
Accumulated depreciation	(75,762)
Net book value of assets dispossed off	$ -

See notes to financial statements

1. ORGANIZATION

Med Centro, Inc. (“**Med Centro”**), (**"the Institution"**). formerly known as “**Consejo de Salud de Puerto Rico, Inc.**”, is a nonprofit Corporation organized in 1971. **The Institution** is a comprehensive primary care program which provides primary health services to the low-income individuals, including agricultural workers in the Municipalities of Ponce, Peñuelas, Juana Díaz, Coamo, Guayanilla and Villalba.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting – The financial statements of **the Institution** have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Recently adopted accounting standards – The following accounting standards were adopted in 2019:

Revenue Recognition Standard

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an update (“ASU No. 2014-09”) establishing the Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). ASU No. 2014-09, as amended by subsequent ASUs on the topic, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This standard, which was effective for interim and annual reporting periods in fiscal years that begin after December 15, 2018, requires an entity to 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 and also requires certain additional disclosures. **The Institution** adopted this standard effective January 1, 2019 using the modified retrospective method applied to all existing contracts not yet completed as of January 1, 2019. As of December 31, 2019, no cumulative-effect adjustment to net assets at beginning of year was necessary. The adoption of ASC 606 did not have a material impact on **the Institution’s** financial statements. Bad debt expense is presented as part of operating expenses and not as a reduction of patient service revenues (see Revenue Recognition Section of this Note).

Clarifying Contributions Received and Contributions Made

In 2019, **the Institution** adopted ASU No. Contributions Received and Contributions Made using a modified prospective basis to all agreements not completed as of January 1, 2019, or entered into after January 1, 2019. ASU No. 2018-08 clarifies existing guidance on determining whether a transfer of assets (or the reduction, settlement or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how **the Institution** determines whether a resource provider (including a foundation, a government agency or other) is receiving commensurate value in return for the resources transferred, and whether contributions are conditional or unconditional. Adoption of ASU No. 2018-08 did not have a material impact on the accompanying 2019 financial statements.

Restricted Cash

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows - Restricted Cash (Topic 230), which amends the existing guidance relating to the disclosure of restricted cash and restricted cash equivalents on the statement of cash flows. The ASU requires that amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Recently adopted accounting standards, Continued

equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. **The Institution** adopted this guidance on January 1, 2019 on a retrospective basis and the updated disclosures are reflected for the periods presented in the Statement of Cash Flows. The adoption of ASU No. 2016-18 did not have a material impact on the accompanying Statement of Cash Flows.

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments (Topic 230), which clarifies the classification of certain cash receipts and cash payments on the statement of cash flows. In particular, the new guidance clarifies the classification related to several types of cash flows, including items such as debt extinguishment costs and distributions received from equity method investees. The new guidance also provides a three-step approach for classifying cash receipts and payments that have aspects of more than one class of cash flows. **The Institution** adopted this guidance effective on January 1, 2019 and did not have a material impact on the accompanying Statement of Cash Flows.

Accounting standards issued but not yet adopted – The following accounting standards were issued but not yet adopted in 2019.

Accounting for Leases

In February 2016, the FASB issued an update (“ASU 2016-02”) establishing ASC Topic 842, Leases ("ASC 842"), as amended by subsequent ASUs on the topic, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires lessees to apply a two-method approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase. Lessees are required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. Lessees will recognize an expense based on the effective interest method for finance leases or on a straight-line basis for operating leases. The accounting applied by the lessor is largely unchanged from that applied under the existing lease standard.

Under ASU 2016-02, initial direct costs for both lessees and lessors would include only those costs that are incremental to the arrangement and would not have been incurred if the lease had not been obtained. As a result, **the Institution** will no longer capitalize internal leasing costs and instead will expense these costs as incurred. The ASU 2016-02 was originally effective for years commencing on January 1, 2020. In June 2020, ASU 2020-05 was issued which deferred the effective date of this standard. The standard will be effective for the Organization for the year ending December 31, 2021. **The Institution** is currently evaluating the impact of the adoption of this update on their financial statements and disclosures.

Basis of presentation - The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 “Not-for-Profit Entities, dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”). (ASC) 958-205.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of **the Institution** and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Institution. **The Institution's** board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of **the Institution** or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - For purposes of the statement of cash flows, **the Institution** considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Certificates of deposits - Certificates of deposits with original maturities of more than three months are valued at cost, plus accrued interest. Certificates of deposit with original maturities greater than three months but less than one year are classified as a short-term investment and with maturities greater than one year as long-term investments.

Accounts receivable and allowance for uncollectible accounts - Accounts receivable consist mainly of patient service (third-party payors and self-pay patients), capitation fees, wraparound payments, rent and other receivables and are accounted at net realizable value. Accounts receivables are reduced by an allowance for uncollectible accounts for an amount management believes is adequate to absorb possible losses on existing receivables that may become uncollectible.

T**he Institution** records receivables from third-party payors associated with services provided to insured patients after deducting explicit price concessions (contractual adjustments) and applicable patients deductibles and copayments, assuming that is probable that the net accounts will be substantially collected. After analyzing contractually due amounts, **the Institution** records an allowance for doubtful accounts and a provision for bad debts, if necessary (for amounts which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). This provision for uncollectible accounts is presented on the statement of activities as a component of other operating expenses.

For receivables associated with the portfolio of self-pay patients (which includes both uninsured and insured patients with deductible and copayment balances), **the Institution** records the net realizable value after deducting explicit price concessions (sliding fees adjustments), if applicable, and implicit discounts for the difference between the standard or discounted rates and amounts actually collected after all reasonable collection efforts have been exhausted. For changes in credit issues not assessed at the date of service, **the Institution** recognizes these write-offs as bad debt expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Inventories - Inventories consist of medicines, materials and medical supplies and are stated at the lower of cost or net realizable value. Cost is determined on the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

Property, plant and equipment and depreciation - Property, plant and equipment are recorded at cost. Donated property is recorded at its estimated fair value at the date of receipt. Depreciation is computed on the straight-line method based on the estimated useful life of each class of depreciable assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

The Institution follows the capitalization policy of the federal government which considers as property and equipment tangible nonexpendable property, including exempt property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. Repair and maintenance are expensed as incurred. Expenses that increase the value or productive capacity of assets are also capitalized.

Gift of long-lived assets such as land, building or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gift of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, **the Institution** reports expirations of donor restrictions when the donated or acquired assets are placed in service. At that time, **the Institution** reclassifies net assets with donor restrictions to net assets without donor restrictions.

In accordance with the provisions of FASB ASC 360-10-50-2, **the Institution** reviews for the impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Revenue recognition – Following are the Institutions main revenue recognition policy:

Federal and state grants and contracts

The Institution receives its grants and contracts support and revenues primarily from the U.S. Department of Health and Human Services and other federal and state agencies. Grants and contracts are either recorded as contributions or exchange transactions based on criteria contained in the grant award:

Grant awards that are contributions - Unconditional grants to **the Institution** are reported at fair value at the date the grant is received. Conditional grants are recognized only when the conditions on which they depend are substantially met and the grant becomes unconditional. Grants that qualify as conditional contributions are recorded as invoiced to the funding sources. Revenue is recognized in the accounting period when the related allowable expenses are incurred. Amounts received in excess of expenses are recorded as refundable advances in the accompanying statements of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Grant awards that are exchanges - Grant and contract revenue is received from various funding agencies in exchange for specific services provided by **the Institution**. This revenue is recognized at the time **the Institution** provides the services to which the grants and contracts are limited. Amounts received in advance of services being provided are recorded as deferred revenue in the accompanying consolidated statements of financial position.

Premium (Capitation) and Fee for Service Revenue

The Institution has an agreement with various Manage Care Organizations ("MCO") to provide primary health care services to enrolled members. Under this type of contracts, **the Institution** received monthly payments for standing ready to provide good or services to qualified beneficiaries over the specified period in the agreement of service and not as a result of actually providing goods and services to patients. Pursuant to the contracts, among other things, **the Institution** agreed and commits itself in provide all covered health services to the designated beneficiaries as defined and limited under the dispositions of the contract.

Transaction price for capitation under this type of third-party payor includes considerations of monthly fees, retroactive adjustments in membership and incentive payments and other risk pool adjustments. Monthly capitations payments are determined based on the number member and actuarial agreed rates and are earned (over the time) monthly as result of agreeing of standing ready to provide goods or services to qualified enrolled beneficiaries and not as a result of actually providing care.

In regard to retroactive adjustments in memberships are recorded in the month the information is available as provided by the MCO and is recognized as premium revenue at that time. Normally this kind of adjustment are not significant to the premium revenues. In regard to incentive, they are recorded as received because this kind of revenues is contingent upon **the Institution** achieve certain quality and risk pool goals and is recorded as other income at that time.

Patients enrolled under this plan may be subject to payment of deductibles and copayments depending medical services provided. Also, under this arrangement there are certain medical services that could be billed on fee for service basis as agreed in contract. Revenues from services provided on a fee for service basis and deductibles and copayments are recognized as disclosed in the following ***net patient service revenues*** section.

Net patient service revenues

Patient service revenue is reported at the amount that reflects the consideration to which **the Institution** expects to be entitled in exchange for providing patient care. These amounts are due from patients, third party payors and others and include variable consideration such as contractual allowances, discounts, concessions and retroactive adjustments. Generally, patients are billed right after services are provided. Third party payors are billed several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are based on the nature of the services provided and consist of outpatient medical services, the sales of drug and medicines for the treatment (see next pharmacy revenue policies) and the continue care of patients' conditions. Revenues from this kind of performance obligations satisfied are recognized at a point in time which generally is when the services are

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

provided to patients and when the sale of medicines and drugs occur. Because patient performance obligations relate to contracts with extremely short period of duration, there are no unsatisfied or partially satisfied performance obligation at the end of the reporting period.

The Institution is utilizing the portfolio approach practical expedient for contracts related to net patient service revenue. **The Institution** account for contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category. The portfolios consist of mayor payor classes for outpatient service revenue. Based on historical collection trends and other analysis, **The Institution** has concluded that revenue for a given portfolio would not be materially different that if accounted for on a contract-by-contract basis.

The Institution has agreements with third-party payers that provide for payments to **the Institution** at amounts different from charged rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, case rates, and per diem payments.

The Institution participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The transaction price is determined based on standard rates reduced by explicit, implicit price concessions and retroactive revenue adjustments. Explicit price concessions provided to third-party payors are based on contractual agreements, discount policies, and historical experience. For uninsured and insured patients (with deductible and copayment balances) **the Institution** has a policy of providing care to patients and no one is denied services because of inability to pay. Explicit concessions include discounts provided based on sliding scales. Implicit price discounts provided represent differences between amounts billed and the estimated consideration **the Institution** expects to receive, which are determined based on historical collection experience, current market conditions, and other factors. Those discounted services are excluded from revenue. Retroactive revenue adjustments for settlements with third-party payors due to audits, review, or investigations are considered on an estimated basis in the period the related services are rendered. Such estimated amounts are revised in future periods as adjustments become known. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in 2019.

As provided for under the guidance, **the Institution** does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less.

Pharmacy Revenue

Pharmacy revenue is recognized as drugs and medicines are dispensed to the customer. **The Institution** operates an internal pharmacy that dispense the drugs and medicines to its patients. **The Institution** participates in the 340B "Drug Discount Program" which enables qualifying health care

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. **The Institution** benefits from this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. Reported 340B revenue consists of the pharmacy reimbursements from patients and third-party payors. Policies for revenue recognition policies are covered in the previous ***net patient service revenues*** section.

Contributions

Contributions are provided to **the Institution** either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. The value recorded for each contribution is recognized as follows:

Nature of the Gift	**Value Recognized**
Conditional gifts, with or without restriction	
Gifts that depend on the Organization overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, i.e., the donor-imposed barrier is met
Unconditional gifts, with or without restriction	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Wraparound payments

The Commonwealth of Puerto Rico (the Commonwealth) adopted in its State Plan under the Social Security Act the prospective payment system methodology (PPS) for Federally Qualified Health Care Centers (FQHC) and Rural Health Clinics (RHC) in accordance with the requirements of the Benefit Improvement and Protection Act 2000 (BIPA).

Based on the requirements, and commencing in January 1, 2001, the Commonwealth shall reimburse FQHC/RHC the Medicaid covered services under the new prospective payment system rate per visit. Due to the fact that the Commonwealth administers its Medicaid System throughout the "Health Reform" and the contract with Manage Care Organizations (MCO) and also pay providers for Medicaid covered services based on a capitation model, the Commonwealth shall provide for wraparound or supplementary payments when the capitation payments are less than the amount that the FQHC/RHC would have received under PPS.

Wraparound payments are recognized as income in the period that **the Institution** is entitled to receive those payments.

Other - rental income

Rental income consists of property rentals and tenant expense reimbursements. Base rent is revenue arising from tenant leases. Rental income is mainly derived from the leasing of its commercial and office premises and is accounted for on an accrual basis following the operating method of accounting. Operating expense reimbursements is revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the common areas of our properties. Revenue is generally recognized in the same period as the related expenses are incurred.

Donations and in-kind contributions

The Institution recognizes all donated services and materials at their fair market value at the time of donation.

Expense recognition and functional allocation - Expenses are recognized when the related liability is incurred. Program service expenses are the costs related to providing programs and services or the costs of the activities for which purpose the organization exists. Management and general expenses relate to the overall direction of **the Institution.** Most of the expenses are allocated functionally on a direct basis. Expenses that benefit more than one activity or function are allocated using the most appropriate base to the particular cost being allocated.

Health care services cost recognition - The cost of health care services provided to, or contracted for, is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not reported to the Center. Medical claims, which has been incurred but not reported by providers (IBNR) are estimated based on historical data; trends and other financial information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

During the year ended December 31, 2019 the Managed Care Organizations (MCO) have retained the amount of $6,924,354 to cover medical claims incurred but not reported which have been reported as expenses in the accompanying statements of activities.

Income taxes - **The Institution** is a non-profit organization that is exempt from federal and state income tax under Section 501 (c)(3) of the Internal Revenue Code and Section 1101 of the 2011 Puerto Rico Tax Code, as amended.

Accounting principles generally accepted in the United States of America require **the Institution's** management to evaluate tax positions taken by **the Institution** and recognize a tax liability (or asset) if **the Institution** has taken an uncertain position that more likely than not would not be sustained upon examination by the Puerto Rico Department of Treasury ("PRDT"). **The Institution's** management has analyzed the tax positions taken by **the Institution**, and has concluded that as of December 31, 2019 there are no other uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

The Institution is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. **The Institution's** management believes it is no longer subject to income tax examinations for years prior to 2014.

Date of management review - Management of **the Institution** has evaluated subsequent events through December 21, 2020, which is the date the financial statements were available to be issued. Except for **Note 17**, no additional events were identified that should be disclosed or adjusted in the financial statements or its related notes.

3. GRANTS - CONTRACTS RECEIVABLE

Grants and contracts receivable as of December 31, 2019 consist of the following:

Due from U.S. Department of Health:		
Consolidated Health Centers and (ACA) Grants for New and Expanded Services under the Health Centers Program	$	1,642,362
Ryan White Part C Funds		134,500
Capital Assistance for Hurricane Response		4,710
		1,781,572
Due from P.R. Department of Health		113,363
Due from AIDS United		28,298
Due from Direct Relief		2,898
	$	**1,926,131**

4. ACCOUNTS RECEIVABLE - NET

Accounts receivable – net as of December 31, 2019 consists of the following:

Capitation fees	$	1,273,470
Wraparound payments		1,659,548
Patient services - third-party payors and self-pay		1,178,347
Other		74,152
	$	**4,185,517**

Amount is presented net of allowance for doubtful accounts for patient services-third party payors and rent for $195,411 and $22,100 respectively. In addition, balance is reduced for implicit discounts related to patient services - self-pay for a total amount of $81,034. Opening accounts receivable balance from patient services-third party payors and self-pay amounts to $747,078, net of allowable for uncollectible accounts of $137,114.

5. INVENTORIES

Inventories as of December 31, 2019 are comprised of the following:

Drugs and medicines	$	342,062
Medical and surgical supplies		105,656
Laboratory supplies		50,027
Dental supplies		34,619
Other		18,437
	$	**550,801**

6. PROPERTY, PLANT AND EQUIPMENT - NET

Property, plant and equipment as of December 31, 2019, consist of the following:

Building and building improvements	$	43,626,126
Furniture and equipment		8,360,503
Equipment under capital leases		103,057
Motor vehicles		2,947,979
Softwares		1,527,411
Land improvements		623,981
		57,189,057
Less: accumulated depreciation and amortization		(15,137,208)
		42,051,849
Construction in progress		376,616
Property, plant and equipment - net	**$**	**42,428,465**
Land	**$**	**12,459,908**

7. OTHER ASSETS

Other assets as of December 31, 2019 are comprised of the following:

Advances for capital assets and property not placed in service	$	52,743
Cash in Rabbi Trust – deferred compensation plan (Note 10)		809,412
Deposits and others		20,155
	$	**882,310**

8. ACCRUED EXPENSES

Accrued expenses as of December 31, 2019 are comprised of the following:

Legal claims and accrued legal counsels fees	$	122,818
Other accrued liabilities		15,563
	$	**138,381**

9. COMMITMENTS AND CONTINGENCIES

Operating leases

The Institution conducts some program activities on leased facilities and has also certain medical and office equipment under various operating leases. Operating leases do not give rise to property rights or lease obligation, and therefore the results of lease agreement are not reflected in the Corporation's property and equipment accounts.

Rental expenses for all operating leases for the year ended December 31, 2019 amounted to $155,947.

The following is a schedule by year of future minimum rental payments for the next years required under operating lease that has lease terms in excess of one year as of December 31, 2019.

Year ending December 31,		Amount
2020	$	66,410
2021		49,478
	$	**115,888**

Puerto Rico Health Reform Contract - Singapur Health Center, Playa de Ponce Health Center (including the adjacent areas of El Tuque, Peñuelas, Coamo, Guayanilla and Villalba)

The Commonwealth of Puerto Rico established a Governmental Health Insurance Plan ("GHIP") to provide health services to eligible beneficiaries. The Puerto Rico Health Insurance Administration ("PRHIA") is the governmental agency empowered in law to administer these services. PRHIA has contracted, with Manage Care Organizations (MCOs) to administer the GHIP. The Institution, then entered into administrative service agreements ("the contracts") with these MCOs to provide health services to the designated beneficiaries of the GHIP. Pursuant to the Contracts, among other things, the Institution agrees and commits itself in provide all covered health services to the designated

9. COMMITMENTS AND CONTINGENCIES, Continued

beneficiaries as defined and limited under the dispositions of GHIP, which are specified in the contracts. In consideration to the covered services rendered by **the Institution**, MCOs commit to pay an amount per beneficiary per month (known as capitation), as defined in the contracts. As agreed, a portion of the budget allocated to **the Institution** will be used to pay incurred medical claims, the retention of incurred but not reported ("IBNR") claims and the monthly capitation payments.

On February 2018 the PRHIA (also known as ASES) published a Request for Proposal (RFP) for a new model for the GHIP (aka "Plan Vital", formerly known as Mi Salud). The new model presents changes to the way services are currently provided, to continue efforts to improve services related to needs in health care of chronic conditions, and cost reduction in the Government of Puerto Rico. The key elements in the new program include:

- Coordinated Care Organizations (MCO's) must provide covered services throughout the Island.
- MCOs can subcontract certain elements of the service provision model with local MCOs or entities run by suppliers.
- Bidders can form alliances with other MCOs to demonstrate the ability to cover the entire Island.
- Bidders are expected to present models to address populations with certain chronic and high-cost health conditions and / or needs.

ASES awarded the number of insured persons assigned to each of the five companies selected to administer the new model of the Health Reform, which began in November 2018. The five selected companies are Triple-S, MMM, Molina Healthcare, First Medical and Mennonite Health Plan.

Under the new model, the Plan Vital will have only one region. Although the insured were assigned to a company, the government will initially grant three months for the interested parties to change to another.

On November 1, 2018, **the Institution** entered in new service agreements with participating MCOs to continue provide health services to the designated beneficiaries of the Plan Vital. As of December 31, 2019, the previous contracts have been renewed or extended and were currently in force with no significant changes.

On January 11, 2016 a federal judge of the U.S. District Court of Puerto Rico adopted in its entirety the report and recommendation of a special master on a legal case filed by certain Section 330 Centers against the Commonwealth government, requiring the Commonwealth to hold the Section 330 Centers harmless against any debts accruing to any MCO under GHIP. As communicated by **the Institution's** legal counsel to management, this decision mean that the amounts of accrued deficits allegedly owed by the Section 330 Centers to the MCO are not enforceable against the Centers. Based on these facts and the communication by the legal counsel, the management of **the Institution** has decided to write-off any accrued deficit under the Plan Mi Salud as of December 31, 2016 and cease to accrued any deficit prospectively. Current year deficit or the excess of services provided over the operating budget for the year ended in December 31, 2019 in the amount of $6,013,306 has been recorded against the claims paid and IBNR reserves in the accompanying statement of activities.

9. COMMITMENTS AND CONTINGENCIES, Continued

Federal grants and contracts

Programs supported by federal and state grants are subject to additional audits by the grantor agencies in order to determine if expenditures comply with conditions of such grants. It is the Management's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to be performed.

Legal claims

The Institution is a party to litigation and other claims in the ordinary course of business. In the opinion of management, appropriate provision has been made for such claims and the ultimate resolution of these matters will not have a significant effect on financial statements of **the Institution**.

10. DEFERRED COMPENSATION PLAN

Effective November 1, 2013, **the Institution** established the Consejo de Salud de P.R. Inc. Executive Deferred Compensation Plan ("the Plan"), a nonqualified deferred compensation plan covering eligible senior management as defined in the Plan Adoption Agreement ("the Agreement"). The Plan adopted the Popular Prototype Nonqualified Deferred Compensation Plan Rabbi Trust established by Banco Popular de Puerto Rico, ("the Trustee"), to carry out the purposes of the Plan. The Plan is designed and operates in accordance with regulations under the Puerto Rico Internal Revenue Code, as amended, and is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Pursuant to the Agreement, participants may elect to have his compensation reduced by an amount as designated in writing to the Committee. The Employer may make profit sharing credits to the deferred compensation account of each active participant in an amount determined based on excess program income or institutional fund. Participants may terminate his compensation deferral agreement effective the first full payroll period commencing after the date written notice of the termination is received by the Committee.

An active participant shall be fully vested in the employer credits made to the deferred compensation account upon (i) normal retirement date, (ii) death, (iii) disability, and (iv) completion of three years of service calculated from the effective date of the Plan participation. The Plan may be terminated at discretion of the Institution's Board of Directors in which case the deferred compensation account will be immediately distributed to each participant in a single lump sum payment.

On termination of service with **the Institution**, a participant may generally elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or payments in approximately equal annual installments over a term no longer than 10 years or participant life expectancy as elected by the Participant upon his or her entry into the Plan.

In order to fund the deferred compensation obligation, **the Institution** remits the cash deferrals to the Rabbi Trust. In accordance with the provisions of ASC 710-10-25, the cash deferrals deposited in the Rabbi Trust are reported as Other Assets (see note 7) and the corresponding liability as long term – deferred compensation obligation. Total obligation as of December 31, 2019 amounted to $1,018,824.

11. NET ASSETS

Net assets with donor restrictions - Net assets with donor restrictions are available for the following purposes or periods:

Description	Amount
Construction in progress and acquisition of equipment	$ 11,470
Real and personal property gift restricted for future use	1,821,789
	$ 1,833,259

Net assets restricted for construction in progress and acquisition of equipment consists of assets donated, constructed or acquired with restricted contributions not placed in service as of year-end. Real and personal property gift restricted for future use consists of a parcel of land donated by the Commonwealth of Puerto Rico-Department of Transportation and Public Works in 2001. The land was given for the construction of facilities for the treatment of HIV patients and patients with drugs and alcohol problems and other medical services. The land has specific conditions and restriction as to use, sale or disposition. These specific restrictions in use shall not be changed without written consent of the Puerto Rico Legislature.

Net assets with donor restrictions were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. During the year ended December 31, 2019 the amount of net assets released from restrictions aggregated $15,231,166. Such net assets were contributed to **the Institution** through conditional governmental programs and private contribution in the form of grants, awards and contracts, which are recorded as revenues with donor restrictions until specified conditions are met.

12. LIQUIDITY

The Institution's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and cash equivalents	$ 12,996,241
Certificate of deposit	280,607
Contracts receivable- Grants	1,926,131
Accounts receivable, net	4,185,517
Inventory	550,801
Total	**$ 19,939,297**

The Institution's financial assets have been reduced by amounts not available for general use because of donor imposed restrictions within one year of the statement of financial position date and amounts set aside for long-term investing.

As part of **the Institution's** liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, **the Institution** invests cash in excess of daily requirements in short-term investments. **The Institution** does not intend to spend other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process.

13. GRANTS REVENUES

The Institution is the recipient of a Consolidated Health Centers (CHC) and Outpatient Early Intervention Services with respect to HIV disease (Ryan White Part C) grants from the U.S. Department of Health and Human Services. The general purpose of these grants is to provide expanded health care service delivery for residents of Ponce, Peñuelas, Juana Díaz, Coamo, Guayanilla and Villalba, Puerto Rico. Terms of the grant generally provide for funding of **the Institution's** operations based on an approved budget. Grant revenue is recognized as **the Institution** meets the conditions prescribed by the grant agreement, which requires incurring qualifying expenditures over the grant period. During the years ended December 31, 2019, **the Institution** received $12,090,837 and $1,066,626 in grant funds, respectively.

In addition to this grant, **the Institution** receives additional financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

14. NET PATIENT SERVICE

The Institution is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. **The Institution** has agreements with third-party payors that provide for payments to **the Institution** at amounts different from its established rates. These payment arrangements include:

Medicare – Beginning on October 1, 2014, Medicare and Medicaid Services (CMS) implemented a change in payment rates for a Prospective Payment System (PPS) for Federally Qualified Health Centers (FQHC). Under the FQHC PPS, Medicare pays FQHCs based on the lesser of their actual charges or the PPS rate for all FQHC services furnished to a beneficiary on the same day when a medically necessary, face-to-face FQHC visit is furnished to a Medicare beneficiary. The FQHC is paid 80% of the established FQHC rate, with the beneficiary being responsible for the remaining 20% as co-insurance, or alternatively, the remaining 20% is billed to Medicaid for qualifying patients (dual eligible). The FQHC PPS base rate is adjusted for each FQHC by the FQHC geographic adjustment factor (GAF), based on the geographic practice cost indices (GPCIs) used to adjust payment under the Medicare Physician Fee Schedule (MPFS).

The Institution is reimbursed at the PPS rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the CMS Medicare fiscal intermediary. Historically, these settlement amounts have not been material.

Medicare Advantage – Private insurance companies administer Medicare Advantage (MA) programs. Payment rates for outpatient services provided to MA enrollees are based on contractual agreements with each MA administrator. FQHC health centers qualify for supplemental wrap-around payment, which is the difference between FQHC approved per-visit rate and the average MA per-visit rate. Wrap-around rate determination and payment is handled by the CMS Medicare fiscal intermediary.

***Medicaid Fee-For-Service*.** Covered FQHC Outpatient services rendered to Puerto Rico Medicaid program beneficiaries are either paid based on a capitated rate or fee-for-service, depending on the contract. **The Institution** is reimbursed a set encounter rate for all services provided under the plan.

14. NET PATIENT SERVICE, Continued

Patient service revenue, net of contractual allowances and implicit discounts recognized in the year ended December 31, 2019, was approximately:

Medicaid	$ 2,514,226
Medicare	1,560,566
Self-pay	396,074
Other third-party payors	312,863
Total	**$ 4,783,729**

15. CLASSIFICATION OF EXPENSES

The statements of activities disclose expenses by natural classification. The classification of expenses by function is as follows:

Program Services	
Health care and patient support services	$ 70,659,268
Management and general	13,407,880
Total expenses	**$ 84,067,148**

16. CONCENTRATION OF CREDIT RISK

The Institution maintains its cash balances in various financial institutions. The Federal Deposit Insurance Corporation (FDIC) insured the account balances up to $250,000 as of December 31, 2019, per financial institution. At December 31, 2019, **the Institution** uninsured cash balances amounted to $14,967,388. Also, **the Institution** grants credit without collateral to its patients, most of who are local residents and are insured under third-party payors agreements. The mix of receivables from patients and third-party payors at December 31, 2019 was as follows:

Capitation fees	30%
Patients and third-party payers	40%
Wraparound payments	28%
Others	2%
	100%

17. SUBSEQUENT EVENTS

Earthquakes

In December 2019, Puerto Rico experienced a sequence of unprecedented natural event in the form of earthquakes of magnitudes that fluctuated from 5.0 to 5.8 according to the Richter scale. On January 2020, Puerto Rico was hit by an earthquake of magnitude 6.4 on the Richter scale. As a result of the catastrophe, the Governor of Puerto Rico declared as “Disaster Zone” various municipalities including: Ponce, Peñuelas, Guayanilla, Yauco, and Guanica, adding multiple cities due to the aftershocks that followed this event. As consequence of the earthquakes several structures collapsed

17. SUBSEQUENT EVENTS, Continued

Earthquakes

on the cities that compose the south coast of Puerto Rico. **The Institution** currently holds real estate properties located on the area. The seismic movements and replicas of the earthquakes continued as an active matter to date. Management of **the Institution** estimated the impact of the damages on the real estate properties caused by this event and determined that the losses were not required to be recorded on the accompanied financial statements. The future effects of these events are unknown.

Coronavirus Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. The immediate impact to **the Institution's** operations include disruptions or restrictions on our employees' ability to work. Operating functions that may be changed include intake, recertifications and maintenance. Changes to the operating environment may increase operating costs. Additional impacts may include the ability of tenants to continue making rental payments as a result of job loss or other pandemic related issues.

In response to the economic impact of COVD-19, **the Institution** received the following:

- In April 2020, **the Institution** was approved for a Paycheck Protection Program (PPP) Loan in the amount of $3,523,500. This program was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and has certain allowable uses over a covered period of eight weeks from the initial distribution date. There is a forgiveness provision which, if followed, could result in an all or partial loan forgiveness. Any unforgiven portion of the loan will have a repayment term of two years at an interest rate of 1%.

- In March of 2020, **the Institution** received additional federal grant awards from the FY 2020 Coronavirus Supplemental Funding for Health Centers totaling $94,405. The grant award contains specific terms and conditions that must be followed when utilizing this funding.

- In April of 2020, **the Institution** received additional federal grant awards from the Health Center Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding totaling $1,415,990. The grant award contains specific terms and conditions that must be followed when utilizing this funding.

- In April of 2020, **the Institution** received additional federal grant awards from the Expanding Capacity for Coronavirus Testing (ECT) totaling $815,839. The grant award contains specific terms and conditions that must be followed when utilizing this funding.

- In April of 2020 **the Institution** received $62,000 of additional funding support from the Ryan White HIV/AIDS Program Part C EIS COVID-19 Response. The grant award contains specific terms and conditions that must be followed when utilizing this funding.

The overall financial impact and duration of COVID-19 cannot be reasonably estimated at this time.

SUPPLEMENTAL INFORMATION

MED CENTRO, INC.

SUPPLEMENTAL INFORMATION – COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

		[------------With donor restrictions-------------]			Without donor
	Total	Consolidated Health Center	Ryan White Part C	Other Federal and Private	Program Income and Other
REVENUES AND SUPPORT:					
Federal and state grants and contracts	$ 13,744,420	$ 12,090,837	$ 1,066,626	$ 586,957	$ -
Premium revenue (Note 9)	56,155,064	-	-	-	56,155,064
Net patient service revenue (Note 13)	4,783,729	-	-	-	4,783,729
Net pharmacy revenue	4,639,792	-	-	-	4,639,792
Wraparound payments (Note 2)	6,638,192	-	-	-	6,638,192
Other revenues	1,745,139	-	-	428,997	1,316,142
Net assets released from restrictions					
Satisfaction of inventory and property and equipment acquisition restrictions		(243,347)	6,269	(1,693,789)	1,930,867
Total revenues and support	87,706,336	11,847,490	1,072,895	(677,835)	75,463,786
EXPENSES:					
Personnel services	16,479,917	9,214,250	672,439	260,537	6,332,691
Fringe benefits	3,388,726	974,815	102,425	41,114	2,270,372
Professional services	3,219,640	635,163	71,150	-	2,513,327
Claims paid and IBNR reserves	51,393,968	-	-	-	51,393,968
Travel	129,294	28,632	-	18,227	82,435
Equipment	856,672	52,849	-		803,823
Medical supplies and drugs	2,291,914	594,980	143,291	40,629	1,513,014
Rental and utilities	1,381,663	132,379	-	7,780	1,241,504
Depreciation and amortization	2,508,071	-	-	-	2,508,071
Other	2,417,283	202,952	83,590	23,097	2,107,644
Total expenses	84,067,148	11,836,020	1,072,895	391,384	70,766,849
CHANGE IN NET ASSETS	$ 3,639,188	$ 11,470	$ -	$ (1,069,219)	$ 4,696,937

SINGLE AUDIT SECTION

MED CENTRO, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

Federal Grantor/Pass-Through Grantor / Program Name	Federal CFDA No.	Pass-Through Entity Identifying Number	Pass-Through to Subrecipient	Federal Expenditures
U.S. Department of Health and Human Services:				
Direct programs:				
Consolidated Health Centers (Community Health Centers, Migrant Health Centers)	93.224	N/A	$ -	$ 3,570,518
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program	93.527	N/A	-	8,520,317
Total Health Centers Cluster			-	12,090,835
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	N/A		291,631
Grants to Provide Outpatient Early Intervention Services with respect to HIV disease (Ryan White Part C)	93.918	N/A	-	1,066,626
Pass-through programs from:				
AIDS United:				
Special Programs of National Significance	93.928	U69HA310670100	-	111,425
P.R. Department of Health:				
HIV Prevention Activities Health Department Based	93.940	2018_DS0714	-	183,900
Total U.S. Department of Health and Human Services:			-	**13,744,417**
U.S. Department of Homeland Security-Federal Emergency Management Agency (FEMA):				
Pass-through program from:				
P.R. Central Office for Recovery, Reconstruction and Resiliency (COR3)				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-4339: 113-UYSPO-00	-	504,295
Total U.S. Department of Homeland Security:			-	**504,295**
Total expenditures of federal awards			**$ -**	**$ 14,248,712**

See notes to schedule

MED CENTRO, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards ("SEFA") includes the federal grant activity of Med Centro, Inc. ("**the Institution"**) under programs of the federal government for the year ending in December 31, 2019. The information in this SEFA is presented in accordance with the 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). Therefore, some amounts presented in the SEFA may differ from the amounts presented in **the Institution's** financial statements. Because the SEFA presents only a selected portion of the operation of **the Institution**, it is not intended to and does not present the financial position, changes in net assets or cash flows of **the Institution**.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to **the Institution**, known as "pass–through awards", should be treated by **the Institution** as though they were received directly from the federal government. The Uniform Guidance requires the SEFA to include the name of the pass–through entity and the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain type of expenditures are not allowable or are limited as to reimbursement. Public assistance grants expenditures are recognized in the period when: (1) FEMA has approved the PW, and (2) eligible expenditures are incurred.

3. INDIRECT COST RATE

The Institution has elected not to use the 10-percent of de minimis indirect cost rate as allowed under the Uniform Guidance.

4. RECONCILIATION OF EXPENDITURES IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENSES PRESENTED IN THE SUPPLEMENTAL SCHEDULE-COMBINING STATEMENT OF ACTIVITIES

Description	Health Centers Cluster	Ryan White Part C	Other Federal and Private	Public Assistance (FEMA)	Total
Expenses per SEFA	$ 12,090,835	$ 1,066,626	$ 586,956	$ 504,295	$ 14,248,712
Plus (less): Capital Expenditures and Supplies	(254,815)	6,269	(291,631)	-	(540,177)
Less: Disaster assistance expenditures incurred in prior periods	-	-	-	(504,295)	(504,295)
Plus (less): Other nonfederal expenses	-	-	96,059	-	96,059
Expenses per Supplemental Schedule	**$ 11,836,020**	**$ 1,072,895**	**$ 391,384**	**$ -**	**$ 13,300,299**

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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 *GOVERNMENT AUDITING STANDARDS*

To the Governing Board of
Med Centro, Inc.

We have audited, in accordance with the 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 financial statements of **Med Centro, Inc. ("Med Centro"),** a nonprofit organization, which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 21, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Med Centro'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Med Centro's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Med Centro'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's 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 the 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Med Centro's** 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.*

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 **Med Centro's** internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Med Centro's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rodríguez, Rivera + Toro, PSC

Mayagüez, Puerto Rico
December 21, 2020

License number 243, which expires on
December 1, 2022.

The stamp number E435557 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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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 Governing Board of
Med Centro, Inc.

Report on Compliance for Each Major Federal Program

We have audited **Med Centro, Inc.'s ("Med Centro")** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of **Med Centro's** major federal programs for the year ended December 31, 2019. **Med Centro'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 **Med Centro'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 **Med Centro'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 **Med Centro's** compliance.

Opinion on Each Major Federal Program

In our opinion, **Med Centro, 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 **Med Centro** 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 **Med Centro'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 **Med Centro'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 control over compliance that we consider to be material weaknesses. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rodríguez, Rivera + Toro, PSC

Mayagüez, Puerto Rico
December 21, 2020

License number 243, which expires on
December 1, 2022.

The stamp number E435558 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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I. Summary of audit results:

Part I - **Financial Statements**

1. Type of auditor's report issued:	☒ Unmodified opinion ☐ Adverse opinion	☐ Qualified opinion ☐ Disclaimer of opinion
2. Internal control over financial reporting:		
a) Material weakness(es) identified?	☐ Yes	☒ No
b) Significant deficiency(ies) identified?	☐ Yes	☒ None reported
3. Noncompliance material to financial statements noted?	☐ Yes	☒ No

Part II - **Federal Awards**

1. Internal control over major federal programs:		
a) Material weakness(es) identified?	☐ Yes	☒ No
b) Significant deficiency(ies) identified?	☐ Yes	☒ None reported
2. Type of auditor's report issued on compliance for major federal programs:	☒ Unmodified opinion ☐ Adverse opinion	☐ Qualified opinion ☐ Disclaimer of opinion
3. Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?	☐ Yes	☒ No
4. Identification of major federal programs:	CFDA Number(s)	Name of Federal Program or Cluster
	93.224	Consolidated Health Centers (Health Centers Cluster)
	93.527	(ACA) Grant for new and expanded services under the Health Center (Health Centers Cluster)
	93.918	Outpatient Early Intervention Services with Respect to HIV Disease
5. Dollar threshold used to distinguish Type A and Type B programs:	☒ $750,000	
6. Low-risk auditee	☒ Yes	☐ No

II. Findings related to financial statements reported in accordance with GAGAS:

None reported.

III. Findings and Questioned Costs for Federal Awards:

None reported.

MED CENTRO, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2019

Fiscal year Ended	Finding No.	Condition	Status

No prior year audit findings to follow-up.