NEOMED CENTER, INC.

(A Non-Profit Corporation)

FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITORS' REPORT

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

June 30, 2019 and 2018

NEOMED CENTER, INC.
(A Non-Profit Corporation)

Financial Statements

June 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
NEOMED Center, Inc.
Gurabo, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of NEOMED Center, Inc. (the Institution), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 **NEOMED Center, Inc.** as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, **the Institution** adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules – combining statements of activities are presented for purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administration Requirements, Cost Principles and Audit Requirements, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2020, on our consideration of **the Institution'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 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 **the Institution's** internal control over financial reporting and compliance.

May 22, 2020

RRC CPA Group, PSC

License No. PSC - 196
Ponce, Puerto Rico

Stamp number E411392 was
affixed to the original report.

NEOMED CENTER, INC.
(A Non-Profit Corporation)

Statements of Financial Position

June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,707,158	$ 3,357,636
Certificate of deposits	7,406,072	7,345,311
Grants and contract receivable	5,238,997	6,633,490
Accounts receivable, net	5,794,022	4,526,192
Inventories	599,850	681,542
Prepaid expenses	295,801	228,867
Total current assets	22,041,900	22,773,038
Property, plant and equipment - net	20,352,225	14,710,171
Other assets:		
Construction in progress	3,108,611	7,423,918
Deposits and bonds	161,662	31,439
Total other assets	3,270,273	7,455,357
TOTAL	$ 45,664,398	$ 44,938,566
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 3,227,974	$ 235,692
Current portion of obligations under capital lease	4,117	3,956
Accounts payable, including contractor retainage in the amount of $281,865 and $615,907 for 2019 and 2018, respectively.	1,564,192	1,731,213
Accrued expenses and withholdings	824,650	782,289
IBNR reserves	965,917	782,067
Unearned revenue	4,451,996	6,633,490
Total current liabilities	11,038,846	10,168,707
Long term debt, net of current portion	3,421,834	6,649,808
Obligation under capital lease, net of current portion	4,894	8,141
Total liabilities	14,465,574	16,826,656
Net assets:		
With donor restrictions	(169,877)	292,292
Without donor restrictions	31,368,701	27,819,618
	31,198,824	28,111,910
TOTAL	$ 45,664,398	$ 44,938,566

See accompanying notes to financial statements.

NEOMED CENTER, INC.

(A Non-Profit Corporation)

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2019

	With Donor Restrictions	Without Donor Restrictions	Total
SUPPORT AND REVENUES:			
Federal grants and contracts	$ 8,874,150	$ -	$ 8,874,150
Donated-in-kind - Ryan White Part B ADAP	-	2,867,552	2,867,552
Premium revenue - PR Health Plan	-	15,687,520	15,687,520
Net patient service revenue	-	12,273,848	12,273,848
Wraparound reimbursement	-	2,776,494	2,776,494
Other	-	865,178	865,178
Net assets released from restrictions:			
Satisfaction of program services	(9,044,027)	9,044,027	-
Total revenues	(169,877)	43,514,619	43,344,742
EXPENSES:			
Program Services:			
Medical services	-	14,753,677	14,753,677
Pharmacy	-	4,593,735	4,593,735
Donated-in-kind - Ryan White Part B ADAP	-	2,867,552	2,867,552
Laboratory	-	1,363,850	1,363,850
Radiology	-	578,777	578,777
Emergency room	-	3,951,273	3,951,273
Other medical	-	1,900,932	1,900,932
Total program services	-	30,009,796	30,009,796
Support Services:			
General and administrative expenses	-	10,248,032	10,248,032
Total expenses	-	40,257,828	40,257,828
CHANGE IN NET ASSETS	(169,877)	3,256,791	3,086,914
NET ASSETS, BEGINNNG OF YEAR AS RESTATED	-	28,111,910	28,111,910
NET ASSETS, ENDING OF YEAR	$ (169,877)	$ 31,368,701	$ 31,198,824

See accompanying notes to financial statements.

NEOMED CENTER, INC.
(A Non-Profit Corporation)

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2018

	With Donor Restrictions	Without Donor Restrictions	Total
SUPPORT AND REVENUES:			
Federal grants and contracts	$ 8,517,837	$ -	$ 8,517,837
Donated-in-kind - Ryan White Part B ADAP	-	2,936,947	2,936,947
Premium revenue - PR Health Plan	-	16,353,612	16,353,612
Net patient service revenue	-	11,021,956	11,021,956
Wraparound reimbursement	-	2,602,410	2,602,410
Other	-	722,374	722,374
Net assets released from restrictions	(8,225,545)	8,225,545	-
Total revenues	292,292	41,862,844	42,155,136
EXPENSES:			
Program Services:			
Medical services	-	14,781,827	14,781,827
Pharmacy	-	4,017,576	4,017,576
Donated-in-kind - Ryan White Part B ADAP	-	2,936,947	2,936,947
Laboratory	-	1,205,227	1,205,227
Radiology	-	438,690	438,690
Emergency room	-	4,121,129	4,121,129
Other medical	-	2,357,296	2,357,296
Total program services	-	29,858,692	29,858,692
Support Services:			
General and administrative expenses	-	8,905,760	8,905,760
Total expenses	-	38,764,452	38,764,452
CHANGE IN NET ASSETS	292,292	3,098,392	3,390,684
NET ASSETS, BEGINNING OF YEAR AS RESTATED	-	24,721,226	24,721,226
NET ASSETS, ENDING OF YEAR	$ 292,292	$ 27,819,618	$ 28,111,910

See accompanying notes to financial statements.

NEOMED CENTER, INC.
(A Non-Profit Corporation)

Statement of Functional Expenses
For the year ended June 30, 2019

	Program Services	General and Administrative	Total Expenses
Salaries and fringe benefits:			
Salaries	$ 6,397,151	$ 3,969,544	$ 10,366,695
Payroll taxes	588,946	312,303	901,249
Uniforms, MSV, EHR and other benefits	33,634	7,554	41,188
Incentive (sick)	119,613	67,518	187,131
Vacations	457,919	270,257	728,176
Workers compensation	157,278	96,536	253,814
Total personnel	7,754,541	4,723,712	12,478,253
Activities	-	140,889	140,889
Advertising	-	444,058	444,058
Bank charges	-	43,427	43,427
Biomedical disposal	43,369	-	43,369
Communication	45,953	172,206	218,159
Disability insurance	1,717	1,403	3,120
Drugs and medicines	6,173,199	-	6,173,199
Electricity	-	347,997	347,997
Health insurance	236,822	214,500	451,322
Interests	-	296,667	296,667
Insurance	-	242,544	242,544
Legal	-	169,727	169,727
Licenses and membership	9,781	113,633	123,414
Maintenance and cleaning supplies	29,749	1,079,100	1,108,849
MC 21	12,875	-	12,875
Medical supplies and equipment	590,241	-	590,241
Minor equipment	86,198	286,523	372,721
Miscellaneous and vending machine supplies	24	22,644	22,668
Office supplies	639	108,964	109,603
Over-the-counter supplies	59,170	1,864	61,034
Perdiem	1,800	46,376	48,176
Postage	3,868	6,540	10,408
Professional services	4,157,348	310,272	4,467,620
Referral, physician and Institutional - health reform	10,506,019	-	10,506,019
Rent	-	121,673	121,673
Rent of equipment	31,658	152,222	183,880
Repairs and maintenance equipment	15,706	220,229	235,935
Repairs and maintenance facility	1,608	47,331	48,939
Retirement benefits	-	5,000	5,000
Software training	72,178	9,076	81,254
Training	-	90,044	90,044
Travel	-	175,143	175,143
Waste disposal	-	11,675	11,675
Water	-	59,630	59,630
Other	-	76,837	76,837
Subtotal	22,079,922	5,018,194	27,098,116
Total expenses before depreciation	29,834,463	9,741,906	39,576,369
Depreciation	175,333	506,126	681,459
Total expenses	$ 30,009,796	$ 10,248,032	$ 40,257,828

See accompanying notes to financial statements.

NEOMED CENTER, INC.

(A Non-Profit Corporation)

Statement of Functional Expenses
For the year ended June 30, 2018

	Program Services	General and Administrative	Total Expenses
Salaries and fringe benefits:			
Salaries	$ 5,541,702	$ 3,764,466	$ 9,306,168
Payroll taxes	528,301	303,365	831,666
Uniforms, MSV, EHR and other benefits	71,061	14,160	85,221
Incentive (sick)	56,026	77,013	133,039
Vacations	416,347	239,593	655,940
Workers compensation	145,295	94,916	240,211
Total personnel	6,758,732	4,493,513	11,252,245
Activities	-	75,364	75,364
Advertising	-	346,189	346,189
Bank charges	-	35,654	35,654
Biomedical disposal	36,894	-	36,894
Communication	32,439	134,033	166,472
Disability insurance	1,498	1,424	2,922
Drugs and medicines	6,353,821	-	6,353,821
Electricity	-	203,118	203,118
Health insurance	198,599	185,017	383,616
Interests	-	25,709	25,709
Insurance	-	135,514	135,514
Legal	-	373,855	373,855
Licenses and membership	25,139	64,761	89,900
Maintenance and cleaning supplies	21,439	796,364	817,803
MC 21	12,597	-	12,597
Medical supplies and equipment	509,854	-	509,854
Minor equipment	68,994	127,485	196,479
Miscellaneous and vending machine supplies	12,461	27,916	40,377
Disaster assistance	-	251,500	251,500
Office supplies	1,164	82,023	83,187
Over-the-counter supplies	43,768	661	44,429
Perdiem	-	21,045	21,045
Postage	3,178	3,171	6,349
Professional services	3,635,989	175,829	3,811,818
Referral, physician and institutional - health reform	11,813,248	-	11,813,248
Rent	-	250,878	250,878
Rent of equipment	41,630	99,354	140,984
Repairs and maintenance equipment	41,189	203,214	244,403
Repairs and maintenance facility	2,631	64,865	67,496
Retirement benefits	-	5,000	5,000
Software training	12,451	1,935	14,386
Training	-	49,950	49,950
Travel	-	92,644	92,644
Vehicles	-	24,253	24,253
Waste disposal	-	4,560	4,560
Water	-	49,496	49,496
Other	7,643	166,357	174,000
Subtotal	22,876,626	4,079,138	26,955,764
Total expenses before depreciation	29,635,358	8,572,651	38,208,009
Depreciation	223,334	333,109	556,443
Total expenses	$ 29,858,692	$ 8,905,760	$ 38,764,452

See accompanying notes to financial statements.

NEOMED CENTER, INC.

(A Non-Profit Corporation)

Statements of Cash Flows

For the years ended June 30, 2019 and 2018

Increase (Decrease) in Cash and Cash Equivalents

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 3,086,914	$ 3,390,684
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	681,459	556,443
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	126,665	783,663
Inventories	81,692	16,149
Prepaid expenses	(66,934)	(95,441)
Increase (decrease) in:		
Accounts payable	167,021	(65,116)
Accrued expenses and withholdings	42,359	(447,608)
Unearned revenues	(2,181,494)	(1,510,838)
IBNR reserves	183,850	(56,974)
Total adjustments	(965,382)	(819,722)
Net cash provided by operating activities	2,121,532	2,570,962
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Certificates of deposits	(60,761)	(3,040,408)
Purchases of properties and equipments	(876,380)	(7,103,321)
Investment in construction in progress	(1,465,868)	(2,004,377)
Deposits	(130,223)	14,056
Net cash used in investing activities	(2,533,232)	(12,134,050)
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Net (decrease) increase in long-term debt	(238,778)	6,361,834
NET DECREASE IN CASH	(650,478)	(3,201,254)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,357,636	6,558,890
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,707,158	$ 3,357,636

See accompanying notes to financial statements.

1. ORGANIZATION

NEOMED Center, Inc. ("**the Institution**") was incorporated under the laws of the Commonwealth of Puerto Rico on June 8, 1992 to operate as a non-profit organization engaged in comprehensive primary care ambulatory, supplemental and environmental health services to the medically underserved residents in the municipalities of Gurabo, San Lorenzo, Trujillo Alto, Aguas Buenas and Juncos, Puerto Rico.

The Institution is supported by the contributions made by the Department of Health and Human Services, Public Health Service Act of the United States of America (DHHS), PRHD Health Reform System and from program-generated income. The HHS principal contribution consists of federal funds under Section 330 of DHS Act, which received by the Program who monitors and performs the payment function. The PRHD Health Reform revenue consists of capitation revenues received through an HMO based on the number of persons who select **the Institution** as their primary care center.

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.

Basis of presentation - The financial statements of the Institution have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 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 was effective January 1, 2018

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, whereby the donor has stipulated the funds be maintained in perpetuity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Revenues from sources other than contribution are reported as increases in net assets without donor restriction. Expenses are reported as decreases in net assets without donor restriction. Expirations of donor restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions.

Contributions - 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. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation.

Revenues from sources other than contribution are reported as increases in net assets without donor restriction. Expenses are reported as decreases in net assets without donor restriction. Expirations of donor restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions.

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.

Allowance for uncollectible accounts – The allowance for uncollectible accounts is an amount that management believes is adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of collectability of the receivables and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Inventories – Inventories consist of medicines, materials and medical supplies and are stated at cost under the first-in, first-out method, not in excess of market.

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's capitalization policy considers as property and equipment tangible nonexpendable property, an acquisition cost over $500. 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 is reported as unrestricted support, and is 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. **The Institution** reports expirations of restrictions as depreciation expense is recognized over the time.

In accordance with the provisions of FASB ASC 360-10-50-2 (formerly statement of Financial Standard No. 144, "Accounting for the Impairment of Long-Lived Assets", **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.

All grants and contracts are considered to be available for unrestricted use unless specifically restricted by the grantor. Amounts received that are designated for future periods or restricted by the grantor for specific purposes are reported as with donor restrictions support that increases those net asset classes. When a temporary restriction expires, with donors restrictions net assets are reclassified to without donor restrictions net assets and reported in the statement of activities as net assets released from restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Vacations and sick leave - Employees of **the Institution** are entitled to paid vacation depending on length of services and other factors. Sick leave is not accrued because it does not vest; employees are not paid for any sick leave balance at termination of employment or at any other time. At June 30, 2019 and 2018 the accrued vacations of $684,225 and $568,977, respectively, were included as accrued expenses and withholdings in the statement of financial position.

Federal 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.

Net patient service revenue – **The Institution** has agreements with third-party payers that provide for payments to **the Institution** at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers for services rendered and are recognized in the period in which **the Institution** is obligated to provide services to its patients.

Premium revenue – **The Institution** has agreements with Health Maintenance Organizations (“HMOs”) to provide primary health care services to enrolled members. Under these agreements, **the Institution** receives a monthly fixed amount per individual member (PMPM) known as capitation fee. Capitation fee is due monthly and is recognized as revenues regardless of services actually performed by **the Institution**. In addition, the HMOs make fee for services payments to **the Institution** for certain covered services based upon discounted fees schedules. **The Institution’s** health care premiums are reported as revenues in the month that enrolled members are entitled to health care benefits.

Unearned revenues - **The Institution** reports unearned revenue on its balance sheet, when potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (unavailable revenue). Unearned revenue also arises when **the Institution** receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when **the Institution** has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Donations and in-kind contributions – **The Institution** recognizes all donated services and materials at their fair market value at the time of donation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

<u>Wraparound payments</u> – 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 Health Maintenance Organizations (HMO), and 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 new PPS.

Wraparound payments are recognized as income in the period that **the Institution** is entitled to receive those payments. The amount reported in the 2019 and 2018 statements of activities and change in net assets includes wraparound payments for the period between July 1, 2018 and June 30, 2019 and July 1, 2017 and June 30, 2018. At present, the **Institution** is plaintiff against the Puerto Rico Department of Health at the Federal Court for wraparound payments for the period between July 1, 2006 and June 30, 2009. **The Institution** is also plaintiff at the State Court for wraparound payments for the periods between January 1, 2001 and June 30, 2006.

<u>Health care services cost recognition</u> – The cost of health care services provided 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 Institution**. Medical claims, which has been incurred but not reported by providers, are estimated based on historic data; trends and other financial information submitted by the insurance carrier and amounted to $965,917 and $782,067 as of June 30, 2019 and 2018, respectively.

<u>Income taxes</u> – **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(8) of the Puerto Rico Tax Code. **The Institution** follows the provision of FASB ASC 740-10 (formerly FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes) which clarifies the accounting for uncertainty in income taxes recognized in an Organization's financial statements in accordance with FASB ASC 740. Under the provision for this Interpretation, **the Institution** is required to evaluate its income tax position each year to determine whether **the Institution's** tax provision is more likely-than-not to be sustained if examined by the applicable taxing authority. Management of **the Institution** has evaluated its tax position and has concluded that this requirement had no effect on **the Institution's** financial position or changes in its net assets.

NEOMED CENTER, INC.
(A Non-Profit Corporation)

Notes to Financial Statements

As of and for the years ended June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Expense recognition - 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.**

Sliding Fee Scale **-** The Institution provides care to patients, who meet certain criteria under its sliding fee policy, at a nominal fee or at amounts less than its established rates. Patient balances are adjusted to the discounted rates at the time of service.

340B Drug Pricing Program **-** The Institution, as an FQHC, participates in the 340B Drug Pricing Program. The program requires drug manufacturers to provide outpatient drugs to FQHCs and other identified entities at a reduced price. The Institution contracts with local pharmacies under this program. The local pharmacies dispense drugs to eligible patients of the Institution and bill Medicare and commercial insurances on behalf of the Institution. Reimbursement received by the pharmacies is remitted to the Institution net of dispensing and administrative fees. Revenue generated from the program is included in patient service revenue net of third-party allowances. The cost of drug replenishments and contracted expenses incurred related to the program are included in other operating expenses.

Adoption of New Accounting Pronouncements - On August 18, 2016, FASB issued ASU 2 016-14, No t-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Non-Profit Organization, Inc. has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Recently Adopted Accounting Standards - On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of this new guidance 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". On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606), which deferred the effective date for all entities by one year. These new standards, which the Institution is not required to adopt until its fiscal year ending June 30, 2020, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Recently Adopted Accounting Standards, Continued - On February 25, 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This new standard, which the Institution is not required to adopt until its fiscal year ending June 30, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

On June 21, 2018, FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. Additionally, the amendments in this ASU require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. Finally, ASU 2018-08 amends the "simultaneous release accounting policy" to allow a not-for-profit entity to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. The Institution will be required to adopt this new standard in the year ending June 30, 2020. The Institution is presently evaluating the effects that these ASUs will have on its future financial statements, including related disclosures.

Date of management review - Management of **the Institution** has evaluated subsequent events through May 22, 2020, which is the date the financial statements were available to be issued. Except for subsequent event disclosed in note 19, No events were identified that should be disclosed or adjusted in the financial statements or its related notes.

3. GRANTS AND CONTRACT RECEIVABLE

Grants and contract receivable as of June 30, 2019 and 2018 consist of the following:

	2019	2018
Community Health Centers Program Grant under the Section 330 (E), Public Health Service Act, as amended, granted by the Bureau of Primary Health Care, Department of Health and Human Services.	$ 4,451,995	$ 5,845,873
Patient Protection and Affordable Care Act Grant	787,002	787,617
	$ 5,238,997	$ 6,633,490

As of June 30, 2019, grants and contract receivable include $787,002, released by the Division of Payment Management System on July 30, 2019 from Grant C8ACS23715 (Capital Development Building Capacity Grant Program). This occurs after submission and acceptance by HRSA on July 16, 2019 of the Capital Development Building Capacity Project Semi Annual Progress Report, and the Prior Approval Request (PA-00079360) on April 29, 2019. A new Notice of Award (NoA) dated May 15, 2019 was issued for a new Extension without Funds until April 30, 2020. The expenditures and revenues of these funds were incurred and recognized as of June 30, 2019.

NEOMED CENTER, INC.
(A Non-Profit Corporation)

Notes to Financial Statements

As of and for the years ended June 30, 2019 and 2018

4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2019 and 2018 consist of the following:

	2019	2018
Health insurances	$ 6,088,798	$ 4,663,661
Medicare and related plans	18,933	18,933
Other receivable	93,089	92,935
	6,200,820	4,775,529
Less allowance for uncollectible accounts	(406,798)	(249,337)
Accounts receivable - net	$ 5,794,022	$ 4,526,192

The analysis of the allowance for doubtful accounts as of June 30, 2019 and 2018 consist of the following:

	2019	2018
Balance at beginning	$ 249,337	$ 221,284
Adjustments	157,461	28,053
	$ 406,798	$ 249,337

5. INVENTORIES

Inventories as of June 30, 2019 and 2018 consist of the following:

	2019	2018
Drugs and medicines	$ 467,198	$ 526,738
Medical and other supplies	131,953	153,897
Groceries in store and supplies	699	907
	$ 599,850	$ 681,542

6. PROPERTY, PLANT AND EQUIPMENT - NET

Property, plant and equipment as of June 30, 2019 and 2018 consist of the following:

	2019	**2018**
Building	$ 19,346,597	$ 13,441,759
Building improvements	838,262	838,262
Medical equipment	505,433	499,233
Office furniture and other equipment	1,155,359	951,186
Computer equipment	1,239,034	1,132,423
Motor vehicles, including capital lease in the amount of $22,571	453,652	453,652
	23,538,337	17,316,515
Less: accumulated depreciation and amortization	(4,827,967)	(4,146,508)
Property, plant and equipment net	18,710,370	13,170,007
Land	1,641,855	1,540,164
Property, plant and equipment - net	$ 20,352,225	$ 14,710,171

7. LINES OF CREDITS

As of June 30, 2019 and 2018 consists of two revolving lines of credit with Banco Popular of Puerto Rico in the amount of $200,000 and $3,000,000, bearing interest at of 1.10% and 1.25% (floor prime rate) (effective interest rate of 6.60% and 6.75% as of June 30, 2019 and 2018) respectively, secured by certificates of deposits, and renewable annually. There were no outstanding balances of lines of credits as of June 30, 2019 and 2018.

8. LONG TERM DEBT

Long- term debt as of June 30, 2019 and 2018 consist of the following:

	2019	2018
Banco Popular de Puerto Rico:		
Note payable in monthly installments of $3,900 plus interest at 1.75% over prime rate (effective interest rate of 7.25% and 6.5% as of June 30, 2019 and 2018, respectively), secured by building facilities in San Lorenzo, Puerto Rico, due on August 2020.	$ 438,700	$ 485,500
Non-revolving Note A payable in 59 equal monthly installments of $15,741 plus interest at .75% over prime (effective interest rate of 6.25 and 5.50% as of June 30, 2019 and 2018, respectively) and a final installment for the remaining outstanding principal balance, secured by building, due on June 2023.	3,211,108	3,400,000
Non-revolving Note B payable at maturity date bearing fixed interest rate at 1.85% over unpaid balance, secured by certificate of deposit, due on October 2020.	3,000,000	3,000,000
	6,649,808	6,885,500
Less current portion	(3,227,974)	(235,692)
	$ 3,421,834	$ 6,649,808

Aggregate long-term maturities for the next four years are as follows:

Year ending	Amount
2020	$ 3,227,974
2021	580,792
2022	188,892
2023	2,652,150
	$ 6,649,808

9. CAPITAL LEASE OBLIGATIONS

The Institution entered into non-cancellable capital lease agreement for vehicle, which have been classified as capital lease for lease for financial statements purposes. The following is a schedule of future minimum lease payments as of June 30, 2019:

Year ending June 30,	
2020	$ 4,603
2021	4,986
Total minimum financing payments	9,589
Less: amount representing interest	(578)
Present value of future minimum lease payments	9,011
Less: Current portion	(4,117)
Obligation under capital leases net of current portion	$ 4,894

10. ACCRUED EXPENSES AND WITHHOLDINGS

The balance of accrued expenses and withholdings as of June 30, 2019 and 2018 consist of:

	2019	2018
Vacations	$ 684,220	$ 568,977
Expenses and witholdings	140,430	213,312
	$ 824,650	$ 782,289

11. CONTRIBUTED SERVICES AND IN-KIND CONTRIBUTIONS

In-kind donations consist of pharmacy supplies to be used for programs or for day to day operations. When supplies are received, revenue and expenses should be recognized at fair market value. These are items that the institution would typically purchase themselves for operations had the item not been donated. Contributed services received are recognized as in-kind revenues if the services provided (a) create or enhance nonfinancial assets or (b) required specialized skills which would need to be purchased if they were not donated. For the years ended June 30, 2019 and 2018 the amount for contributed services and in-kind contributions amounted to $2,867,552 and $2,936,947, respectively.

12. NET PATIENT SERVICE REVENUE

The Institution has agreements with third-party payors, including Medicare, that provide for reimbursement to **the Institution** at rates different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between **the Institution's** standard rates for services and the amount reimbursed by third-party payors.

A summary of gross and net patient service revenue for the years ended June 30, 2019 and 2018 follows:

	2019	2018
Gross patient service revenue	$ 12,662,080	$ 11,271,293
Less: Provision for contractual allowance	(388,232)	(249,337)
Net patient service revenue	$ 12,273,848	$ 11,021,956

13. NET ASSETS

Net assets without donor restrictions in the statement of financial position consist of Section 330 funds (Consolidated Health Centers), Affordable Care Act Funds (ACA) and Ryan White Funds. Section 330 funds are available for primary and preventive health services to medically underserved populations. ACA funds are available to support the costs of alteration/renovation or construction of a facility that is consistent with the health centers program's mission – to provide comprehensive, culturally competent, quality primary, healthcare services to medically underserved communities and vulnerable populations. Ryan White funds are available to support primary medical care and essential support services.

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 June 30, 2019 the amount of net assets released from restrictions aggregated $9,044,027. 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.

13. NET ASSETS, Continued

Prior to July 1, 2018, **the Institution** reported expirations of restrictions on donations or on contributions restricted to purchase of capital assets as depreciation expenses was recognized over time. Upon implementation of ASU 2016-14, effective July 1, 2018, **the Institution** reports expirations of donors' restrictions when the donated or acquired assets are placed in service. As result, **the Institution** reclassified balances in restricted net assets that relate to these implied time restrictions to net assets without donor restrictions. The reclassification was recorded to the operating balance of net assets as follows:

	Net Assets		
Description	**With Donor Restriction**	**Without donor Restriction**	**Total**
Net assets at the beginning of year, as previously reported	$ 5,598,127	$ 22,513,783	$ 28,111,910
Reclassification to report expiration of time restrictions	(5,598,127)	5,598,127	-
Net assets at beginning of year, as restasted	$ -	$ 28,111,910	$ 28,111,910

14. SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION

i. Interest paid for the years ended June 30, 2019 and 2018 amounted to $296,667 and $25,709, respectively.

ii. During 2019 and 2018 **the Institution** wrote off and recovered accounts receivable in the amount of $157,461 and $28,053, respectively.

iii. During 2018 **the Institution** reclassified deposits in to building in the amount of $411,500.

iv. During 2019 and 2018 and **the Institution** reclassified construction in progress in to building in the amount of $4,871,461 and $3,234,619, respectively.

15. COMMITMENTS AND CONTINGENCIES

Puerto Rico Health Reform Contract

The Center enter into an agreement with MMM Multi Health, Inc., Molina Healthcare and Mennonite Health Plan, Inc. to manage the regions covered by Government Health Plan (GHP), formerly “Mi Salud Health Insurance Program”. The northeast (Trujillo Alto center) and east (Gurabo, Juncos, San Lorenzo and Aguas Buenas) region are covered by MMM Multi Health, Inc. and Molina Healthcare, respectively. The contract with First Medical Health Plan, Inc. would manage the virtual region that is comprised of children who are in the custody of ADFAN (Administración de Familias y Niños by its Spanish acronym), as well as certain survivors of domestic violence referred by the Office of the Women’s Advocate, who enroll in the GHP Program. The Virtual Region encompasses services for these Enrollees throughout Puerto Rico.

On February 2018 the Health Insurance Administration (ASES) published a Request for Proposal (RFP) for a new model for 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 has already awarded the number of insured persons assigned to each of the five companies selected to administer the new model of the Health Reform, which will begin in November 2018. The five selected companies are Triple-S, MMM, Molina Healthcare, First Medical and Mennonite Health Plan.

Under the new model, the Reform 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, therefore, the previous contracts have been extended up to October 31, 2019 and renewed on November 1, 2019.

15. COMMITMENTS AND CONTINGENCIES, Continued

Puerto Rico Health Reform Contract

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 managed care organizations under Plan Mi Salud. 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 managed care organizations are not enforceable against the Centers.

Credit Agreement Commitment

On December 27, 2017, **the Center** entered into a credit agreement with Banco Popular of Puerto Rico in the aggregate principal amount of $6,400,000. The credit facilities consist of:

i. Non-Revolving A Facility in an aggregate principal amount which shall not exceed $3,400,000. The proceeds of the Non-Revolving A Facility shall be used to (i) finance in part the acquisition of the Trujillo Alto Property and (ii) pay for closing costs. This facility was available until March 27, 2018.

ii. Non-Revolving B Facility in an aggregate principal amount which shall not exceed $3,000,000. The proceeds of the Non-Revolving A Facility shall be used to (i) finance in part the acquisition of the Trujillo Alto Property and (ii) pay for closing costs.

Each Non-Revolving an Advance shall bear interest, from the date of such Advance until the unpaid principal amount thereof shall be paid in full, at a fluctuating annual rate of interest equal at all times to the Applicable Rate plus the Applicable Margin. Each Non-Revolving B Advance shall bear interest, from the date of such Advance until the unpaid principal amount thereof shall be paid in full, at a fixed annual rate equal to one point eighty five percent (1.85%).

The credit facility is secured with a first-priority mortgage lien on the Trujillo Alto Property and certificates of deposits. Refer to Note 8.

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.

Undue disbursements

During 2019, the Institution made undue disbursements to a supplier for approximately $50,000. The Institution together with its legal advisers is in the process of analyzing the most reasonable way to recover the disbursements.

16. LIQUIDITY

As of June 30, 2019, **the Institution's** financial assets available within one year for general expenditure are as follows:

Cash and cash equivalents	$ 2,707,158
Certificate of deposit	7,406,072
Grants contracts receivable	5,238,997
Accounts receivable, net	5,794,022
Total	$ 21,146,249

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.

17. RETIREMENT PLANS

Neomed Center, Inc has a 1081.01 retirement plan that covers all full-time employees who have worked for a certain amount of hours and days. As of June 30, 2019 and 2018, the Center does not make contributions to match the contributions made by employees.

18. CONCENTRATION OF CREDIT RISK

The Institution maintains its cash balances in various commercial banks and credit unions. Commercial bank and credit unions accounts are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) and the Corporación Pública para la Supervision y Seguro de Cooperativas de Puerto Rico (COSSEC). At June 30, 2019 and 2018, **the Institution** uninsured cash balances amounted to $9,805,101 and $10,439,085, respectively.

19. 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 reschedules of services provided as a result of a lockdown imposed by the Government of Puerto Rico in response of the pandemic which included closing of several health center's access points. Changes to the operating environment may increase operating costs. No additional impacts were suffered by **the Institution**. The future effects of these issues are unknown.

20. RECLASSIFICATIONS

Certain reclassifications have been made to the 2018 financial statements in order to conform them to the 2019 financial statements presentations.

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SUPPLEMENTAL INFORMATION

NEOMED CENTER, INC.

Supplemental Schedule- Combining Statements of Activities

For the year ended June 30, 2019

		|-----Without donor restrictions-----|							
	Total	**Health Center Cluster**	**Ryan White Part C**	**Ryan White Part A**	**ACA BC-DC**	**Ryan White Part B**	**ASSMCA**	**Private**	**Program Income**
SUPPORT AND REVENUES:									
Federal grants and contracts	$ 8,874,150	$ 8,221,619	$ 614,383				$ 38,148		
Donated-in-Kind - Ryan White Part B ADAP	2,867,552					$ 2,867,552			
Premium revenue - PR Health Reform	15,687,520								$ 15,687,520
Net patient service revenue	12,273,848								12,273,848
Wraparound reimbursement	2,776,494								2,776,494
Other	865,178	278	20			727		$ 173,034	691,119
Total revenues	43,344,742	8,221,897	614,403			2,868,279	38,148	173,034	31,428,981
EXPENSES:									
Program Services:									
Medical services	14,753,677	3,760,154	194,678			25,613		755	10,772,477
Pharmacy	4,593,735	1,073,382	125,925					61,536	3,332,892
Donated-in-Kind - Ryan White Part B ADAP	2,867,552					2,867,552			
Laboratory	1,363,850	85,699	18,409						1,259,742
Radiology	578,777	94,080							484,697
Emergency room	3,951,273	2,038							3,949,235
Other medical	1,900,932	1,238,426	217,984				73,658	131,535	239,329
Total program services	30,009,796	6,253,779	556,996			2,893,165	73,658	193,826	20,038,372
Support Services:									
General and administrative expenses	10,248,032	1,955,995	155,566	147		182	47,886	51,335	8,036,921
Total expenses	40,257,828	8,209,774	712,562	147		2,893,347	121,544	245,161	28,075,293
CHANGE IN NET ASSETS	3,086,914	12,123	(98,159)	(147)		(25,068)	(83,396)	(72,127)	3,353,688
NET ASSETS, BEGINNING AS RESTATED	28,111,910	824,268	(42,748)	(12,884)	3,466,331	(6,261)	(19,679)	115,600	23,787,283
NET ASSETS, ENDING OF YEAR	$ 31,198,824	$ 836,391	$ (140,907)	$ (13,031)	$ 3,466,331	$ (31,329)	$ (103,075)	$ 43,473	$ 27,140,971

NEOMED CENTER, INC.

Supplemental Schedule- Combining Statements of Activities

For the year ended June 30, 2018

		|---------------Without donor restrictions---------------							
	Total	**Health Center Cluster**	**Ryan White Part C**	**Ryan White Part A**	**ACA BC-DC**	**Ryan White Part B**	**ASSMCA**	**Private**	**Program Income**
SUPPORT AND REVENUES:									
Federal grants and contracts	$ 8,517,837	$ 7,767,983	$ 639,605	$ 20,589			$ 89,660		
Donated-in-Kind - Ryan White Part B ADAP	2,936,947					$ 2,936,947			
Premium revenue - PR Health Reform	16,353,612								$ 16,353,612
Net patient service revenue	11,021,956								11,021,956
Wraparound reimbursement	2,602,410								2,602,410
Other	722,374							$ 563,821	158,553
Total revenues	42,155,136	7,767,983	639,605	20,589		2,936,947	89,660	563,821	30,136,531
EXPENSES:									
Program Services:									
Medical services	14,781,827	$ 3,352,868	164,141						11,264,818
Pharmacy	4,017,576	936,605	147,944	855					2,932,172
Donated-in-Kind - Ryan White Part B ADAP	2,936,947					2,936,947			
Laboratory	1,205,227	92,358	23,693						1,089,176
Radiology	438,690	75,158							363,532
Emergency room	4,121,129	115							4,121,014
Other medical	2,357,296	991,738	202,985				69,470	448,221	644,882
Total program services	29,858,692	5,448,842	538,763	855		2,936,947	69,470	448,221	20,415,594
Support Services:									
General and administrative expenses	8,905,760	1,978,834	148,892	20		6,261	39,869		6,731,884
Total expenses	38,764,452	7,427,676	687,655	875		2,943,208	109,339	448,221	27,147,478
CHANGE IN NET ASSETS	3,390,684	340,307	(48,050)	19,714		(6,261)	(19,679)	115,600	2,989,053
NET ASSETS, BEGINNING AS RESTATED	24,721,226	483,961	5,302	(32,598)	3,466,331				20,798,230
NET ASSETS, ENDING OF YEAR	$ 28,111,910	$ 824,268	$ (42,748)	$ (12,884)	$ 3,466,331	$ (6,261)	$ (19,679)	$ 115,600	$ 23,787,283

SINGLE AUDIT SECTION

NEOMED CENTER, INC.
(A Non-Profit Corporation)

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2019

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA No.	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services:				
Direct Programs:				
Consolidated Health Center (Community Health Center and Public Housing Primary Care)	93.224			$ 8,017,200
Grants to Provide Outpatient Early Intervention Services with respect to HIV Disease (Ryan White HIV/AIDS Program Part C)	93.918			712,562
Affordable Care Act (ACA)-Capital Development in Health Centers	93.526		-	787,002
Total Direct Programs				9,516,764
Pass-through Programs:				
HIV Care Formula Grants (Ryan White HIV / AIDS Program Part B)	93.917	2016-DS-0408		2,893,347
Substance Abuse and Mental Health Services - Projects of Regional and National Significance (ASSMCA)	93.243	2019-368		121,544
Municipality of San Juan - HIV Emergency Relief Project Grant - Ryan White Part A	93.914	2015-002119-B-09-09-15		147
Total Pass-through Programs				3,015,038
Total of Expenditures of the Federal Awards				$ 12,531,802

NEOMED CENTER, INC.

(A Non-Profit Corporation)

Notes to Schedule of Expenditures of Federal Awards

For the year ended June 30, 2019

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of **NEOMED Center, Inc**. (**the Institution)** under programs of the federal government for the year ending in June 30, 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)*. 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 flow 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.

NOTE B – 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. Pass-through entity identifying numbers are presented where available.

NOTE C - 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.

NOTE D – RECONCILIATION OF EXPENDITURES IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENSES PRESENTED IN THE SUPPLEMENTAL SCHEDULE – COMBINING STATEMENT OF ACTIVITIES

Description	Consolidated Health Centers	Affordable Care Act	Ryan White Part C	Ryan White Part A	Ryan White Part B	ASSMCA	Total
Expenses per SEFA	$ 8,017,200	$ 787,002	$ 712,562	$ 147	$2,893,347	$ 121,544	$12,531,802
Add: Depreciation	198,774	-	-	-	-	-	198,774
Less: Net capitalized expenditures	(6,200)	(787,002)	-	-	-	-	(793,202)
In-kind income	-	-	-	-	(2,893,347)	-	(2,893,347)
Total-Supplemental	$ 8,209,774	$ -	$ 712,562	$ 147	$ -	$ 121,544	$ 9,044,027

* * * * *

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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 Board of Directors of
NEOMED Center, Inc.
Gurabo, Puerto Rico

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 **NEOMED Center, Inc**., "**the Institution**" (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 22, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **NEOMED Center, Inc.'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 **NEOMED Center, Inc.'s** internal control. Accordingly, we do not express an opinion on the effectiveness of **the Institution'**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 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. 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 **NEOMED Center, Inc.'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*.

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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 Institution**'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 Institution**'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

May 22, 2020

RRC CPA Group, PSC

License No. PSC - 196
Ponce, Puerto Rico

Stamp number E411393 was affixed to the original 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 Board of Directors of
NEOMED Center, Inc.
Gurabo, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited **NEOMED Center 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 **NEOMED Center Inc.'s** major federal programs for the year ended June 30, 2019. **NEOMED Center 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **NEOMED Center 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 **NEOMED Center, 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 **NEOMED Center, Inc.**'s compliance.

Opinion on Each Major Federal Program

In our opinion, **NEOMED Center, 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 June 30, 2019.

Member of: Russell Bedford taking you further
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Report on Internal Control Over Compliance

Management of **NEOMED Center, 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 **NEOMED Center, 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 **NEOMED Center, 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 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.

May 22, 2020

RRC CPA Group, PSC

License No. PSC - 196
Ponce, Puerto Rico

Stamp number E411394 was
affixed to the original report.

NEOMED Center, Inc.
(A Non-Profit Corporation)

Schedule of Findings and Questioned Costs

For the year ended June 30, 2019

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)
5. Dollar threshold used to distinguish Type A and Type B programs:	☒ $750,000	
6. Low-risk auditee	☒ Yes	☐ No

NEOMED Center, Inc.
(A Non-Profit Corporation)

Schedule of Findings and Questioned Costs, Continued

For the year ended June 30, 2019

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

None reported.

III. Findings and Questioned Costs for Federal Awards:

None reported.

NEOMED CENTER, INC.
(A Non-Profit Corporation)

Summary Schedule of Prior Findings

For the year ended June 30, 2019

Fiscal year Ended	Finding No.	Condition	Status

No prior year audit findings to follow-up.