ANNUAL CORPORATION REPORT

Galíndez LLC

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Southwest Health Corp.

Opinion

We have audited the balance sheets of Southwest Health Corp. (the Company), a wholly owned subsidiary of Artau Holdings II, LLC, which comprise the balance sheets as of December 31, 2021 and 2020, and the related notes to the balance sheets.

In our opinion, the balance sheets referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Balance sheets section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 5 to the balance sheets, the Company has significant transactions with its affiliates at terms and conditions arranged by management of the affiliated group; accordingly, the accompanying balance sheets may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated entity. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Balance Sheets

Management is responsible for the preparation and fair presentation of these balance sheets 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 balance sheets that are free from material misstatement, whether due to fraud or error.

In preparing the balance sheets, management is required to evaluate whether there are conditions or_events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the balance sheets are available to be issued.

Auditors' Responsibilities for the Audit of the Balance Sheets

Our objectives are to obtain reasonable assurance about whether the balance sheets as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the balance sheets.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the balance sheets, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the balance sheets.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the balance sheets.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

GALINDEZ LLC
CERTIFIED PUBLIC ACCOUNTANTS LICENSE LLC-322
PUERTO RICO

Galindez LLC

San Juan, Puerto Rico
October 5, 2022
License No. LLC-322
Expires December 1, 2023

Southwest Health Corp.
(A Wholly Owned Subsidiary of Artau Holdings II, LLC)

Balance Sheets

December 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash	$ 1,432,866	$ 922,935
Patient accounts receivable, net	3,933,974	2,654,859
Capitation receivable	642,940	555,947
Other accounts receivable	872,490	1,931,570
Estimated third-party payor settlement	717,091	479,311
Inventory of supplies	733,460	450,181
Prepaid expenses, including prepaid income tax of $24,357 in 2021 and $57,506 in 2020	1,577,999	1,706,836
Total current assets	9,910,820	8,701,639
Property, plant and equipment, net	14,511,979	14,405,031
Goodwill	671,338	671,338
Due from related parties	4,155,886	4,361,720
Deferred tax asset	404,314	488,267
Other assets	193,993	184,079
Total assets	$ 29,848,330	$ 28,812,074
Liabilities and Stockholder's Equity		
Current liabilities:		
Current portion of long-term debt	$ 136,000	$ 136,000
Current portion of capital lease obligations	263,868	308,102
Accounts payable	6,379,650	4,647,920
Accrued expenses and other current liabilities	1,312,394	1,227,429
Unearned revenues	60,700	-
Total current liabilities	8,152,612	6,319,451
Due to related parties	3,039,976	2,973,270
Accrual for claim losses	69,373	-
Long-term debt, net of current portion	3,030,981	3,144,311
Capital lease obligations, net of current portion	720,805	941,041
Total liabilities	15,013,747	13,378,073
Stockholder's equity:		
Common stocks authorized, issued and outstanding 1,000,000 shares, $1 par value	1,000,000	1,000,000
Additional paid-in-capital	1,000,000	1,000,000
Retained earnings	12,834,583	13,434,001
Total stockholder's equity	14,834,583	15,434,001
Total liabilities and stockholder's equity	$ 29,848,330	$ 28,812,074

See notes to financial statements

Note 1 - Organization and summary of significant accounting policies

Organization

Southwest Health Corp. (the Company) is a for profit corporation organized under the laws of the Commonwealth of Puerto Rico. The Company operates an acute care hospital in San Germán, a diagnostic and treatment center in Sabana Grande (CDT), and a psychiatric hospital in Cabo Rojo, Puerto Rico. The Company provides inpatient, outpatient and emergency services, among other healthcare services. The Company is a wholly owned subsidiary of Artau Holding II, LLC.

During the year ended December 31, 2020, the Company acquired the CDT for approximately $4.5 million. The acquisition was paid through cash of approximately $1.1 million, obtained from related parties, and a credit facility of $3.4 million. On July 30, 2020, the Company entered into a Credit Agreement (the "Agreement") with a commercial bank for the financing of the acquisition (see Note 6). In general, the terms of the Agreement consist of:

a. A non-revolving facility which requires the aggregate unpaid principal balance outstanding be paid in full, on the earlier of, if not sooner; (i) July 30, 2021, (ii) 90 days after the consummation of the acquisition of the CDT ("Conversion Date"), and (iii) in an event of default. Additionally, the non-revolving facility bears a variable interest rate equivalent to the higher of: (i) prime rate (3.25% as of December 31, 2020), plus 1.5%, and (ii) the floor rate equivalent to 4%. As of December 31, 2020, the interest rate was 4.75%.

b. In addition, the Agreement provides for the conversion of the non-revolving facility into a term loan at the Conversion Date. The amount of the conversion is equivalent to the lesser of: (i) seventy-five percent (75%) of the aggregate appraised value of the properties, and (ii) $3.4 million. The term loan is payable in fifty-nine (59) installments of principal and interest based on a twenty-five (25) year amortization schedule and a balloon payment necessary to repay in full the unpaid principal amount outstanding. Further, the term loan bears a variable interest rate equivalent to the higher of: (i) prime rate (i.e., 3.25% as of December 31, 2020) plus 1%, and (ii) the floor rate equivalent to 4%. As of December 31, 2020, the interest rate was 4.25%.

On November 25, 2020, the Company converted the non-revolving facility into a term loan and commenced the payment of principal and interest on December 1, 2020. The term loan has a maturity date of November 1, 2025.

Note 1 - Organization and summary of significant accounting policies – (continued)

Organization – (continued)

The acquisition of the CDT was accounted for at the estimated fair value of the net assets acquired, pursuant to the provisions of Financial Accounting Standards Board, Accounting Standards Codification (ASC) No. 805, *Business Combinations*.

In accordance with the provisions of ASC 805, the Company recognized goodwill of $671,338 for the excess of the consideration paid over the estimated fair value of the net assets acquired, as follows:

Property, plant and equipment	$ 3,733,342
Escrow deposit for environmental remediation liability	95,520
Net assets acquired and escrow deposit	3,828,862
Purchase price	4,500,200
Goodwill	$ 671,338

Summary of significant accounting policies

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 the 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.

Patient service revenue

The Company recognizes revenue pursuant to the provisions of ASC No. 606, *Revenue from Contracts with Customer*s. ASC 606 requires that five steps be completed to determine when revenue can be recognized: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price; and (v) recognize revenue when or as the entity satisfies a performance obligation.

Patient service revenue is reported at the amount that reflects the consideration to which the Company expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others, and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations.

Note 1 - Organization and summary of significant accounting policies – (continued)

Patient service revenue – (continued)

Generally, the Company bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Company. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Company believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving outpatient services. The Company measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services.

Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the patients and customers in a retail setting (for example, pharmaceuticals) and the Company does not believe it is required to provide additional goods or services related to that sale. For the years ended December 31, 2021 and 2020, all of the Company’s patient service revenue corresponded to performance obligations recognized over time.

The Company determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Company's policy, and implicit price concessions.

The Company determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Company determines its estimate of implicit price concessions based on its historical collection experience. Estimated implicit price concessions for the years ended December 31, 2021 and 2020 amounted to $782,191 and $954,093, respectively.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient or third-party payor ability to pay are recorded as bad debt expense.

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant accounting policies – (continued)

Patient service revenue – (continued)

Capitation revenue

The Company has agreements with insurance carriers to provide medical services to enrolled members. Under these agreements, the Company receives fixed monthly capitation payments based on the number of members, regardless of services performed by the Company. In addition, the insurance carriers make fee-for-service payments to the Company for certain covered services based upon discounted fee schedules. The Company's health care premiums (capitation revenues) are reported as revenue in the month that enrolled members are entitled to health care benefits.

Valuation of accounts receivable

The Company makes judgments as to the collectability of accounts receivable based on historical trends and future expectations. Management estimates an allowance for doubtful accounts, which represents the collectability of patient service accounts receivable. This allowance adjusts gross patient service accounts receivable downward to their estimated net realizable value. Management reviews specific customer risk for accounts over 365 days using the Company's accounts receivable aging.

Inventory of supplies

Inventory of supplies, consisting of drugs, medicines, food and other, is stated at the lower of cost (first-in, first-out basis) or net realizable value.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets, ranging from 3 to 35 years, and is computed using the straight-line method. Equipment and vehicles under capital lease obligations are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments are capitalized.

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant accounting policies – (continued)

Goodwill

The Company accounts for goodwill pursuant to the provisions of ASC No. 350, *Intangibles-Goodwill and Other*, which requires goodwill to be tested periodically for impairment. If goodwill is impaired, it will be written down to its estimated fair value. At December 31, 2021 and 2020, there were no accumulated impairment losses, and no impairment charges were recorded during the years then ended.

Impairment of long-lived assets

In accordance with the provisions of the *Accounting for the Impairment or Disposal of Long-Lived Assets, Topic of the FASB Accounting Standards Codification*, management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. No impairment was recorded during the years ended December 31, 2021 and 2020.

Debt issuance costs

Debt issuance costs are deferred and amortized, using the straight-line method, over the term of the related debt.

Accrual for claim losses

The accrual for medical malpractice claims includes an estimate of the ultimate costs for reported and unreported claims incurred during the period. Because of uncertainties inherent in the estimation process, management's estimate of amounts due for malpractice claims may change in the near term. The accrual for medical malpractice claims amounted to $69,373 at December 31, 2021. There was no accrual for medical malpractice claims as of December 31, 2020.

Income taxes

The Company accounts for income taxes pursuant to the provisions of ASC No. 740, *Income Taxes*. ASC 740 requires an asset and liability approach for the reporting income taxes, under which the amounts of deferred income tax liabilities and assets at the end of each period are determined using the tax rate expected to be in effect when taxes are paid or recovered. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not. Deferred income taxes are provided for the estimated income tax effect of temporary differences between financial and tax bases in assets and liabilities.

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant accounting policies – (continued)

Income taxes – (continued)

Deferred tax assets are also provided for certain operating losses carryforwards, accrual for medical malpractice claims and allowance for uncollectible accounts. A valuation allowance to reduce deferred tax assets is established when deemed appropriate.

Also, the Company follows the requirements of the ASC *Topic of Accounting for Uncertainty in Income Taxes*, which is an accounting standard that prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This standard also provides guidance on the recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with a tax position and income tax disclosures. The Company's policy for interest and penalties related to income tax exposures is to recognize interest and penalties as a component of the provision for income taxes in the statements of operations.

The Puerto Rico Internal Revenue Code (the Code) requires disclosure in the financial statements of the names of all related entities doing business in Puerto Rico that meet certain conditions, as defined by the Code.

The following represents a list of the related entities that fall within the Code disclosure requirements as of December 31, 2021:

- Alpine Health Technologies, Corp.
- AMMVR Group, Inc.
- APS Clinics of Puerto Rico, Inc.
- APS Healthcare Puerto Rico, Inc.
- APS Management Corp.
- B.V.R. Ambulance Best Care, LLC
- Clínica Yagüez, Inc.
- Contact Security, Inc.
- DE Holdings, LLC
- Dr. Susoni Health Community Services Corp.
- EJA Katching Group, LLC
- EJA Properties Group, Inc.
- Execumed Corp.
- First Health Call Corporation
- FM Salud, Inc.

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant accounting policies – (continued)

Income taxes – (continued)

- FMI Agency
- Hospital Doctor Susoni, Incorporado
- Healthcare Professional Solutions of PR, LLC
- IMC Salud, Inc.
- Integrate Community Health System, Inc.
- International Medical Card, Inc.
- International Pharmacy, Inc.
- Lady Carmen Crew, LLC
- Lady Carmen, LLC
- Metro Hato Rey, Inc.
- Metro Healthcare Management Systems, Inc.
- Metro Holdings, Inc.
- Metro Mayagüez, Inc.
- Metro Pavia Health System, Inc.
- Metro Pavia Healthcare Centers, Inc.
- Metro Ponce, Inc.
- Metro Santurce, Inc.
- Metro Toa Baja, Inc.
- MetroHealth Central Corporation
- Metrohealth Extended Care, Inc.
- MetroHealth, Inc.
- MPHC Properties, LLC
- Metro Pavia Hospital Group, LLC
- Optimind Manage Behavioral Healthcare, Inc.
- Pure OTC Benefit, Inc.
- San Francisco Health System, Inc.
- Sistema de Salud Metropolitano, Inc.
- Three A Engineering & Construction, Inc.
- Yauco Healthcare Corporation
- Zero Medical Waste, Inc.
- ZMW Investment, LLC

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant accounting policies – (continued)

New accounting pronouncement

ASC No. 842, *Leases*, requires the recognition of lease assets and liabilities by lessees for those leases classified as operating leases, among other new requirements. Pursuant to the provisions of ASC 842, a lessee should recognize in the balance sheet a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. ASC 842 also requires the segregation of right-of-use assets arising from operating and finance (capital) leases in the balance sheet and significantly expands the disclosures related to leases in the financial statements. ASC 842 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASC 842 is effective for the Company on January 1, 2022.

The Company is in the process of determining the impact this new accounting pronouncement may have on its financial statements.

Note 2 - Patient accounts receivable

Patient accounts receivable at December 31, 2021 and 2020 consist of:

	2021	2020
Patient accounts receivable	$ 4,421,304	$ 3,487,968
Less allowance for doubtful accounts	487,330	833,109
Total	$ 3,933,974	$ 2,654,859

Changes in the allowance for doubtful accounts for patient accounts receivable for the years ended December 31, 2021 and 2020 were as follows:

	2021	2020
Balance, beginning of year	$ 833,109	$ 203,512
Provision charged to operations	12,189	14,211
Write-off of uncollectible accounts	(1,330,684)	(826,487)
Increase in allowance for uncollectible accounts	972,716	1,441,873
Balance, end of year	$ 487,330	$ 833,109

Note 2 - Patient accounts receivable – (continued)

At December 31, 2021 and 2020, 100% and 85%, respectively, of the amounts reserved as uncollectible are related to third-party payors, while 15% in 2020 are related to self-pay patients, which include deductibles and co-insurance, which the Company accounts for as patient balance. Also, during the years ended December 31, 2021 and 2020, the Company accounted for $1,330,684 and $826,487, respectively, for accounts written-off, of which $442,211 and $415,714, respectively, correspond to third-party payors, and $888,473 and $410,773, respectively, correspond to self-pay patients.

Other receivables for the years ended December 31, 2021 and 2020 consist of:

	2021	2020
EHR incentives (Note 10)	$ 777,296	$ 1,819,873
Other	95,194	111,697
Total	$ 872,490	$ 1,931,570

Note 3 - Patient service and capitation revenue

Patient service revenue

The Company has agreements with third-party payors that provide for reimbursement to the Company at amounts different from its established rates. A summary of the payment arrangements that are held with major third-party payor follows:

Medicare - Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services rendered to Medicare beneficiaries are paid at rates determined under the Outpatient Prospective Payment System (OPPS). These rates vary according to a classification system consisting of groups of services so that services within each group are comparable clinically and with respect to the use of resources. Inpatient capital costs related to Medicare beneficiaries are paid based on a fully prospective method. The Company is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits by the Medicare fiscal intermediary. The cost report for the year ended December 31, 2021 was submitted for review to the Medicare fiscal intermediary. The cost reimbursement reports for the years ended December 31, 2018 to December 31, 2021, are open for review by the Medicare fiscal intermediary.

Note 3 - Patient service and capitation revenue – (continued)

Patient service revenue – (continued)

Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term, but management believes those changes will not be material.

Risk arrangement with insurance companies - The Company has entered into agreements with health insurance companies for a compensation payment based on a per member per month (PMPM) basis for services rendered to its members. As per most of the agreements, certain services are excluded from the PMPM and continue to be paid separately, such as implants, outpatient, emergency room, and behavioral services, among others. The agreements provide for corridor calculations as safeguards against utilization significantly above or below the expected base utilization. At the end of the contract year, if the actual utilization is above or below the corridor range, an additional payment or recovery takes effect, calculated by the difference between the actual PMPM and the actual utilization incurred, less the amount of the corridor. If the actual utilization is within the corridor range, no adjustment is required.

Other commercial insurance carriers and health maintenance organizations - The Company has agreements with other third-party payors that provide for reimbursement to the Company at amounts different from its established rates, at prospectively determined rates per day of hospitalization and at all-inclusive per diems and rates per admissions. Contractual adjustments under third-party reimbursement programs represent the difference between the Company's established rates for services and amounts reimbursed by third-party payors.

Short-term acute care - The Company received several supplemental payments amounting to $1,061,044 as part of short-term acute care (STAC) services provided to Plan VITAL participants during the year ended December 31, 2021. The supplemental payments are equal to the difference between the amount paid by a manage care organization for inpatient hospital services and a percentage of the amount that would have been paid for the services under Medicare payment principles.

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

Note 3 - Patient service and capitation revenue – (continued)

Patient service revenue – (continued)

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Company's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant during the years ended December 31, 2021 and 2020.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance. The Company also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges.

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

Patient service revenue, net of contractual allowances, discounts and implicit price concessions for the years ended December 31, 2021 and 2020 consists of:

	2021	2020
Third-party payors	$ 31,107,922	$ 24,198,455
Self-pay patients	807,530	482,865
Patient service revenue	$ 31,915,452	$ 24,681,320

Note 3 - Patient service and capitation revenue – (continued)

Capitation revenue

Agreements with insurance carriers exist to provide certain hospital services to their subscribers for an amount based per member per month (PMPM). Revenue from these agreements amounted to $2,451,819 and $4,290,752 for the years ended December 31, 2021 and 2020, respectively. Furthermore, the agreements obligate the Company to assume the risk of hospital services provided to covered members outside the hospital network (out of program services). For such purposes, the insurance carriers withhold a fixed amount from the PMPM to pay any out of program service claims. As of December 31, 2021 and 2020, the withholdings made by the insurance carriers to pay for out of program service costs exceeded out of program service costs incurred and thus, no liability for unpaid claims was recorded as of such date. In order to provide for a proper recognition of the obligations with out of program providers, a reserve, for those services provided in other healthcare facilities, but for which the claim has not been submitted, has been accounted for as a liability in the accompanying balance sheets. This reserve, known as the IBNR (incurred but not reported) claims reserve, is determined based upon an actuarial analysis of the historical claim payment patterns, management estimates, and other statistics. Hospital services costs - out of program, as reported in the statements of operations, include actual costs incurred during the years ended December 31, 2021 and 2020, and the corresponding provision for the IBNR reserve for the years then ended.

Note 4 - Property, plant and equipment

Property, plant and equipment at December 31, 2021 and 2020 consist of:

	2021	2020
Land and land improvements	$ 2,291,407	$ 2,291,407
Buildings and buildings improvements	13,552,416	13,441,530
Equipment	14,093,297	12,798,723
Vehicles	74,723	74,723
Equipment under capital lease obligations	3,099,806	2,956,001
Construction in progress	63,042	136,931
Property and equipment	33,174,691	31,699,315
Less accumulated depreciation	18,662,712	17,294,284
Property, plant and equipment, net	$ 14,511,979	$ 14,405,031

Depreciation expense of property, plant and equipment for the years ended December 31, 2021 and 2020 amounted to approximately $1,368,000 and $1,232,000, respectively. Amortization of other assets for the years ended December 31, 2021 and 2020 amounted approximately $172,000 and $108,800, respectively.

Note 5 - Related parties

The Company is a member of an affiliated group under common control and ownership. The affiliated group consists of a wide variety of entities engaged in different industries and line of business. Some of the affiliated companies provided services to the Company under terms and conditions similar to arrangements with non-related entities, and such transactions are arranged by the management of the affiliated group. Accordingly, the accompanying financial statement may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated entity.

Amounts due from/to related parties at December 31, 2021 and 2020 consist of:

	2021	2020
Due from related parties:		
Artau Holding II, LLC's members	$ 2,826,193	$ 2,826,193
MetroHealth Central Corporation	647,646	647,646
Metro Pavia Healthcare Centers, Inc.	437,587	437,587
Yauco Healthcare Corporation	77,189	283,022
Other	167,271	167,272
Total	$ 4,155,886	$ 4,361,720
Due to related parties:		
Metro Pavia Health System, Inc.	$ 1,986,010	$ 2,306,678
Metro Ponce, Inc.	920,833	572,500
Other	133,133	94,092
Total	$ 3,039,976	$ 2,973,270

Amounts due from/to related parties are unsecured, bear no interest and have no specific repayment terms.

During 2021 and 2020, the Company provided services to patients subscribed by International Medical Card, an affiliated entity. Related revenues, including capitation revenue, for the years ended December 31, 2021 and 2020 amounted to approximately $7.4 million and $6.1 million, respectively. At December 31, 2021 and 2020, accounts and capitation receivable include approximately $642,000 and $877,000, respectively, for such services.

In addition, APS Healthcare Puerto Rico, Inc., a related party, administers the behavioral healthcare plan coverage for certain membership of the Puerto Rico Health Insurance Administration, on a per member per month (PMPM) basis. For the years ended December 31, 2021 and 2020, revenues from this agreement amounted to approximately $2.8 million and $2.5 million, respectively.

Note 5 - Related parties – (continued)

At December 31, 2021 and 2020, accounts receivable include approximately $360,000 and $245,000, respectively, for such services.

During the years ended December 31, 2021 and 2020, the Company charged to operations approximately $380,000 and $1,023,000, respectively, for management services provided by related parties.

Note 6 - Long-term debt

Long-term debt at December 31, 2021 and 2020 consists of:

	2021	2020
Term loan payable in the original amount of $3,400,000, payable in 59 monthly installments of principal and interest based on a 25 year amortization schedule and a balloon payment for the then outstanding balance on November 1, 2025. The term loan bears interest at a variable rate equivalent to the higher of: (i) the prime rate (3.25% as of December 31, 2021 and 2020), plus 1.5%, or (ii) a floor rate of 4%. The term loan is collateralized by the CDT property and the San German property.	$ 3,252,667	$ 3,388,667
Less debt issuance costs, net of accumulated amortization of $26,078 in 2021 and $3,408 in 2020	(85,686)	(108,356)
Long-term debt, net	3,166,981	3,280,311
Less current portion of long-term debt	(136,000)	(136,000)
Long-term debt, net of current portion	$ 3,030,981	$ 3,144,311

Future maturities of long-term debt at December 31, 2021 consist of:

Years Ending December 31	Amounts
2022	$ 136,000
2023	136,000
2024	136,000
2025	2,844,667
Total	$ 3,252,667

Note 6 - Long-term debt – (continued)

The Company is required to comply with certain affirmative, negative and financial covenants among other requirements established in the Agreement. As of December 31, 2021, the Company was not in compliance with certain covenants, however, subsequent to year end, the bank waived the requirements to comply with such covenants. There can be no assurance that the Company will comply with these covenants in the future or that the bank will waive such requirements.

Note 7 - Capital lease obligations

Capital lease obligations at December 31, 2021 and 2020 consist of:

	2021	2020
Capital lease obligations payable in variable monthly installments through 2026, bearing interest at rates ranging from 4% to 27.50%, collateralized by the related equipment, with a carrying value of approximately $874,00 in 2021 and $1,205,000 in 2020.	$ 984,673	$ 1,249,143
Less current portion of capital lease obligations	263,868	308,102
Capital lease obligations, net of current portion	$ 720,805	$ 941,041

Future minimum lease payments under capital lease obligations at December 31, 2021 consist of:

Years Ending December 31,	Amounts
2022	$ 341,255
2023	304,889
2024	209,655
2025	192,189
2026	92,040
Total	1,140,028
Less amount representing interest	(155,355)
Present value of minimum lease payments	984,673
Less current portion of capital lease obligations	(263,868)
Non-current capital lease obligations	$ 720,805

Note 8 - Income taxes

The Company is subject to Puerto Rico income taxes at statutory rates ranging from 18.5% to 37.5%. However, the Company has been granted a partial tax exemption under Act No. 168 of June 30, 1968, as amended by the law No. 16 of January 20, 2006. Under such Act, the Company enjoys a tax credit of up to 15% of the eligible payroll expense, as defined by law, but not in excess of 50% of the income tax liability. In addition, the Company qualifies for a full exemption from the payment of property, municipal and excise taxes, and from sales and use tax in the purchase of medical surgical supplies, equipment or technology used in the health care services provided at the Company's facilities. The tax exemption grant is for a period of ten (10) years, which expires in 2029.

A reconciliation of the Company's net loss with its taxable loss for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Net loss per financial statements	$ (599,418)	$ (286,561)
Income tax provision	128,902	16,467
Non-deductible items	1,413,756	380,998
Deductible items	(592,518)	-
Other exempt income and grant revenue	(2,171,047)	(4,439,427)
Taxable income from non-exempt operations	(138,583)	(98,648)
Taxable loss from exempt operations	$ (1,958,908)	$ (4,427,171)

At December 31, 2021 and 2020, deferred income tax assets consist of:

	2021	2020
Allowance for doubtful accounts and implicit price concessions	$ 310,488	$ 404,703
Accrual for claim losses	13,008	-
Net operating loss carryforwards	1,201,345	830,094
AMT credits	80,818	83,564
Net operating loss carryforwards	1,605,659	1,318,361
Less valuation allowance	(1,201,345)	(830,094)
Deferred income tax asset	$ 404,314	$ 488,267

Note 8 - Income taxes – (continued)

In assessing the realization of deferred income tax assets, management considers whether it is more likely than not that some portion or the entire deferred income tax asset will not be realized. The ultimate realization of these assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or to incur in regular income taxes in excess of AMT. Based upon the Company's historical and expected levels of taxable income, management believes it is more likely than not that the Company will not be able to fully realize the benefits of the existing deferred income tax asset resulting from its net operating loss carryforwards, accordingly, a valuation allowance to off-set such deferred income tax asset was recognized as of December 31, 2021 and 2020.

At December 31, 2021, the Company has net operating loss carryforwards amounting to approximately $6.4 million, which may be available to off-set future taxable income through the year 2031.

Note 9 - Coronavirus Disease COVID-19

In March 2020, the World Health Organization declared the coronavirus disease COVID-19 a global pandemic. This highly contagious disease spread across the world and into Puerto Rico and resulted in local government enforced business lockdowns and curfews, as well as other restrictions on social and business activities involving large numbers of individuals and/or participants. The local public health crisis resulting from the COVID-19 pandemic has adversely affected the public perception that hospitals and other healthcare providers are currently involved in treating patients with such a highly contagious disease. Accordingly, this situation has negatively impacted the operations and financial results of the Company, since patients have canceled or deferred elective procedures or otherwise avoid medical treatment, resulting in reduced patient volumes and operating revenues.

On March 27, 2020, the President of the United States of America signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to provide emergency assistance to individuals, families, and businesses, including healthcare providers, affected by the COVID-19 pandemic. As part of the CARES Act, the Company received conditional contribution grants from the U.S. Treasury Department, the U.S. Department of Health and Human Services (HHS), and through the local government during the years ended December 31, 2021 and 2020. These contributions were received for the purpose of providing financial support to the Company, rather than for the direct benefit of the grantor, therefore, such grants were considered as nonexchange contributions, similar to the contribution model provided by ASC No. 958-605, *Not-for-Profit Entities – Revenue Recognition*. The grantors have restricted the use of these funds as conditional contributions. The Company accounts for conditional contributions received before the specified condition has been substantially met as a refundable advance liability (unearned revenues). Upon complying with the applicable restrictions, the refundable advances are recognized as revenue or gain in the statements of operations.

Note 9 - Coronavirus Disease COVID-19 – (continued)

During the years ended December 31, 2021 and 2020, the Company received $2,231,747 and $4,439,427, respectively, from federal assistance and other programs of which $2,171,047 and $4,439,427 were incurred in eligible expenses, accordingly, they were accounted for as grants revenue in the accompanying statements of operations for the years ended December 31, 2021 and 2020, respectively. The remaining $60,700 for 2021 are presented as unearned revenues in the accompanying balance sheet as of December 31, 2021.

The COVID-19 pandemic has negatively affected the Company's normal operations, however, the actual financial statement impact for future periods, if any, cannot be reasonably estimated at this time. Furthermore, the Company may qualify for additional financial assistance programs under the CARES Act and other legislation, which may reduce the impact of the COVID-19 pandemic on the Company's operations.

Note 10 - Commitments and contingencies

Commitments

Operating leases – as lessee

The Company leases certain facilities under operating lease agreements, which are renewed on a month-to-month basis. Rent expense for the years ended December 31, 2021 and 2020 was approximately $113,000 and $111,000, respectively.

Contingencies

Malpractice claims

The Company has a malpractice insurance policy with coverages of $1,000,000 per claim and $2,000,000 in the aggregate. Claims alleging malpractice have been asserted against the Company and are currently in various stages of litigation. It is the opinion of legal counsel and management that insurance coverages at December 31, 2021 and 2020 are adequate to provide for potential losses resulting from pending or threatened litigation.

The Company is also involved in other legal and administrative proceedings arising out of the normal operations of the business. In the opinion of the Company's management and based on the advice of legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial position and results of operations of the Company.

Note 10 - Commitments and contingencies – (continued)

Contingencies – (continued)

Grant refundable advances

As discussed in Note 9, during the years ended December 31, 2021 and 2020, the Company received conditional contributions under certain federal assistance programs. Funds received from federal funded programs are subject to financial and compliance audits in accordance with the provisions of Title 2 of the U.S. Code of Federal Regulation, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (the Uniform Guidance) or to compliance audits by the corresponding federal agencies and pass-through entities, as applicable. The Uniform Guidance requires compliance audits for entities receiving financial assistance in excess of $750,000 in the aggregate in a single year. Since the Company received federal financial assistance in excess of $750,000 during the years ended December 31, 2021 and 2020, it is subject to compliance audits under the Uniform Guidance.

Federal agencies have the authority to recoup, as well as to limit, suspend, or terminate the federal financial assistance programs. If any unallowed costs are detected as a result of such compliance audits, the Company may be required to reimburse such amounts to the corresponding federal agencies from its own non-federal resources.

The accompanying financial statements do not contain any adjustment that my result from this contingency.

Regulatory issues

The healthcare industry is subject to numerous laws and regulations, which include, among other, matters such as government healthcare participation requirements, various license and accreditations, reimbursement for patient services and Medicare and Medicaid fraud and abuse.

Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be excluded from participating in government healthcare programs, subjected to fines or penalties or required to repay amounts received from government for previously billed patient services. While management of the Company believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Company will not be subjected to governmental inquiries or actions.

Note 10 - Commitments and contingencies – (continued)

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act (HIPAA) was enacted in August 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are required to be in compliance with HIPAA provisions and are subject to significant fines and penalties if found not to be in compliance with the provisions outlined in the regulations. The Company believes to be in compliance with such provisions.

Electronic Health Records System

The Health Information Technology for Economic and Clinical Health Act set meaningful use of interoperable Electronic Health Record (EHR) adoption in the health system as a critical national goal and incentivize the EHR adoption. Its goal is not adoption alone but meaningful use of EHRs, that is, their use by providers to achieve significant improvements in care.

The Centers for Medicare and Medicaid Services (CMS) manages and has implemented an incentive program for those hospitals that implement EHR and that also, comply with certain specific requirements. CMS EHR Incentive Programs provide incentive payments to eligible hospitals as they adopt, implement, upgrade and demonstrate meaningful use, as defined by CMS, of certified EHR technology. As of December 31, 2021 and 2020, the Company is under the implementation of its EHR system.

Pursuant to the Consolidated Act of 2016, the Puerto Rico hospitals become eligible under the Medicare EHR Incentive Program. This enables the hospitals to not only receive the incentive payments but also be subject to the Medicare negative payment adjustments. The Puerto Rico hospitals would have to demonstrate successful meaningful use, in order to avoid a negative payment adjustment in 2022. The Puerto Rico hospitals could earn up to four consecutive years of Medicare EHR Incentive Program payments.

During the years ended December 31, 2021 and 2020, the Company completed certain upgrades to its EHR system and concluded that it met the corresponding incentive program requirements. During the years ended December 31, 2021 and 2020, the Company recorded incentives amounting to $238,026 and $497,589, respectively, and were included in the statements of operations as non-operating income and in the balance sheets as other account receivable. The Company complied with the required documentation and attestation process for the 2021 and 2020 incentives.

Note 11 - Employees' retirement plan

The Company sponsors a defined contribution retirement plan for full time employees who meet the plan's eligibility requirements. The Company has agreed to contribute to the plan an amount equal to 25% of employee contributions up to 6% of the participant's compensation. Employees can contribute to the plan an amount of their compensation, not exceeding the maximum deferral amount permitted under local law. During 2021 and 2020, the Company contributed to the plan approximately $37,000 and $29,000, respectively.

Note 12 - Concentration of credit risk

Cash and cash equivalents

The Company maintains its cash balances in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of December 31, 2021 and 2020, deposits in these financial institutions exceeded the limits insured by the FDIC by approximately $1,486,000 and $1,451,000, respectively, however, the Company does not anticipate any credit losses on such deposits.

Patient accounts receivable

The Company grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The Company maintains allowances for potential credit losses which, when realized, have been within the range of management expectations.

The composition of receivables from patients and third-party payors at December 31, 2021 and 2020 was as follows:

	2021	2020
Triple S	27%	32%
MMM Healthcare	18%	9%
International Medical Card	9%	7%
APS	12%	5%
Medicare	7%	7%
Self-pay patients	8%	12%
Other third-party payor	19%	28%
Total	100%	100%

Note 13 - Subsequent events

Subsequent events were evaluated through October 5, 2022, which is the date the financial statements were available to be issued. Except as disclosed in Note 6 and the following paragraph, no other events have occurred subsequent to the balance date and through the date the financial statements were available to be issued, that would require additional adjustment to, or disclosure in the financial statements.

During 2022, the Company received an incentive of $753,676 as part of the Workers Relief Program under the Coronavirus State and Local Fiscal Recovery Fund federal assistance program.

On September 18, 2022, the Company's facilities located in Cabo Rojo, Puerto Rico, were impacted by Hurricane Fiona, causing property damages and the loss of power, which resulted in certain limitations to the facilities' normal operations.

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