ANNUAL CORPORATION REPORT

FPV & GALINDEZ LLC

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Guaynabo Ambulatory Surgical Group, Inc.
Guaynabo, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of Guaynabo Ambulatory Surgical Group, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2017 and 2016 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. 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 procedure to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the Company'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 Company'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.

FPV & GALINDEZ

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Guaynabo Ambulatory Surgical Group, Inc. as of December 31, 2017 and 2016 in accordance with accounting principles generally accepted in the United States of America.

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COLEGIO DE CONTADORES PUBLICOS AUTORIZADOS DE PUERTO RICO
FPV & GALINDEZ, LLC
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE
LLC-322
PUERTO RICO

FPV & Galindez

San Juan, Puerto Rico
May 31, 2018

Guaynabo Ambulatory Surgical Group, Inc.

Balance Sheets

December 31, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash	$ 2,326,683	$ 1,936,624
Accounts receivable, net	426,058	424,965
Inventory	96,332	77,288
Prepaid income taxes	36,813	211,412
Prepaid expenses	77,819	65,079
Total current assets	2,963,705	2,715,368
Property and equipment, net	2,520,348	2,899,950
Other non-current assets	91,751	91,751
Deposits	51,500	51,500
Total non-current assets	2,663,599	3,043,201
Total assets	5,627,304	5,758,569
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of notes payable	411,552	449,208
Accounts payable		
Trade	306,590	221,219
Related parties	54,758	38,747
Accrued expenses	379,091	314,467
Total current liabilities	1,151,991	1,023,641
Long-term liabilities		
Notes payable, net of current portion	719,536	1,175,453
Deposits	5,000	5,000
Total long-term liabilities	724,536	1,180,453
Total liabilities	1,876,527	2,204,094
Stockholders' equity		
Common stock, 100,000,000 shares authorized, $0.01 par value, 1,020 shares issued and 990 shares outstanding (2016 - 1,020)	10	10
Additional paid in capital	2,604,990	2,604,990
Retained earnings	1,295,777	949,475
Treasury Stock - at cost 30 shares	(150,000)	-
Total stockholders' equity	3,750,777	3,554,475
Total liabilities and stockholders' equity	$ 5,627,304	$ 5,758,569

See notes to financial statements

Note 1 - Organization and summary of significant accounting policies

Organization

Guaynabo Ambulatory Surgical Group, Inc. (the “Company”), is a corporation organized on February 6, 2004 under the laws of the Commonwealth of Puerto Rico. The Company is primarily engaged in providing ambulatory surgical facilities for private physicians to perform ophthalmic surgical procedures and vision corrections. The Company is doing business as Vista Ophthalmic Ambulatory Center at City View Plaza in Guaynabo, Puerto Rico.

The Company is a subsidiary of Puerto Rico A.S.C. Holding Co., Inc., which owns 60.61% of equity and the remaining 39.39% is owned by private physicians.

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 disclosure 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.

Net patient service revenue

The Company has agreements with third-party payors that provide for payments at established contracted rates. Payment arrangements include prospectively determined rates per surgical procedures and reimbursed cost. Revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Medicare - Outpatient surgical services rendered to Medicare beneficiaries are paid at Centers of Medicare and Medicaid Services (CMS) annual predetermined rates under the Ambulatory Surgery Centers (ASC) Medicare rates. These rates vary annually according to coding (CPTs) classifications established by CMS.

Other third-party payors - The Company has also entered into reimbursement agreements with other third-party payors and certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per surgical procedures.

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

Net patient service revenue – (continued)

The Company follows the requirements of the Financial Accounting Standard Board (FASB) Accounting Standards Update No. 2011-07 *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Healthcare Entities*. The standard update requires healthcare entities that recognize a significant amount of patient service revenue at the time the services are rendered, even though they do not assess the patient's ability to pay to present as separate line items on the face of the statement of income, the provision for bad debts, related to patient service revenue as a deduction from patient revenue (net of contractual allowances and discounts).

The standard update also requires disclosing by major payor source of revenue; the Company's policy for assessing collectability in determining the timing and amount of patient service revenue to be recognized, and qualitative and quantitative information about significant changes in the allowance for doubtful accounts related to patient accounts receivable.

Allowance for doubtful accounts

The Company estimates losses for uncollectible accounts based on the aging of the accounts receivable and the evaluation of the likelihood of success in collecting the receivable. An allowance for doubtful accounts is established based on such estimate.

Inventory

Inventory of supplies, consisting of drugs, medicines and other, are stated at the lower of cost or market (first-in, first-out basis).

Property and equipment

Property and equipment are stated at cost. Major renewals and betterments that extend the life of the assets are capitalized, while expenditures for repairs and maintenance are expensed when incurred. Depreciation and amortization are provided for by the straight-line method over the estimated useful lives of depreciable assets, which range from 3 to 20 years.

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

Long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair market value less costs to sell. As of December 31, 2017 and 2016 there was no impairment of long-lived assets.

Income taxes

Income taxes are accounted for using the asset and liability method under which deferred income taxes are recognized for the tax consequences of “temporary differences” by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and operating loss carry-forwards. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. Management provides valuation allowances against the deferred tax asset for amounts which are not considered “more likely than not” to be realized.

The Company follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Company’s tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this standard.

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

Concentration of credit risk

Cash in bank

Financial instruments that potentially subject the Company to concentrations of credit risk is primarily cash. The Company maintains its cash in bank deposit accounts in banking institutions insured by the Federal Deposit Insurance Corporation up to $250,000. During the years 2017 and 2016, cash balances exceeded federal insured limits by approximately $1,774,000 and $1,239,000, respectively. The Company has not experienced any losses on such accounts.

Accounts receivable

The Company grants credit without collateral to its patients and others, most of them are local residents and are insured under third-party agreements.

Note 2 - On accounts receivables

Accounts receivable as of December 31, 2017 and 2016 consisted of the following:

	2017	2016
International Medical Card	$ 33,094	$ 36,146
Medical Card System	172,843	113,688
Triple S	122,089	181,177
Prosam	5,920	22,774
MMM	9,867	18,066
Constellation	59,579	39,350
Other third-party payors	111,668	100,451
Total patient accounts receivable	515,060	511,652
Less: allowance for doubtful accounts	(89,002)	(86,687)
Patient accounts receivable, net	$ 426,058	$ 424,965

Note 3 - Net patient service revenue

A summary of patient service revenue, net of contractual allowances and discounts for the years ended December 31, 2017 and 2016 follow:

	2017	2016
Third-party payors	$ 6,080,895	$ 6,694,645
Self-pay patients	21,821	16,600
Net patient service revenue	$ 6,102,716	$ 6,711,245

Changes in allowance for doubtful accounts on patients' accounts receivable for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Balance, beginning of year	$ 86,687	$ 122,812
Provision charged to operations	93,905	100,618
Write-off of uncollectible accounts	(91,590)	(136,743)
Balance, end of year	$ 89,002	$ 86,687

Net patient service revenue from third-party payors is estimated fully collectible and it is recorded when the health care services are provided. Also, health care services provided to uninsured patients is recorded when the services are provided. The Company methodology to record provision for bad debts, as a deduction of net patient service revenue in the accompanying statement of income, equal to 1.5% of Net Patient Service Revenue, for which collection efforts have been followed in accordance with the Company policies, particularly amounts receivable from third-party payors.

At December 31, 2017 and 2016, approximately 99.77% of the amounts reserved as uncollectible are related to third-party payors, and 0.23% are related to self-pay patients, which includes deductibles and co-insurance which the Company accounts for as patient balance.

Note 4 - Property and equipment

Property and equipment as of December 31, 2017 and 2016 consisted of the following:

	2017	2016
Leasehold improvements	$ 3,104,677	$ 3,104,677
Equipment	2,328,379	2,276,416
Computer and medical software	125,442	122,661
Furniture and fixtures	85,417	84,235
	5,643,915	5,587,989
Less: accumulated depreciation and amortization	3,123,567	2,688,039
Property and equipment, net	$ 2,520,348	$ 2,899,950

Note 5 - Related party transactions

During the years ended December 31, 2017 and 2016, the Company engaged in transactions with companies affiliated by common ownership and management.

The related balances and transactions as of and for the years ended December 31, 2017 and 2016 are as follows:

	2017		2016	
	Accounts (payable)	Total management fee	Accounts (payable)	Total management fee
Puerto Rico A.S.C. Management Co., Inc.	$ (54,758)	$ 301,964	$ (38,747)	$ 335,784

Amounts due to related parties are unsecured, non-interest bearing and with no specified terms for repayment.

Note 5 - Related party transactions – (continued)

In addition, as required by the Puerto Rico Treasury Department, the Company has identified the following entities that are part of the controlled group, as defined in the Puerto Rico Internal Revenue Code, as amended:

- Puerto Rico ASC Holding Co., Inc.
- Puerto Rico ASC Holding C., LLC.
- Puerto Rico ASC Management Co., Inc.
- Laser Eye Surgery Management of Puerto Rico, Inc.
- San Juan Ambulatory Surgical Center, Inc.
- Mayagüez Ambulatory Surgical Center, Inc.
- Caguas Ambulatory Surgical Center, Inc.

Note 6 - Lease commitment

The Company rents its office and medical facilities under the provisions of a lease agreement that expires in September 2026. The agreement provides for a monthly rent of $23,690 for the next five years, payment of a pro-rata of the real estate taxes, parking spaces and operational expenses. Total rent expense for the years 2017 and 2016 amounted to $284,280 and $302,820, respectively.

The future minimum lease payments as of December 31, 2017 under this operating lease, are as follows:

Year	Amount
2018	$ 284,280
2019	284,280
2020	284,280
2021	284,280
2022	284,280
Thereafter	1,118,251
Total	$ 2,539,651

Note 7 - Tax exemption grant

The Company was granted a tax exemption under the Act No. 168 of June 30, 1968, as amended. Under such Act, the Company enjoys a tax credit up to 15% of the eligible payroll which could be used to offset up to 50% of the income tax attributed to income derived from its hospital operations. In addition, the Company enjoys full exemption from the payment of property, municipal, excise taxes and sales and use tax.

Note 7 - Tax exemption grant – (continued)

This exemption covers a ten (10) year period which is effective as follows:

	Effective Date
Corporation income tax	July 1, 2009
Property tax	January 1, 2010
Municipal tax	September 14, 2006
Excise tax	September 14, 2006
Sales and Use Tax	August 1, 2007

During 2016, the Company requested the renewal of its tax exemption under Act 1968, as amended. As of May 24, 2018, which is the date the financial statements were available to be issued, the Company is still pending for a response about the tax exemption submission approval. The accompanying financial statements were prepared assuming that the Company has its tax exemption.

Note 8 - Income taxes

As provided by the Puerto Rico Internal Revenue Code (the Code), the Company's taxable income for the years ended December 31, 2017 and 2016 is subject to Puerto Rico income tax rates from 20% to 39% and the alternative minimum tax (AMT) rate from 20% to 30%. The AMT calculations include taxes on certain related party transactions, among other, which may result in an effective tax rate in excess of the maximum statutory income tax rate of 39%. Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities.

A reconciliation of the Company's current taxable income with the financial statements at December 31, 2017 and 2016 follows:

	2017	2016
Net income per financial statements	$ 846,304	$ 1,100,507
Income tax-net	279,147	466,039
Non-deductible items	12,215	(28,325)
Exempt income	(9,917)	-
Net income per returns	$ 1,127,749	$ 1,538,221

Note 8 - Income taxes – (continued)

As of December 31, 2017 and 2016, the Company has available net operating losses (NOL) amounting to $886,578 and $898,530, respectively, which correspond to years 2007 and 2008 when the Company were not enjoying tax exemption. Such NOL expires in 2019 and 2020, respectively, and could be used only to offset non-exempt income.

The deferred tax asset resulting from the future income tax benefit of such net operating losses amounted to approximately $35,000 and $24,000 as of December 31, 2017 and 2016, respectively. Management has established a valuation allowance of the same amount, since its realization is not assured beyond reasonable doubt.

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Note 9 - Notes payable

Notes payable as of December 31, 2017 and 2016 consist of the following:

		2017		2016
Credit facility term loan with authorized balance of $2,600,000, requires fifty-nine (59) monthly installments of $8,667 plus interest, and a balloon payment of the then outstanding balance. Interest payments were made until August of 2013, since this loan was renewed in the amount of $2,236,000, payable in thirty-five (35) monthly installments of $42,453, including interest at 5.25%, through August, 2016, and a balloon payment on August 22, 2016 of the then outstanding balance. The facility is guaranteed by the Company's equipment, leasehold improvements, furniture and fixtures, licenses and all general intangibles. In September 2016 the Company renewed the loan agreement with a balance of $1,426,628, requires thirty-six (36) monthly installements of $26,857, including interest at 4.90% throught August 2019 and a balloon payment of the then outstanding balance.	$	922,488	$	1,342,371
In November 2014 the Company financed the purchase of equipment with a third party. The note bears interest at 3% per annum, payable with a required minimum purchase of supplies for the equipment which will be applied to the debt. If at the end of the year the Company has not attained required minimum purchase then a cash disbursement will be made to compensate for such amount. The note matures in December 2019.		208,600		282,290
		1,131,088		1,624,661
Less: current portion		411,552		449,208
	$	719,536	$	1,175,453

The credit facility requires the Company to meet certain affirmative and financial covenants. As of December 31, 2017 and 2016, the Company was in compliance with these covenants.

Note 9 - Notes payable – (continued)

The Company's parent company, Puerto Rico ASC Holding Co., Inc., who owns 60.61% of the Company, acquired an undivided interest in the rights and obligations of the financial institution regarding the above credit facilities obtaining a participation of 63% in the Credit Facility No. 1, until its renewal in September 2016 when the Parent Company was released from the new credit facility agreement.

Aggregate scheduled principal payments of the above notes payable, during each of the next two years are as follows:

December 31,	Amount
2018	$ 411,552
2019	719,536
Total	$ 1,131,088

Note 10 - Management agreement

Pursuant to the terms of the management agreement dated October 5, 2008 (as amended), the Company is committed to pay a five percent (5%) of its total collections for management services rendered by its related company Puerto Rico ASC Management Co., Inc. Total management fees expense amounted to $301,964 and $335,784 for the years ended December 31, 2017 and 2016, respectively.

Note 11 - Fair value of financial instruments

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash

The carrying amount reported in the balance sheet for cash approximates its fair value.

Notes payable

The carrying amount of the Company's notes payable approximates its fair value, which is based on the borrowing rates currently available to the Company for loans with similar terms and average maturities.

Note 12 - Employees' retirement plan

The Company adopted 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 50% of employee's contribution up to 6% of the participant's compensation or $1,250 whichever is lower. Employees can contribute to the plan from 1% to 10% of compensation up to $15,000 in 2017 and 2016. During 2017 and 2016, the Company contributed to the plan $6,232 and $7,922, respectively.

Note 13 - Contingencies

Regulatory issues

The healthcare industry is subject to numerous laws and regulations which include, among other things, 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.

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. Generally, organizations are required to be in compliance with certain HIPAA provisions. Organizations 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.

Also, in order to be in compliance with HIPPA provisions, the Company must adopt the 10th revision of the International Statistical Classification of Diseases and Related Health Problems (ICD-10), on or before October 1, 2015. ICD-10 consists of a medical classification list revised by the World Health Organization (WHO) used in diagnosis coding and procedure coding system for inpatient hospital procedure coding that will enable a significant extension of the codes allowing an improved tracking of many new diagnoses. The Company completed the implementation of ICD-10 before the due date.

Note 13 - Contingencies – (continued)

Hurricane María

On September 20, 2017, Hurricane María impacted Puerto Rico causing widespread infrastructure and other property damage, and the complete collapse of the electrical grid across the island. As a result, additional expenses were incurred to ensure the continuing operation of the Company facilities in the aftermath of the storm, including fuel and maintenance of back-up power generators, outsourcing of medical and other services, increased security, idle facilities and labor costs, repairs and clean-up costs.

Furthermore, the Company experienced a decrease in the volume of business during the period immediately after the storm, as the population struggled with the recovery efforts, while dealing with significant shortages of fuel, food, water and other basic needs.

The Company is currently in the process of finalizing and submitting insurance claims for extra expenses and business interruption recoveries. The accompanying financial statements do not include any amounts recognized for expected reimbursements and/or recoveries under such insurance policies.

Note 14 - Subsequent events

The Company evaluated subsequent events through May 31, 2018, which is the date the financial statements were available to be issued. No events have occurred subsequent to the balance sheet date and to the date the financial statements were available to be issued, that would require adjustments to, or disclosure in, the financial statements.