

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Audited Financial Statements

For the Years Ended March 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Centro de Salud de Lares, Inc.
(Non-Profit Organization)
Lares, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of **Centro de Salud de Lares, Inc.** a non-profit organization, (the Organization) which comprise the statements of financial position as of March 31, 2014 and 2013, 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Centro de Salud de Lares, Inc.** as of March 31, 2014 and 2013, and the changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and Combining Statement of Activities are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and 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 December 8, 2014, on our consideration of **Centro de Salud de Lares, Inc.**'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 **Centro de Salud de Lares, Inc.**'s internal control over financial reporting and compliance.



License No. 113
Expires on December 1, 2015

San Juan, Puerto Rico
December 8, 2014




Peer Review Program



FY International
Auditing & Consulting

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Statements of Financial Position

ASSETS

	March 31,	
	2014	2013
Current Assets:		
Cash and Cash Equivalents	\$ 6,828,447	\$ 5,981,003
Contracts Receivable	263,204	438,474
Accounts Receivable, Net	1,269,171	1,536,658
Inventories	205,007	186,276
Prepaid Expenses	65,965	52,282
Total Current Assets	8,631,794	8,194,693
Property, Plant and Equipment, Net	7,351,892	2,165,944
Land	711,095	711,095
Other Assets:		
Capitation Receivable	52,393	49,336
IBNR Fund Deposit - 10% Withholding	1,567,753	908,952
Other	11,143	108,778
Total Assets	\$ 18,326,070	\$ 12,138,798

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts Payable	\$ 956,355	\$ 365,080
Accrued Expenses	985,256	950,532
Payroll and Payroll Taxes Payable	452,239	364,622
IBNR Reserves	750,095	719,073
Deferred Revenues	10,624	17,542
Current Portion of Long-Term Debt	6,931	6,614
Current Portion of Obligation Under Capital Leases	159,704	2,694
Total Current Liabilities	3,321,204	2,426,157
Institutional Fund Payable	4,238,342	2,148,748
Long-Term Debt, Net of Current Portion	14,230	21,161
Obligation Under Capital Leases, Net of Current Portion	246,164	-
Total Liabilities	7,819,940	4,596,066
Net Assets:		
Temporarily Restricted	1,233,045	813,159
Unrestricted	9,273,085	6,729,573
Total Liabilities and Net Assets	\$ 18,326,070	\$ 12,138,798

The Notes to Financial Statements are an integral part of these Statements.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Statements of Activities and Changes in Net Assets

For the Year Ended March 31, 2014

	Temporarily Restricted Funds	Unrestricted Funds	Total
<u>REVENUES</u>	<u> </u>	<u> </u>	<u> </u>
Federal Grants and Contracts	\$ 3,461,700	\$ 184,683	\$ 3,646,383
Premium Revenue - PR Health Reform	-	7,002,112	7,002,112
Net Patient Service Revenue	-	3,513,075	3,513,075
Wrap-Around Reimbursement	-	2,128,844	2,128,844
Other Revenues	-	1,589,730	1,589,730
Net Assets Released from Restrictions	(3,041,814)	3,041,814	-
	<u>419,886</u>	<u>17,460,258</u>	<u>17,880,144</u>
Total Revenues			
	<u>419,886</u>	<u>17,460,258</u>	<u>17,880,144</u>
<u>EXPENSES</u>			
Program Services	-	11,498,985	11,498,985
Management and General	-	3,417,761	3,417,761
	<u>-</u>	<u>14,916,746</u>	<u>14,916,746</u>
Total Expenses			
	<u>-</u>	<u>14,916,746</u>	<u>14,916,746</u>
Change in Net Assets	419,886	2,543,512	2,963,398
Net Assets at Beginning of Year	<u>813,159</u>	<u>6,729,573</u>	<u>7,542,732</u>
Net Assets at End of Year	<u>\$ 1,233,045</u>	<u>\$ 9,273,085</u>	<u>\$ 10,506,130</u>

The Notes to Financial Statements are an integral part of these Statements.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Statements of Activities and Changes in Net Assets

For the Year Ended March 31, 2013

	Temporarily Restricted Funds	Unrestricted Funds	Total
<u>REVENUES</u>	<u> </u>	<u> </u>	<u> </u>
Federal Grants and Contracts	\$ 3,006,897	\$ 179,916	\$ 3,186,813
Premium Revenue - PR Health Reform	-	6,659,819	6,659,819
Net Patient Service Revenue	-	3,446,834	3,446,834
Wrap-Around Reimbursement	-	1,795,863	1,795,863
Other Revenues	9,812	87,479	97,291
Net Assets Released from Restrictions	<u>(2,974,757)</u>	<u>2,974,757</u>	<u>-</u>
 Total Revenues	 <u>41,952</u>	 <u>15,144,668</u>	 <u>15,186,620</u>
 <u>EXPENSES</u>			
Program Services	-	10,062,671	10,062,671
Management and General	<u>-</u>	<u>3,109,939</u>	<u>3,109,939</u>
 Total Expenses	 <u>-</u>	 <u>13,172,610</u>	 <u>13,172,610</u>
 Change in Net Assets	 41,952	 1,972,058	 2,014,010
 Net Assets at Beginning of Year	 <u>771,207</u>	 <u>4,757,515</u>	 <u>5,528,722</u>
 Net Assets at End of Year	 <u>\$ 813,159</u>	 <u>\$ 6,729,573</u>	 <u>\$ 7,542,732</u>

The Notes to Financial Statements are an integral part of these Statements.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Statements of Functional Expenses

For the Year Ended March 31, 2014

<u>EXPENSES</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Personnel Services	\$ 3,085,528	\$ 1,264,962	\$ 4,350,490
Fringe Benefits	327,684	178,060	505,744
Professional Services	873,882	565,379	1,439,261
Claims paid and IBNR Reserve	5,247,373	-	5,247,373
Consumable Supplies	1,820,960	50,249	1,871,209
Rental and Utilities	-	412,834	412,834
Travel	7,310	35,129	42,439
Repairs and Maintenance	86,969	259,714	346,683
Insurance	-	143,733	143,733
Depreciation and Amortization	-	287,779	287,779
Interest	-	1,263	1,263
Other	49,279	218,659	267,938
Total Expenses	<u>\$ 11,498,985</u>	<u>\$ 3,417,761</u>	<u>\$ 14,916,746</u>

The Notes to Financial Statements are an integral part of these Statements.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Statements of Functional Expenses

For the Year Ended March 31, 2013

<u>EXPENSES</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Personnel Services	\$ 2,682,091	\$ 1,183,540	\$ 3,865,631
Fringe Benefits	284,336	203,297	487,633
Professional Services	768,705	366,655	1,135,360
Claims Paid and IBNR Reserve	4,445,170	-	4,445,170
Consumable Supplies	1,771,010	50,085	1,821,095
Rental and Utilities	-	445,232	445,232
Travel	9,379	43,394	52,773
Repairs and Maintenance	37,549	210,401	247,950
Insurance	-	149,014	149,014
Depreciation and Amortization	-	203,927	203,927
Interest	-	1,812	1,812
Other	64,431	252,582	317,013
Total Expenses	<u>\$ 10,062,671</u>	<u>\$ 3,109,939</u>	<u>\$ 13,172,610</u>

The Notes to Financial Statements are an integral part of these Statements.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Statements of Cash Flows

	For the Years Ended March 31,	
	2014	2013
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 2,963,398	\$ 2,014,010
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	287,779	203,927
Bad Debts	203,988	89,128
Loss on Disposal of Assets	6,693	3,945
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Contracts Receivable	175,270	(128,044)
Accounts Receivable	63,499	(729,825)
Inventories	(18,731)	2,101
Prepaid Expenses	(13,683)	(5,259)
Capitation Receivable	(3,057)	8,244
IBNR Fund Deposit - 10% Withholding	(658,801)	(491,135)
Other Assets	1,779	11,764
Increase (Decrease) in:		
IBNR Reserves	31,022	-
Accounts Payable	591,275	105,952
Institutional Fund Payable	2,089,594	1,808,091
Deferred Revenues	(6,918)	17,542
Accrued Expenses	34,724	10,697
Payroll and Payroll Taxes Payable	87,617	12,715
Total Adjustments	2,872,050	919,843
Net Cash Provided by Operating Activities	5,835,448	2,933,853

The Notes to Financial Statements are an integral part of these Statements.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Statements of Cash Flows

	For the Years Ended	
	March 31,	
	2014	2013
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Investment in Property, Plant and Equipment	(4,905,447)	(352,467)
Sale of Certificates of Deposit	-	999,880
	(4,905,447)	647,413
<u>CASH FLOWS USED IN FINANCING ACTIVITIES</u>		
Payment of Long-Term Debt	(6,614)	(43,377)
Payment of Obligations Under Capital Leases	(75,943)	(3,006)
	(82,557)	(46,383)
Net Cash Used in Financing Activities		
Net Change in Cash and Cash Equivalents	847,444	3,534,883
Cash and Cash Equivalents at Beginning of Year	5,981,003	2,446,120
Cash and Cash Equivalents at End of Year	\$ 6,828,447	\$ 5,981,003
<u>ADDITIONAL INFORMATION</u>		
Interest Paid	\$ 1,263	\$ 1,812

The Notes to Financial Statements are an integral part of these Statements.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2014 and 2013

1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General

Centro de Salud de Lares, Inc. (the Organization) is a nonprofit entity organized on May 27, 1986, and is a comprehensive primary care program which provides primary health services to low income individuals and the medically underserved population in the Municipalities of Lares and Quebradillas, Puerto Rico.

The Program is supported by the contributions made by the Department of Health and Human Services, Public Health Service of the United States of America (HHS), the Puerto Rico Department of Health (PRDH) Health System, and from program generated income. The major HHS contribution consists of federal funds under Section 330 of PHS Act, which is received by the Program who monitors and performs the payment function. The PRDH revenue consists of capitation revenues received through a Health Maintenance Organization (HMO) based on the number patient who select the Organization as their primary care center.

Basis of Accounting

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

Basis of Presentation

Financial statements presentation follows the recommendations of *Financial Accounting Standards Board* in its Accounting Standard Code (ASC) 958-210, Financial Statements of “*Non-for-Profit Organizations*”. Under FASB ASC 958-210, the Organization is required to report information regarding its financial position and activities according to three classes of net assets, as follows:

➤ Permanently Restricted

Net assets subject to “donor-imposed” stipulations that should be maintained permanently by the Organization. Generally, the donors of such assets permit the Organization to use all or part of the income earned on the assets.

➤ Temporarily Restricted

Net assets subject to “donor-imposed” stipulations that may be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.

➤ Unrestricted

Net assets that are not subject to “donor-imposed” stipulations.

Revenues from sources other than contribution are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary 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 temporarily restricted net assets to unrestricted net assets.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2014 and 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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 Statements of Cash Flows, the Organization 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. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties). No receivables associated with self-pay patients are recognized as the Organization believes, based on evaluations of collectability of the receivables and prior credit loss experience that collection of amounts are more likely than not to be realizable. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

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.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2014 and 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Property, Plant and Equipment and Depreciation, (Continued)

The Organization's capitalization policy considers as property and equipment tangible nonexpendable property with an acquisition cost of \$3,000 or more. Repair and maintenance are expensed as incurred. Expenses that increase the value or productive capacity of assets are also capitalized.

Gifts of long-lived assets such as land, building or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts 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 Organization reports expiration of restrictions as depreciation expense is recognized over time.

In accordance with the provisions of FASB ASC 360-10-50-2 "*Impairment and Disposal of Long-Lived Assets*" the Organization 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 assets 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.

Federal Grants and Contracts

The Organization receives its grants and contracts support and revenues primarily from HHS and other federal and state agencies.

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 temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients, the Organization recognizes revenue on the basis of its standard rates for services provided less basis of discounted rates. On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization does not recognize revenues associated with self-pay patients until collection is reasonable determined or actual collection is received.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2014 and 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (Continued)

Net Patient Service Revenue. (Continued)

The Organization has agreements with third-party payers that provide for payments to the Organization at amount different from its established rates. Payment arrangements include prospectively determined rates per visit, reimbursed costs and discounted charges. 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 Organization is obligated to provide services to its patients, net of contractual allowances, discounts and provision for bad debts.

Premium Revenue

The Organization has agreements with HMO's to provide primary health care services to State government's Medicaid participants. Under these agreements, the Organization 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 Organization. In addition, the HMOs make fee for services payments to the Organization for certain covered services based upon discounted fees schedules. The Organization's health care premiums are reported as revenues in the month that enrolled members are entitled to health care benefits.

Functional Allocation of Expenses

The costs of providing the program services and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated between the program services and management and general services benefited.

Contribution

The Organization also elected to adopt FASB ASC Topic 958, "*Non-for-Profit Entities*". In accordance with FASB ASC Topic 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Donations "In-Kind"

Donated services and other contributions have been reflected in the accompanying financial statements. These services have been recorded at their fair value, and are recognized as support and expensed in the period in which the services are rendered. Donated materials and equipment are reflected as contributions at their estimated fair market value at date of receipt.

Wraparound Payments

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

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2014 and 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Wraparound Payments, (Continued)

Based on those requirements, commencing on 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 (1) the Commonwealth administers its Medicaid System throughout the "Health Reform" and contracts with Health Maintenance Organizations (HMO) and, (2) pay providers for Medicaid covered services based on a capitation model, the Commonwealth shall provide for wraparound or supplementary payment when 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 Organization is entitled to receive those payments. At present, the Organization is plaintiff against the Puerto Rico Department of Health at the State Court in two separate cases for wraparound payments; one for the periods between January 1, 2001 and June 30, 2006, and the second for the period between July 1, 2006 and June 30, 2009.

Health Care Services Cost Recognition

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 Organization. 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.

Income Taxes

The Organization 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 (01) of the Puerto Rico Tax Code.

The Organization follows the provision of FASB ASC 740-10 "*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 Organization is required to evaluate its income tax position each year to determine whether the Organization's tax provision is more-likely-than-not to be sustained if examined by the applicable taxing authority. Management of the Organization has evaluated its tax position and has concluded that this requirement had no effect on the Organization's financial position or changes in its net assets.

The Organization'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 Activities and Changes in Net Assets. As of March 31, 2014, the Organization believes that there are no uncertain tax positions and has no accrued income tax related interest and/or penalties in the Statements of Financial Position.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2014 and 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Income Taxes, (Continued)

The Organization is potentially subject to income tax audits in the Commonwealth of Puerto Rico for taxable years from 2011 to 2014, until the applicable statute of limitations expire, as well as, the Internal Revenue Services which has a three (3) years of statute of limitations. Tax audits by their nature are often complex and can require several years to complete.

Recently Adopted Accounting Standards

There were no other new accounting pronouncements issued that had or are expected to have a material impact on our financial position, operating results or disclosures.

2. CONTRACTS RECEIVABLE

Contracts Receivable as of March 31, 2014 and 2013, consists of the following:

	2014	2013
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White HIV/AIDS Program Part C)	\$ 107,018	\$ 219,842
Consolidated Health Centers and Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Centers Program	156,186	216,632
Due from US Department of Health: ARRA - Capital Improvements	-	2,000
	\$ 263,204	\$ 438,474

3. ACCOUNTS RECEIVABLE, NET

Accounts Receivable, Net as of March 31, 2014 and 2013, consists of the following:

	2014	2013
Third-Party Payors	\$ 518,704	\$ 858,343
Wraparound Payments	548,326	736,770
PRDH (Emergency Room)	121,844	302,239
Others	628,713	191,755
	1,817,587	2,089,107
Less: Allowance for Uncollectible Accounts	(548,416)	(552,449)
	\$ 1,269,171	\$ 1,536,658

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2014 and 2013

4. INVENTORIES

Inventories as of March 31, 2014 and 2013, are comprised of the following:

	<u>2014</u>	<u>2013</u>
Drugs and Medicines	\$ 123,372	\$ 120,748
Medical and Surgical Supplies	25,982	19,469
Laboratories Supplies	25,542	18,957
Dental Supplies	11,919	12,726
X-Ray Supplies	7,032	3,447
Office Supplies	11,160	10,929
	<u>\$ 205,007</u>	<u>\$ 186,276</u>

5. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment as of March 31, 2014 and 2013, consists of the following:

	<u>2014</u>	<u>2013</u>
Building and Building Improvements	\$ 6,900,658	\$ 2,369,807
Furniture and Equipment	1,880,760	1,432,152
Motor vehicles	77,302	77,302
Softwares	514,561	161,520
	<u>9,373,281</u>	<u>4,040,781</u>
Less: Accumulated Depreciation and Amortization	<u>(2,021,389)</u>	<u>(1,874,837)</u>
Property, Plant and Equipment	<u>\$ 7,351,892</u>	<u>\$ 2,165,944</u>
Land	<u>\$ 711,095</u>	<u>\$ 711,095</u>

During the year ended March 31, 2014, the Organization expended the approximately amount of \$4.5 million in building improvements for Lares and Quebradillas facilities. This amount is included in Property, Plant and Equipment at the Statements of Financial Position.

6. IBNR FUND DEPOSIT - 10% WITHHOLDING

As part of the contract with the Insurance Company, the Organization is required to maintain an incurred but not reported reserve fund deposit. The Insurance Company withholds a ten percent (10%) from the monthly medical fund capitation. At March 31, 2014 and 2013, the IBNR Fund Deposit amounted to \$1,567,753 and \$908,952, respectively.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2014 and 2013

7. IBNR RESERVE

Medical Expenses and Drugs cost are recognized as they occur and not reported to the Organization. Because of this basis of recognition, unpaid benefits are reported as incurred but not reported (IBNR) by the Insurance Company. Reported benefits are those incurred, paid and deducted from the monthly capitation by the Insurance Company. The IBNR claims are those benefits that have been provided but have not yet been deducted by the Insurance Company. Unpaid claims are estimated based on predictions of benefits frequency and severity. These estimates are based on historic data, trends, and other statistical information. Management believes that the liability for IBNR Reserve is reasonable and reflective of anticipated ultimate experience. Since the liability for accounts payable-medical services is based on estimate, the net amounts that will ultimately be paid may vary from the estimated amounts provided for. The resulting difference between the estimated liability and the actual payment, if any, as subsequently determined, is reflected in current operations. At March 31, 2014 and 2013, the Organization's IBNR reserve amounted to \$750,095 and \$719,073, respectively.

8. INSTITUTIONAL FUND PAYABLE

As part of the contract with the Insurance Company, the Institutional Fund Payable is managed by the Insurance Company to pay hospital, emergency room, high tech laboratories and ambulatories facilities claims. At March 31, 2014 and 2013, the Institutional Fund Payable at the Insurance Company amounted to \$4,238,342 and \$2,148,748, respectively.

The Organization legal counsel for the wraparound federal case cited in Note 1 Wraparound Payments section, established in its legal confirmation letter that under Federal Medicaid statutes this payable will be unlawful and that it is unlikely that a claim for this debt be asserted by the Puerto Rico Medicaid Program. At the date of this report, the Special Master assigned to the case issued a report to the Federal District Court recommending the Court to order the Commonwealth to indemnify the Organization for any debts to managed care companies that has been reported on the periodic settlement Medicaid payments reports.

9. LONG-TERM DEBT

The long-term debt as of March 31, 2014 and 2013, consists of the following:

	2014	2013
Note payable to Toyota Credit in sixty (60) monthly payments of \$648, including interest at 4.70%. Secured by motor vehicle, due on February 2017.	21,161	27,775
	\$ 21,161	\$ 27,775

Current maturities of long-term debt for the next four years are as follows:

2015		\$	6,931
2016			7,265
2017			6,965
			\$ 21,161

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2014 and 2013

10. COMMITMENTS AND CONTINGENCIES

Capital Leases

Future minimum lease payment under the capital leases at March 31, 2014 are as follow:

2015	\$	159,704
2016		159,704
2017		<u>86,460</u>
	\$	<u>405,868</u>

During 2014, the Organization has entered into a direct financing type lease agreement for a robotic prescription dispensing system, which have been classified as capital leases for financial statements purpose.

Operating Leases

The Organization operated its program activities in the Municipality of Quebradillas in a leased facility for a monthly rent payment of \$4,842 until June 2012. There is no formal lease agreement between the Organization and PRDH which is the landlord. Since August 2005, the PRDH ceased to charge the Organization for rent due to controversies between the Organization, the landlord, and the Municipality of Quebradillas. The Organization suspended the monthly rent payments since May 2007, however, rent expense have been accrued until May 2012 due to the moving of a significant part of the program activities to the new building. No rent expense have been incurred during the year ended March 31, 2014, however, for the year ended March 31, 2013, rent expense amounted to \$4,172.

On June 2012, the Organization requested a Change in Scope (CIS) from the US Department of Health and Human Resources (HRSA) to relocate one approved site to a new location. The CIS also includes changes in the previous approved operational budget for the grant. As discussed in Note 6, the Organization relocated its Quebradillas facilities to a new land and building acquired during fiscal year 2012 and began its operations during July 2012, except clinical laboratory and X-Ray Departments that are subject to the requirements and licenses of the Puerto Rico Department of Health, which are currently operating in the old facilities. The new facility is in the process of renovation and improvements of the building. On September 2013, the Puerto Rico Department of Health granted the Organization required licenses to operate clinical laboratory and X-Ray Departments.

Puerto Rico Health Reform Contract - Lares and Quebradillas Health Center

The Organization entered into two manage care contracts ("the Contract") with Triple S, Inc., a HMO, to provide health services to the designated beneficiaries of the health insurance plan of the Commonwealth in the Municipalities of Lares and Quebradillas. Pursuant to the Contract, among other things, the Organization agrees and commits itself to provide all covered health services to the designated beneficiaries under the dispositions of the health insurance plan of the Commonwealth which are specified in the Contract.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2014 and 2013

10. COMMITMENTS AND CONTINGENCIES, (Continued)

Puerto Rico Health Reform Contract - Lares and Quebradillas Health Center, (Continued)

In consideration to the covered services rendered by the Organization, Triple S will pay a fixed amount per beneficiary per month, (known as capitation), as defined in the Contract. The capitation will be subject to retentions of money for the Medical Services Reserve for the payment of IBNR claims. The Organization is financially responsible for the covered services included in the Physicians Fund as well as, for services included in the Institutional Fund (hospital, high tech laboratories and other). The Contract with Triple S was signed on November 7, 2014 and expires on March 31, 2015.

On October 15, 2014 the Health Insurance Administration of Puerto Rico (ASES) divulge the selection of the Health Maintenance Organizations (HMO's) that will administer and provide the services of physical and mental health to the 1.4 million beneficiaries of the Government Health Plan of Puerto Rico beginning in April 2015. First Medical Health Plan, Inc. was the HMO selected for the North Region. Under the new structure, HMO's contracted entities selected will assume 100% of the risk of all services. ASES will pay a fixed amount per participant per month (capitation) rate which depends on the profile and use of services by the population of each region. As of the date of this report, the new agreement between First Medical Health Plan, Inc. and the Organization has not been signed.

Federal Grants and Contracts

Programs supported by Federal and Commonwealth grants are subject to program compliance audits by the grantor agencies in order to determine compliance with requirements and conditions of such grants. Questioned costs may have been reported in the accompanying Schedule of Findings and Questioned Costs. Those findings and questioned costs, if any, are subject to evaluation of the Federal awarding agency. If such costs are disallowed as a result of a non-compliance with applicable requirements, funds may be required to be reimbursed to the applicable grantor agencies. The possible outcome on this matter has not been determined by management.

Malpractice Liability Coverage

The Health Resources and Services Administration in accordance with Section 224(g) of the Public Health Service Act 42 provide liability protection to the Organization under the Federal Tort Claims Act. The Organization is protected for damage, for personal injury including death, resulting from the performance of medical surgical, dental, and related functions and is exclusive of any other civil action or proceeding.

Legal Claims

As of March 31, 2014, the Organization was a defendant in a lawsuit, filed by the Municipality of Quebradillas alleging eviction, collection of money, damages and reimbursement of legal costs. The Organization reaches to a settlement on August 8, 2014 in the amount of \$51,000. The Municipality of Quebradillas desisted with prejudice remaining claims of damages related to the case.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2014 and 2013

10. COMMITMENTS AND CONTINGENCIES. (Continued)

Legal Claims. (Continued)

During the year ended March 31, 2012, the Organization was sued by an employee alleging violations to the Federal protection against sex and pregnancy discrimination under Title VII of the Civil Rights Act of 1964, 29 U.S.C. 2000 et seq., and the Puerto Rico's Article 1802 of the Puerto Rico Civil Code requesting \$500,000 for compensation damages and an additional amount for punitive damages. During the fiscal year ended March 31, 2013, the Court dismissed the case.

11. NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets in the statements of financial position consist of Section 330 funds (Consolidated Health Centers), ARRA funds, (increase demand for services and capital improvement funds) and funds for early interventions services and comprehensive medical services for HIV patients (Ryan White Part C). Section 330 funds are available for primary and preventive health services to medically underserved populations. ARRA funds are available to enable health centers to increase services to existing sites and to address spikes in demand to serve uninsured persons (increase demand for services) and to carry out alteration, repair and renovation of health facilities (capital improvement). Ryan White funds are available to improve the availability, accessibility and organization of ambulatory health services to persons infected with HIV.

Temporarily restricted net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. During the years ended March 31, 2014 and 2013, the amount of net assets released from restrictions aggregated \$3,041,814 and \$2,974,757, respectively. Such net assets were contributed to the Organization through conditional governmental programs and private contribution in the form of grants, awards and contracts, which are recorded as temporarily restricted revenues until specified conditions are met. As of March 31, 2014 and 2013, the conditions for all government programs and private contributions recorded as revenues were met.

12. NET PATIENT SERVICES REVENUE

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

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2014 and 2013

12. NET PATIENT SERVICES REVENUE, (Continued)

A summary of gross and net patient service revenue for the years ended March 31, 2014 and 2013, are as follows:

	2014	2013
Gross Patient Service Revenue	\$ 5,241,691	\$ 3,551,595
Less: Provision for Contractual Allowance	(1,524,628)	(15,633)
Less: Provision for Bad Debt	(203,988)	(89,128)
	\$ 3,513,075	\$ 3,446,834

13. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balance in a commercial bank and various credit unions located in Puerto Rico. Commercial bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and credit unions are insured by the "Corporación para la Supervisión y Seguros de Cooperativas de Puerto Rico" (COSSEC) up to \$250,000. At March 31, 2014 and 2013, the significant concentration of credit risk for uninsured cash balances, including certificates of deposit, amounted to approximately \$5.5 million and \$4.6 million, respectively.

Also, the Organization grants credit without collateral to its patients, most of who are local residents and are insured under third-party payors agreements.

The mix of receivables from patients and third-party payors at March 31, 2014 and 2013, were as follows:

	2014	2013
Patients and Third-Party Payors	29%	41%
Wraparound Payments	30%	35%
Others	41%	24%
	100%	100%

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments classified as current assets or liabilities, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses approximate carrying value, principally because of the short maturity of those items.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2014 and 2013

15. SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

Non-Cash Transactions

During the year ended March 31, 2014, the Organization acquired a Robotic Prescription Dispensing System in the amount of \$479,117 with the issuance of a capital lease obligation.

Other Cash Flows Transactions

Interest paid for the years ended March 31, 2014 and 2013, amounted to \$1,263 and \$1,812, respectively.

16. SUBSEQUENT EVENTS

Management of the Organization has evaluated subsequent event through December 8, 2014 the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Combining Statement of Activities

For the Year Ended March 31, 2014

	Temporarily Restricted Funds					Unrestricted Funds Program Income	Total
	Consolidated Health Center Including ACA funds	ARRA CIP	ARRA IDS	Special Project	Ryan White Title III		
REVENUES							
Federal and State Grants and Contracts	\$ 2,564,528	\$ -	\$ -	\$ 30,777	\$ 866,395	\$ 184,683	\$ 3,646,383
Premium Revenue - PR Health Reform	-	-	-	-	-	7,002,112	7,002,112
Net Patient Service Revenue	-	-	-	-	-	3,513,075	3,513,075
Wrap-around Reimbursement	-	-	-	-	-	2,128,844	2,128,844
Other	-	-	-	-	-	1,589,730	1,589,730
Total revenues	2,564,528	-	-	30,777	866,395	14,418,444	17,880,144
EXPENSES							
Personnel Services	1,844,082	-	-	-	117,071	2,389,337	4,350,490
Fringe Benefits	200,993	-	-	-	15,238	289,513	505,744
Professional Services	1,520	-	-	16,100	547,747	873,894	1,439,261
Claims Paid and IBNR	-	-	-	-	-	5,247,373	5,247,373
Consumable Supplies	2,520	-	-	1,707	159,242	1,707,740	1,871,209
Rental and Utilities	-	-	-	-	-	412,834	412,834
Travel	2,061	-	-	-	6,848	33,530	42,439
Repairs and Maintenance	-	-	-	1,911	-	344,772	346,683
Insurance	40,570	-	-	-	-	103,163	143,733
Depreciation	290	77,979	-	-	5,135	204,375	287,779
Interest	-	-	-	-	-	1,263	1,263
Other	7,460	-	-	-	19,209	241,269	267,938
Total Expenses	2,099,496	77,979	-	19,718	870,490	11,849,063	14,916,746
Change in Net Assets	465,032	(77,979)	-	11,059	(4,095)	2,569,381	2,963,398
Net Assets at Beginning of Year	25,464	741,606	6,180	15,336	24,573	6,729,573	7,542,732
Net Assets at Ending of Year	\$ 490,496	\$ 663,627	\$ 6,180	\$ 26,395	\$ 20,478	\$ 9,298,954	\$ 10,506,130

See Independent Auditors' Report.



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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 Board of Directors of
Centro de Salud de Lares, Inc.
(Non-Profit Organization)
Lares, 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 **Centro de Salud de Lares, Inc.**, a nonprofit organization, (the Organization) which comprise the statement of financial position as of March 31, 2014, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 the Organization'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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



License No. 113
Expires on December 1, 2015

San Juan, Puerto Rico
December 8, 2014





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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors of
Centro de Salud de Lares, Inc.
(Non-Profit Organization)
Lares, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited **Centro de Salud de Lares, Inc.'s**, a non-profit organization, (the Organization), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended March 31, 2014. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the Organization'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 the Organization's compliance.

Opinion on Each of the Other Major Federal Programs

In our opinion, the Organization 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 other major federal programs for the year ended March 31, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-III-1. Our opinion on each major federal program is not modified with respect to these matters.

The Organization's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Organization 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 the Organization'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 OMB Circular A-133, 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 the Organization'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 and therefore, material weakness or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of finding and question costs as item 2014-III-1, that we consider to be significant deficiency.

The Organization's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



License No. 113
Expires on December 1, 2015

San Juan, Puerto Rico
December 8, 2014



SINGLE AUDIT SECTION

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Schedule of Expenditures of Federal Awards
For the Year Ended March 31, 2014

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services:		
<u>Direct programs:</u>		
<u>Health Centers Cluster:</u>		
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	\$ 1,181,771
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Centers Program	93.527	<u>917,435</u>
Total Health Centers Cluster		2,099,206
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	465,452
Special Projects of National Significance	93.928	19,718
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White HIV/AIDS Program Part C)	93.918	<u>881,661</u>
Total Expenditures of Federal Awards		<u>\$ 3,466,037</u>

The accompanying Notes are an integral part of these Schedule.
See Independent Auditors' Report.

CENTRO DE SALUD DE LARES, INC.

(Non-Profit Organization)

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended March 31, 2014

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards ("the Schedule") includes the federal grant activity of **Centro de Salud de Lares, Inc.** ("the **Organization**") under the programs of the federal government for the year ended March 31, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audit of States Local Government and Nonprofit Organizations*. Because the schedule presents only a selected portion of the operations of the **Organization**, it is not intended to and does not present the financial position, changes in net assets or cash flows of the **Organization**.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARDS REPORTING

The information included in the Schedule may not fully agree with other federal awards reports, submitted directly to federal grantor agency because, among other reasons, the award report may (a) be prepared for a different fiscal period and (b) include cumulative data (from prior years) rather than data from the current year only.

4. FEDERAL CFDA NUMBER

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.

5. RELATIONSHIP TO THE STATEMENT OF ACTIVITIES

The reconciliation of expenses in the Statement of Activities and Changes in Net Assets to the total expenditures of federal awards in the Schedule of Expenditures of Federal Awards is as follows:

Expenses per Statements of Activities and Changes in Net Assets	\$ 14,916,746
Less: Unrestricted Funds Expenditures (Non-Federal)	(11,849,063)
Depreciation Expense in Federal Programs	(83,404)
Plus: Federal Capitalized Expenses	<u>481,758</u>
Total Expenditures of Federal Awards in the Schedule of Expenditures of Federal Awards	<u>\$ 3,466,037</u>

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Schedule of Findings and Questioned Costs

For the Year Ended March 31, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion Qualified Opinion

Internal Control Over Financial Reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal Control Over Major Programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified not considered to be material weaknesses? Yes No

Type of auditors' report issued on compliance for major programs? Unqualified Opinion Qualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) Yes No

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless and Public Housing Primary Care, and School Based Health Centers)	93.224
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Centers Program	93.527
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White HIV/AIDS Program Part C)	93.918

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

See Independent Auditors' Report.

CENTRO DE SALUD DE LARES, INC.

(Non-Profit Organization)

Schedule of Findings and Questioned Costs

For the Year Ended March 31, 2014

SECTION II - FINDING – FINANCIAL STATEMENTS AUDIT

None Reported

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number: 2014-III-1
Agency: U.S. Department of Health and Human Services
Program: Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers) and Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Centers Program
CFDA Number: 93.224 and 93.527
Compliance Requirement: Reporting
Type: Instances of Noncompliance; Significant Deficiency – Internal Control Over Compliance

Criteria:

Reporting requirement(s) of the notice of grant award establish that the grantee must submit a Federal Financial Report (FFR) no later than July 30, 2014. The report should reflect cumulative reporting within the project period and must be submitted using the Electronic Handbooks (EHBs). Also, establish that failure to comply with these reporting requirements will result in deferral or additional restrictions of future funding decisions.

Condition:

During our audit procedures, we noted that the Organization submitted the required Federal Financial Report on August 1st, 2014, two days later than the due date of July 30, 2014.

Cause and Effect:

Based on inquires to Finance Department personnel, report was not submitted on time since accounting records were not completed.

Recommendation:

We recommend that accounting records were analyzed and reviewed on a monthly basis to assure that all account balances in general ledger are correct, and permit the preparation of the required federal financial reports on time.

Corrective Action Plan:

Although we have improved our procedures for accounting monthly closing, year-end closing requires us to extend review procedures in some areas. We will continue the implementation of procedures to add efficiency to the year-end closing.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Summary Schedule of Prior Audit Findings

For the Year Ended March 31, 2014

Fiscal Year Ended 2012
Finding Number 2012-III-1

Condition:

Allowable costs / cost principles - Outpatient early Intervention Services with respect to HIV

Centro de Salud de Lares Inc ("CSL") is recording most of its Ryan White – Part C program award costs based on budgeted and / or projected amounts.

- (a) Charges for pharmaceuticals and nutritional supplements are being recorded in general ledger using invoices prepared by Consortium members and using a drug price listing, which was prepared by CSL, based on historical costs and including a markup of approximately 25%. Questioned cost: \$26,922.
- (b) Charges of CSL and its Quebradillas satellite clinic for laboratory services are being recorded in general ledger using invoices prepared based on CSL fee schedule less any amount collected from third parties that do not represent actual cost. Questioned cost: \$3,192.
- (c) Charges for medical and case manager services are recorded in general ledger based on budgeted amounts which were allocated by CSL. Questioned cost: \$318,624.
- (d) The salary of the Executive Director, which, is partially allocated to the Ryan White- Part C program to oversee its implementation and evaluation, is recorded based on the approved budget. Questioned cost: \$3,993.

Note:

These conditions were reported by previous auditors to management on December 2012. Remediation procedures and corrective actions taken begun on January 2013, therefore, for the period from April 1, 2012 to December 31, 2012 conditions still remains.

Status:

Refer to each subsection

Action Taken:

Refer to each subsection:

- (a) Status: Fully corrected

Action taken: As per corrective action plan included in our HRSA response dated February 25, 2013 and prospective status report on June 21, 2013, Centro de Salud de Lares Inc. (CSL) developed a dispensing cost determination worksheet to document the cost associated to dispensing drugs/pharmaceuticals and nutritional supplements. Each Consortium completed the worksheet and CSL reached an average dispensing fee that it is being used since July 2013 to reimburse overhead operational costs of each pharmacy.

CENTRO DE SALUD DE LARES, INC.
(Non-Profit Organization)

Summary Schedule of Prior Audit Findings

For the Year Ended March 31, 2014

(b) Status: Fully Corrected

Action Taken: As per corrective action plan included in our HRSA response dated February 25, 2013 and prospective status report on June 21, 2013, CSL implemented procedures to assure that no invoice for referred laboratory services will be processed without proper support. Each Consortium member was required to include in its invoices supporting evidence like referred laboratory invoices and related payments, for every laboratory service charged.

(c) Status: Fully Corrected

As of May 2014 CSL, Inc. concluded the medical and case management unit cost analysis for each member of the network. A new reimbursement methodology was established in the contractual agreements with a starting date of July 1, 2014. Physician's encounters will be reimbursed at a rate of \$120/encounter and medical case management encounters at a rate of \$58.00/encounter. There will be no reimbursement for non-medical case management encounters. A cap amount to be reimbursed during a fiscal year for medical and case manager's services was established for each network member based on the number of HIV positive patients served and the average of encounters per patient during calendar year 2013.

On April 2014, CSL, Inc. started to performed fiscal monitoring visits to the network members as a procedure to assure compliance with the Ryan White Programs Fiscal and Legislative requirements stated in the Notice of Award as well as any other state or federal requirement. The instrument to carry out these visits was developed using as a guide the National Monitoring Standards for Ryan White B Grantees published by HRSA/HAB Division of State HIV/AIDS Programs.

(d) Status: Fully Corrected

Action taken: Board of Directors approved Time and Effort policies and procedures on September 2013. Personnel Activity Reports ("PAR") are being prepared by each staff member whose compensation is charged in whole or in part directly to awards reflecting the distribution of effort. Each quarter, PAR's data will be compared to actual costs charged to Federal awards and any adjustments will be recorded in the general ledger as established by the procedures.

CENTRO DE SALUD DE LARES, INC.

(Non-Profit Organization)

Summary Schedule of Prior Audit Findings

For the Year Ended March 31, 2014

Fiscal Year Ended 2011

Finding Number 2011-III-6

Condition:

Management - budget versus actual analysis

Institution does not compare, review and analyze federal funds expenditures recorded in general ledger with the approved budget on a monthly basis.

Status:

Fully corrected

Action taken:

During March 2014, the Organization received the HRSA Operational Site Visit. Fiscal consultant evaluated the Organization compliance of Program Requirement 14 related to Budget. The final report established as compliance review findings the following expressions; "The CFO prepared monthly financial statements which include a board report identifying the budget versus actual, this includes federal versus nonfederal fund comparison for revenue and expenditures. The report also includes a capital development budget control page (which monitors the federal portion of the renovation/construction projects), and a nonfederal page by each site and by each expense line item. The financial report is presented, reviewed, and approved by the board monthly".

In previous responses, we incorrectly correlate the implementation of the new accounting software with compliance of this requirement. Although we have not concluded implementation of all modules on the new software, we do comply with the budget versus actual analysis as reviewed and reported by HRSA consultants.



De Angel & Compañía
CORPORACIÓN PROFESIONAL
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December 8, 2014

To the Board of Directors of
Centro de Salud de Lares, Inc.
(Non-Profit Organization)
Lares, Puerto Rico

The stockholders and staff of De Angel & Compañía, CPA, CSP, are pleased to announce the successful completion of an independent peer review of our accounting and auditing practice. This review was undertaken as a condition of membership in the American Institute of Certified Public Accountants (AICPA), the national organization of CPAs in public practice, industry, government and education.

In 1988, the members of the AICPA overwhelmingly approved a proposal to require members in public practice to participate in a practice-monitoring program. With the adoption of this proposal, the AICPA implemented a peer review program of unprecedented scope in the CPA profession or any other. Our participation in peer review demonstrates our firm's desire to measure up to the profession's high standards of professionalism and our commitment to maintaining and improving the quality of our practice.

In August 2000, the Puerto Rico Society of CPAs (PRSCPA) adopted a voluntary peer review program, which follows the lead established by the AICPA.

Our peer review was conducted by **PKF Torres Llompарт Sánchez Ruíz, LLC**, an independent firm (the Reviewer). The Reviewer first determined that we have an adequate quality control system, and then checked to see that professional's standards were followed in a representative sample of our accounting and auditing engagements.

After thorough study of our policies and procedures, the Reviewer concluded our firm complies with the stringent quality control standards established by the AICPA and the PRSCPA. Our firm is committed to periodic peer review to foster quality performance.

Bankers, bonding agents, investors, suppliers, legal advisors and others use the financial statements our firm audits, reviews, or compiles. We think those people, our clients, and our own staff deserve independent quality assurance that our firm provides quality services. We are proud of our peer review results and would be happy to answer any questions you might have.

Sincerely,

Carlos De Ángel Ramirez
President

Carlos de Ángel, CPA
Partner
De Ángel & Compañía, CPA, PSC
San Juan, Puerto Rico

SYSTEM REVIEW REPORT

We have reviewed the system of quality control for the accounting and auditing practice of De Ángel & Compañía, CPA, PSC (the firm) in effect for the year ended April 30, 2012. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all materials respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*.

In our opinion, the system of quality control for the accounting and auditing practice of De Ángel & Compañía, CPA, PSC in effect for the year ended April 30, 2012, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*; *pass with deficiency(ies)* or *fail*. De Ángel & Compañía, CPA, PSC has received a peer review rating of *pass*.

December 6, 2012
License No. 10
San Juan, Puerto Rico



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to the original of this report.