

FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
WITH ADDITIONAL REPORTS REQUIRED  
UNDER THE OMB CIRCULAR A-133

**CENTRO DE SALUD FAMILIAR  
DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

JUNE 30, 2014





## **INDEPENDENT AUDITORS' REPORT**

To the Governing Board of  
**Centro de Salud Familiar  
Dr. Julio Palmieri, Ferri, Inc**  
Arroyo, Puerto Rico

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc. ("the Institution")** (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2014 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 purposes of expressing 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.

**INDEPENDENT AUDITORS' REPORT**  
**(CONTINUED)**

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc.** as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audit was conducted for the purposes 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*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and 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 a report dated March 17, 2015, on our consideration of **the Institution** 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* is considering **the Institution** internal control over financial reporting and compliance.

March 17, 2015,  
San Juan, Puerto Rico

*Diaz & Candelaria, PSC*



License No. 34, Expires December 1, 2016  
The C.P.A. Stamp No. O2711621 of the P.R.  
State Society of Certified Public Accountants  
was affixed to the record copy of this report.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Statement of Financial Position

June 30, 2014

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**ASSETS**

Cash in bank	\$ 1,595,614
Certificate of deposit	427,951
Accounts receivable	1,391,087
Inventories	138,407
Prepaid expenses	37,594
Property and equipment, net	3,481,447
Other assets	800
Total Assets	<u><u>\$ 7,072,900</u></u>

**LIABILITIES AND NET ASSETS**

Liabilities:

Accounts payable	\$ 359,221
Accrued expenses	55,612
Payroll and payroll taxes payable	125,841
IBNR reserves	429,243
Deferred revenue	99,584
Current portion of long term debt	21,582
Long term debt	314,581
Total Liabilities	<u>1,405,664</u>

Net Assets:

Unrestricted	4,123,484
Temporarily Restricted	1,543,752
Total Net Assets	<u>5,667,236</u>
Total Liabilities and Net Assets	<u><u>\$ 7,072,900</u></u>

See accompanying notes to financial statements.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

Statement of Activities

For the year ended June 30, 2014

	<u>Unrestricted Funds</u>	<u>Temporarily Restricted Funds</u>	<u>Total</u>
<b><u>REVENUES AND OTHER SUPPORT:</u></b>			
Federal Grants and Contracts	\$ -	\$ 3,138,327	\$ 3,138,327
Capitation under PRHD Health Reform	3,557,220	-	3,557,220
Patient Services Pay	2,630,517	-	2,630,517
Wraparound payments	186,753	-	186,753
Other revenues	41,432	-	41,432
Total Revenue	<u>6,415,922</u>	<u>3,138,327</u>	<u>9,554,249</u>
Net assets released from restrictions	<u>2,242,973</u>	<u>(2,242,973)</u>	<u>-</u>
Total Support and Revenues	<u>8,658,895</u>	<u>895,354</u>	<u>9,554,249</u>
<b>EXPENDITURES</b>			
Programs services	6,014,090		6,014,090
General and administrative	<u>2,583,857</u>		<u>2,583,857</u>
Total Expenses	<u>8,597,947</u>	<u>-</u>	<u>8,597,947</u>
Changes in Net Assets	60,948	895,354	956,302
Net Assets, Beginning of Year-restated	<u>4,062,536</u>	<u>648,398</u>	<u>4,710,934</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 4,123,484</u></b>	<b><u>\$ 1,543,752</u></b>	<b><u>\$ 5,667,236</u></b>

See accompanying notes to financial statements.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Statement of Functional Expenses

For the year ended June 30, 2014

Description	Program Expenses	General and Administrative Expenses	Total
Personnel compensation	\$ 1,327,022	\$ 563,220	\$ 1,890,242
Payroll taxes	114,850	52,266	167,116
Other employee benefits	94,312	31,547	125,859
Contractual & consultants	734,674	741,591	1,476,265
Claims paid and IBRN retention	2,791,967	-	2,791,967
Office expense	-	40,415	40,415
Drugs & medications	765,755	-	765,755
Medical materials	185,510	47,403	232,913
Communications	-	113,594	113,594
Utilities	-	269,586	269,586
Occupancy	-	-	-
Travel	-	28,446	28,446
Repairs & maintenance	-	17,481	17,481
Insurance	-	33,863	33,863
Depreciation	-	162,704	162,704
Interest	-	22,065	22,065
Advertising & promotions	-	14,224	14,224
Conferences, conventions & meetings	-	23,902	23,902
Other expenses	-	186,323	186,323
Bad debts	-	235,227	235,227
<b>Total Expenditures</b>	<b>\$ 6,014,090</b>	<b>\$ 2,583,857</b>	<b>\$ 8,597,947</b>

See accompanying notes to financial statements.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Statement of Cash Flows

For the year ended June 30, 2014

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Changes in net assets	\$ 956,302
Adjustment to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	162,704
Prior period adjustment	(37,986)
(Increase) decrease in:	
Accounts receivable	(292,863)
Inventories	(11,413)
Prepaid expenses	(14,887)
Increase (decrease) in:	
Accounts payable	179,128
Payroll and payroll taxes	52,042
IBNR reserves	295
Deferred revenues	(2,894)
Net cash provided by (used in) operating activities	<u>990,428</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of property and equipment	(430,744)
Construction in progress	(1,211,447)
Increase in certificate of deposit	(1,262)
Increase in other assets	(800)
Net cash provided by (used in) investing activities	<u>(1,644,253)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Payments of current portion of long term debt	(21,582)
Net cash provided by (used in) investing activities	<u>(21,582)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(675,407)</b>
<b>CASH, BEGINNING OF YEAR</b>	<u>2,271,021</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 1,595,614</u></u>

See accompanying notes to financial statements.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2014

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**1. ORGANIZATION**

Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc. ("**the Institution**") is a nonprofit institution organized under the laws of the Commonwealth of Puerto Rico on June 25, 1993, and is a comprehensive primary care program which provides primary health services to the low income individuals in the Municipality of Arroyo, Puerto Rico.

The **Institution** is a Federally Qualified Health Center supported by the contributions made by the Department of Health and Human Services, Public Health Service Act of the United States of America (DHHS), Puerto Rico Health Reform System and from program-generated income. The HHS principal contribution consists of federal funds under Section 330, which received by the Program who monitors and performs the payment function. The Puerto Rico Health Reform contribution consists of capitation revenues based on amount and classification of eligible individuals that select **the Institution** as their primary care center.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of accounting - The financial statements for **the Institution** 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 and its Accounting Standard Code (ASC 958-205 (formerly Statement of Financial Accounting Standards (SFAS) No. 117), Financial Statements of Non-for-Profit Organizations. Under FASB ASC 958-205, **the Institution** 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 Institution**. Generally, the donors of such assets permit **the Institution** 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 Institution** pursuant to those stipulations or that expire by the passage of time.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2014

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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.

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

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

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

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

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

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

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2014

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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. Gift of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. **The Institution** reports expiration of restrictions as depreciation expense is recognized over time.

In accordance with the provisions of FASB ASC 360-10-35 (formerly Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment of Long-Lived Assets") **the Institution** reviews for the impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Vacations and Sick Leave - Employees of **the Institution** are entitled to 15 days of vacation and 12 days of sick leave annually. Sick leave is not accrued because it does not vest; employees are not paid for any sick leave balance at termination of employment or any other time. As of June 30, 2014 the accrued vacations of \$114,213 were included with the payroll and payroll taxes payable in the statement of financial position.

Federal grants and contracts - **The Institution** receives its grants and contracts support and revenues primarily from the U.S. Department of Health and Human Services and other federal and state agencies.

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 statement of activities as net assets released from restrictions.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2014

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

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

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

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

Wraparound payments are recognized as income in the period that **the Institution** is entitled receive those payments. The amount reported in the 2014 statement of activities includes wraparound payments for the period between July 1, 2013 and June 30, 2014. At present, **the Institution** is plaintiff against the Puerto Rico Department of Health at the Federal Court for wraparound payments for the periods between July 1, 2006 and June 30, 2009. **The Institution** is also plaintiff at the State Court for wraparound payments for the periods between January 1, 2001 and June 30, 2006.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2014

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

Deferred revenue - Deferred revenue account is used to record revenues that do not meet both the measurable and available criteria for revenue recognition in the current period.

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 Institution**. This IBNR (cost incurred but not recorded) reserve amounting to \$429,243 as of June 30, 2014.

Income taxes - **The Institution** is a non-profit organization that is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code and Section 1101.01(a)(8) of the Puerto Rico Tax Code.

**3. ACCOUNTS RECEIVABLE - NET**

Accounts receivable - net as of June 30, 2014, consists of the following:

Grants and contracts receivable	\$ 671,853
Patients and third party payors	318,187
Capitation fees	483,448
Wraparound payments	<u>49,791</u>
Total	1,523,279
Less: Allowance for doubtful accounts	<u>( 132,192)</u>
Net accounts receivable	<u>\$ 1,391,087</u>

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2014

**4. INVENTORIES**

Inventories are comprised of the following:

Drug and medicines	\$ 101,606
Medical supplies	8,402
Laboratories supplies	1,830
Dental supplies	2,815
Office supplies	3,288
Pharmacy	19,992
Other	<u>474</u>
Total	<u>\$138,407</u>

**5. LAND, PROPERTY, PLANT AND EQUIPMENT**

The following table summarizes the cost and accumulated depreciation of property and equipment:

<u>Description</u>	<u>Useful Life Years</u>	<u>Costs</u>	<u>Accumulated Depreciation</u>	<u>Net Value</u>
<b><u>Unrestricted Programs</u></b>				
Building	30	\$ 664,138	\$ 307,989	\$ 356,149
Building improvements	5 - 30	612,866	154,673	458,193
Property and equipment	3 - 10	692,366	376,319	316,047
Programming and software	5	213,070	13,833	199,237
Construction in progress	-	276,939	-	276,939
Land	-	<u>331,130</u>	-	<u>331,130</u>
		<u>2,790,509</u>	<u>852,814</u>	<u>1,937,695</u>
<b><u>Community Health Centers-NAP</u></b>				
Construction in progress	-	<u>150,000</u>	-	<u>150,000</u>
<b><u>ARRA-Capital Improvement Program</u></b>				
Property and equipment	7 - 10	70,578	23,705	46,873
Programming and software	5	60,435	35,749	24,686
Building improvements	30	<u>516,999</u>	<u>44,806</u>	<u>472,193</u>
		<u>648,012</u>	<u>104,260</u>	<u>543,752</u>
<b><u>Affordable Care Act-Capital Development</u></b>				
Construction in progress	-	<u>850,000</u>	-	<u>850,000</u>
		<b><u>\$ 4,438,521</u></b>	<b><u>\$ 957,074</u></b>	<b><u>\$ 3,481,447</u></b>

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2014

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**6. LONG TERM DEBTS**

Mortgage note payable of \$431,633 at 2.5% over prevailing prime rate, but not less than 6.25%, due in fifty nine (59) principal monthly installments of \$1,798, plus interest, and a final balloon payment for the outstanding principal balance. The loan is secured by mortgage note over real estate property (See Note 12). The current maturities for long-term debt for the following years are as follows:

Year ending June 30,	
2015	\$ 21,582
2016	21,582
2017	21,582
2018	21,582
2019	21,582
2020	<u>228,253</u>
	336,163
Less: current portion	<u>( 21,582)</u>
Long-term debt	<u>\$ 314,581</u>

**7. COMMITMENTS AND CONTINGENCIES**

Puerto Rico Health Reform Contract – Arroyo Health Center

**The Institution** entered into MCO Service Agreement (“the Agreement”) with Humana Health Plans of Puerto Rico, Inc. (“Humana”) to provide health services to the designated beneficiaries of the health insurance plan of the Government of the Commonwealth of Puerto Rico in Arroyo. The Agreement is effective from October 1, 2010 to September 30, 2011. However, the Agreement had been renewed automatically by Humana for additional terms of one year ending each one in September 30. Pursuant to the Agreement, among other things, **the Institution** agrees and commits itself to provide all covered health services to the designated beneficiaries, as defined and restricted under the dispositions of the health insurance plan of the Government of the Commonwealth of Puerto Rico, which are specified in the Agreement. In consideration to the covered services rendered by **the Institution**, Humana will pay it a capitation amount per beneficiary per month, as defined in the Contract. During 2013, the Government of the Commonwealth of Puerto Rico canceled its contract with Humana effective September 30, 2013 and Triple S Salud (“Triple S”) has been elected the new MCO to manage and provide health services to the designated beneficiaries’ island wide. Triple S commenced its operations as the new MCO beginning October 1, 2013. The contract was signed on November 14, 2013. The terms of the new contract remains substantially the same as those with the former contract with Humana. The capitation amount will be subject to retention of money to be used for the payment of the IBNR claims and for the Medical Services Reserve. **The Institution** is financially responsible for the covered services included in the Physicians Fund, such as, primary care physician, gynecology, specialist referrals, laboratory referrals and x-ray referrals.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2014

**7. COMMITMENTS AND CONTINGENCIES, continued**

Federal grants and contracts

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

Legal claims

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

**8. NET ASSETS**

Temporarily restricted net assets - Temporarily restricted net assets in the statement of financial position consist of the following:

<u>Program</u>	<u>Activity</u>	<u>Balance</u>
Affordable Care Act, Grants for Capital Development	Available to support the costs of alteration/renovation or construction of a facility that is consistent with the health centers program's mission - to provide comprehensive, culturally competent, quality primary healthcare services to medically underserved communities and vulnerable populations.	\$ 850,000
Community Health Center-NAP	Available for primary and preventive health services to medically underserved populations	150,000
ARRA funds	Represent ARRA funds used for capital improvements. This temporarily restricted net asset will be decreased by recording the depreciation expenses during the useful life of the asset.	<u>543,752</u>
Total temporarily restricted net assets		<u>\$1,543,752</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other specified by donors. During the year ended June 30, 2014 the aggregated amount of net assets released from restrictions was \$2,242,973. Such net assets were contributed to the Institution through conditional government program in the form of grants and award, which are recorded as temporarily restricted revenues until specified conditions are met.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2014

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**9. CONCENTRATION OF CREDIT RISK**

**The Institution** maintains its cash balances in various financial institutions. The Federal Deposit Insurance Corporation (FDIC) insured the account balances up to \$250,000. The balance at some times during the year may exceed the federally insurance limit.

**10. PRIOR YEAR ADJUSTMENTS**

Prior year adjustment was recorded to correct the overstatement in the unrestricted net assets as follows:

Description	Unrestricted Net Assets	Temporary Restricted Net Assets	Total
Net assets, beginning, as previously reported	\$ 4,100,522	\$648,398	\$4,748,920
Understatement of accounts payable	<u>( 37,986)</u>	<u>-</u>	<u>( 37,986)</u>
Net assets, beginning, as restated	<u>\$4,062,536</u>	<u>\$648,398</u>	<u>\$4,710,934</u>

**11. SUPPLEMENTAL DISCLOSURE OF CASH FLOWS STATEMENT**

During the year, **The Institution** retired, fully depreciated, property and equipment in the amount of \$216,620. Also a purchase option of \$5,000, paid and recorded as other assets during the prior fiscal year, was reclassified to property and equipment during the year ended June 30, 2014.

Interest paid during the year ended June 30, 2014, amounted to \$22,065.

**12. SUBSEQUENT EVENTS**

Management of **the Institution** has evaluated subsequent event through March 17, 2015, the date which the financial statements were available to be issued. Except the subsequent event in the next paragraph, no events were identified that required adjustment or disclosure in the financial statements.

On December 16, 2014, the Financial Institution granted an extension of five years on the mortgage note payable described in Note 6. The new due date will be January 20, 2020. The others terms remain unchanged.

**SUPPLEMENTAL INFORMATION**

**CENTRO DE SALUD FAMILIAR  
DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2014

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

<b>Federal Grantor Pass-through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Disbursements/ Expenditures</b>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u></b>		
Direct programs:		
* Consolidated Health Center (Community Health Center, Healthy School)	93.224	\$ 1,812,229
* Affordable Care Act (ACA)-Capital Development in Health Centers	93.526	784,507
* Grants to Provide Outpatient Early Intervention Services with respect to HIV Disease (Ryan White Part C)	93.918	541,591
<b>Total Expenditures of Federal Awards</b>		<b>\$ 3,138,327</b>

\* Denote Major Programs

See accompanying notes to financial statements.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Schedule of Expenditures of Federal Awards

For the year ended June 30, 2014

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**NOTE A - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal activity of Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc. under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of 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 Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc.

**NOTE B - 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.

**NOTE C - 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 accordingly with the program name within the corresponding agency.

**NOTE D – RELATIONSHIP TO FINANCIAL STATEMENTS**

Revenues and expenses of the Federal Awards programs are included in **the Institution's** financial statements. The reconciliation between the expenses in the financial statements and expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Expenses in the financial statements	\$8,597,947
Add: Capital expenses in connection with temporarily restricted net assets	934,507
Less: Depreciation expenses, in connection with temporarily restricted net assets	( 39,153)
Less: Non-federal expenses	<u>(6,354,974)</u>
Total Federal Expenditures	<u>\$3,138,327</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Governing Board of  
**Centro de Salud Familiar  
Dr. Julio Palmieri Ferri, Inc.**  
Arroyo, 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 Familiar Dr. Julio Palmieri Ferri, Inc. (a nonprofit corporation) ("**the Institution**") which comprise the statements of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 17, 2015.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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 limitation, 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.

**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**

(CONTINUED)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **the Institution's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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.

March 17, 2015,  
San Juan, Puerto Rico

*Diaz & Candelaria, PSC*



License No. 34, Expires December 1, 2016  
The C.P.A. Stamp No. O2711622, of the P.R.  
State Society of Certified Public Accountants  
was affixed to the record copy of this report.



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

To the Governing Board of  
**Centro de Salud Familiar  
Dr. Julio Palmieri Ferri, Inc.**  
Arroyo, Puerto Rico

**Report on Compliance for Each Major Federal Program**

We have audited **Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc.** (a nonprofit corporation) (“**the Institution**”) 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 Institution** major federal programs for the year ended as of June 30, 2014. **The Institution's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management’s Reponsability**

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

**Auditor’s Reponsability**

Our responsibility is to express an opinion on compliance for each of **the Institution’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 Institution’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 Institution’s** compliance.

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

**Opinion on Each Major Federal Program**

In our opinion, **the Institution** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

**Other Matters**

The results of our auditing procedures disclosed one instance 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 item 2014-01

**Report on Internal Control Over Compliance**

Management of **the Institution** 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 Institution'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 Institution's** internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

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

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of finding and questioned costs as item 2014-01, to be significant deficiency.

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.

March 17, 2015,  
San Juan, Puerto Rico

*Diaz & Candelaria, PSC*

License No. 34, Expires December 1, 2016  
The C.P.A. Stamp No. O2711623 of the P.R.  
State Society of Certified Public Accountants  
was affixed to the record copy of this report.



**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

**Schedule of Findings and Questioned Costs**

For The Year Ended June 30, 2014

**Section I - Summary of Auditors' Results**

**Financial Statements:**

Types of auditors' report issued:	<u>Unmodified</u>
Internal Control over financial reporting:	
➤ Material Weakness(es) identified?	No
➤ Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

**Federal Awards:**

Internal control over major programs:	
➤ Material Weakness(es) identified?	No
➤ Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	Yes

**Mayor Program**

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
93.224	<b>U.S. Department of Health and Human Services</b> Community Health Center (Cluster)
93.526	Affordable Care Act (ACA) Capital Development in Health Centers
93.918	Outpatient Early Intervention Services to HIV disease (Ryan White Part C)

Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	Yes

**CENTRO DE SALUD FAMILIAR DR.JULIO PALMIERI FERRI, INC.**

**Schedule of Findings and Questioned Costs**

For The Year Ended June 30, 2014

**Section II - Financial Statements Findings**

<u>Program</u>	<u>Findings / Non-Compliance</u>	<u>Questioned Costs</u>
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No findings reported in this section

**CENTRO DE SALUD FAMILIAR DR.JULIO PALMIERI FERRI, INC.**

**Schedule of Findings and Questioned Costs**

For The Year Ended June 30, 2014

**Section III - Findings and Questioned Costs for Federal Awards**

<u>Program</u>	<u>Findings / Non-Compliance</u>	<u>Questioned Costs</u>
Consolidated Health Centers (Community Health Centers) CFDA NO. 93.224	2014-01 Standards for financial management systems  <u>Criteria</u> The 45 CFR 74.21(b)(1) - Standards for financial management systems, establish that federal funds management systems shall provide for the accurate, current and complete disclosure of the financial results of each federally-sponsored project or program.  <u>Condition</u> Some of The Institution's accounting records and the general ledger trial balances for the year ended June 30, 2014, was available on January 2015 for audit purposes.  <u>Cause</u> The delay in the delivery of information for auditing is mainly due to overwork in the Department of Finance. We understand that the department needs another person with knowledge of the complete accounting cycle. Also during the period, there were personnel changes in the position of Finance Director Officer.  <u>Effect</u> The lack of current financial results difficult Management, to make decisions in the <b>Institution's</b> fiscal operation, when needed.  <u>Recommendation</u> The accounting record should be maintained current in order to have available, the financial information, to be used in the managerial decisions process.	N/A

**CENTRO DE SALUD FAMILIAR DR.JULIO PALMIERI FERRI, INC.**

**Summary Schedule of Prior Year Findings**

For The Year Ended June 30, 2014

<u>Program</u>	<u>Findings / Non-Compliance</u>	<u>Questioned Costs</u>
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No findings reported in this section



March 26, 2015

Díaz & Candelaria, CPA, PSC  
Certified Public Accountants and Consultants  
Suite 112 PMB-294  
100 Gran Bulevar Paseos  
San Juan, PR 00926-5955

**CORRECTIVE ACTION PLAN AUDIT REPORTING PACKAGE  
FISCAL YEAR ENDED JUNE 30, 2014**

**FINDINGS AND QUESTIONED COST FOR FEDERAL AWARD**

**Reference Number:** 2014-01  
**Agency:** U.S. Department of Health and Human Services  
**Pass-through Entity:** N/A  
**Program:** Health Center Cluster  
**CFDA Number:** 93.224  
**Regulation/Requirement:** Standards for financial management systems  
**Type:** Noncompliance, Significant internal control deficiency  
**Questioned Costs:** \$-0-

**Response:**

Although we recognize the delays in providing the information and the need for additional staff in the Finance Department, the auditor's comments do not consider other aspect of the delays that are redundant in a better financial information process that the Center took during this time period.

On June 30, 2014, the Center performed the physical inventory of all its property and equipment to ascertain compliance with regulations. The physical inventory process took more time than expected as the Center evaluated all the departments and new sites. The results of this physical inventory provided to an updated property ledger more useful for internal and external reporting. We understand, the auditor did not found any issues in this area and in any other area for that matter.

Also, the Center hires external consultants to review all of its policies and procedures, including Procurement, Accounting, Billing and Collections, Sliding Fees Schedule and Time and Effort as well as to provide a part time accounting assistant to support for internal management reporting and communication and to expedite the process of providing the financial information to the auditors. Therefore, the internal management reporting process did not suffer any difficult for Management, to make decisions in the Institution's fiscal operation, when needed and therefore we strongly disagree with this statement.

**Action Taken or to be Taken:**

As expressed above, the Center believed that even though there were certain delays, the improvements in certain process and reporting matters mitigate any constrains the auditors may believe would be. However, we welcomed the recommendations to hire a person with knowledge of the complete accounting cycle to mitigate any delays in the future. With respect to this recommendation, the Center is in the process of re-evaluating the

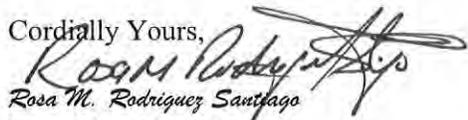
**P.O BOX 450 ARROYO, PUERTO RICO 00714  
TEL: 787-839-4150 / FAX: 787-839-3989**



Finance Departments needs and coordinate this effort with the identification of a person to be hire and integrated to the team soon.

**Responsible party:** Finance Director  
**Time frame:** Implementation is ongoing

Cordially Yours,

  
*Rosa M. Rodriguez Santiago*  
Executive Director