

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A Nonprofit Organization)

Audited Financial Statements

For the Year Ended June 30, 2014

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De Angel & Compañía
CORPORACIÓN PROFESIONAL
CONTADORES PÚBLICOS AUTORIZADOS

PO Box 5460
Caguas, Puerto Rico 00726-5460

Glasgow 1890 College Park
Río Piedras, Puerto Rico
(787) 758-4428 • Fax 763-9386

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
**Concilio De Salud Integral
De Loiza, Inc.**
(A Nonprofit Organization)
Loíza, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of **Concilio de Salud Integral de Loíza, Inc.** (a nonprofit organization), (the Organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, 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.

Auditors' 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 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 **Concilio de Salud Integral de Loíza, 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 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 the Schedule of Functional Expenses on page 17 are presented for purposes of additional analysis and are 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 March 4, 2015, on our consideration of **Concilio de Salud Integral de Loíza, 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 **Concilio de Salud Integral de Loíza, Inc.**'s internal control over financial reporting and compliance.



License No. 113
Expires on December 1, 2015

San Juan, Puerto Rico
March 4, 2015
2015-03-17

Stamp No.
E-145739
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to original

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Statement of Financial Position

June 30, 2014

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 15,903,928
Accounts Receivable, Net	2,325,298
Wraparound Receivables	836,749
Inventory	161,129
Prepaid Expenses	8,138
Total Current Assets	<u>19,235,242</u>
Property, Plant and Equipment, Net	6,040,439
Other Restricted Assets:	
Capitation Receivable	93,517
IBNR Fund Deposit	2,339,308
Deposits	24,080
Total Assets	<u><u>\$ 27,732,586</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts Payable	\$ 371,676
Accrued Expenses	217,779
Institutional Fund Payable	702,686
Other Liabilities	24,847
IBNR Reserve	635,581
Total Current Liabilities	<u>1,952,569</u>
Net Assets:	
Temporarily Restricted	1,659,563
Unrestricted	24,120,454
Total Liabilities and Net Assets	<u><u>\$ 27,732,586</u></u>

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

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Statement of Activities and Change in Net Assets

For the Year Ended June 30, 2014

	Temporarily Restricted Funds	Unrestricted Funds	Total
<u>REVENUES AND SUPPORT</u>			
Revenues:			
Net Patients' Service Revenues	\$ -	\$ 841,995	\$ 841,995
Premium Revenues	-	8,156,897	8,156,897
Pharmacy Revenues	-	1,650,802	1,650,802
Wraparound Income	-	3,106,437	3,106,437
Rent Income	-	152,298	152,298
Other Revenues	-	146,725	146,725
	<u>-</u>	<u>14,055,154</u>	<u>14,055,154</u>
Support:			
Federal Grants and Contracts	3,413,636	-	3,413,636
Donated Services	-	305,376	305,376
Other Support	28,205	-	28,205
Net Assets Released from Restrictions	<u>(3,391,636)</u>	<u>3,391,636</u>	<u>-</u>
	<u>50,205</u>	<u>3,697,012</u>	<u>3,747,217</u>
Total Revenues and Support	50,205	17,752,166	17,802,371
<u>EXPENSES</u>			
Program Services	-	12,893,104	12,893,104
Program Supporting Services	-	3,391,636	3,391,636
	<u>-</u>	<u>16,284,740</u>	<u>16,284,740</u>
<u>OTHER INCOME (EXPENSES)</u>			
Wraparound Legal Claim	-	9,908,241	9,908,241
Professional Fees	-	<u>(1,754,703)</u>	<u>(1,230,990)</u>
Total Other Income	<u>-</u>	<u>8,153,538</u>	<u>8,153,538</u>
Change in Net Assets	50,205	9,620,964	9,671,169
Net Assets at Beginning of Year	<u>1,609,358</u>	<u>14,499,490</u>	<u>16,108,848</u>
Net Assets at End of Year	<u>\$ 1,659,563</u>	<u>\$ 24,120,454</u>	<u>\$ 25,780,017</u>

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

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Statement of Cash Flows

For the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 9,671,169
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	734,083
Provisions for Bad Debts	421,264
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(547,511)
Decrease in Wraparound Receivable	275,342
Decrease in Institutional Fund	7,050
Decrease in Inventory	20,790
Increase in Prepaid Expenses	(269)
Increase in IBNR Fund Deposit	(772,920)
Decrease in Accounts Payable	(16,865)
Decrease in Other Liabilities	(191,159)
Increase in Institutional Fund Payable	702,686
Increase in Accrued Expenses	12,474
	<hr/>
Net Cash Provided by Operating Activities	10,316,134

CASH FLOWS FROM INVESTING ACTIVITIES

Land and Building Improvements	(69,544)
Purchase of Vehicles	(19,489)
Purchase of Equipment and Furniture	(105,470)
	<hr/>
Net Cash Used in Investing Activities	(194,503)

Net Change in Cash and Cash Equivalents	10,121,631
Cash and Cash Equivalents at Beginning of Year	5,782,297
	<hr/>
Cash and Cash Equivalents at End of Year	\$ 15,903,928

SUPPLEMENTAL DISCLOSURES

Interest Paid	\$ 294
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The accompanying Notes are an integral part of these Financial Statements.

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Notes to Financial Statements

June 30, 2014

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The accompanying financial statements include the accounts and transactions of **Concilio de Salud Integral de Loíza, Inc.** (the Organization). The Organization is organized under the laws of the Commonwealth of Puerto Rico on April 27, 1972, to provide primary ambulatory, supplemental and environmental health services to the medically under-served residents in the Municipalities of Loiza, Rio Grande, and Luquillo, Puerto Rico. Also, the Organization entered into a capitation contract with Triple S, Inc. (the Insurance Company), to provide health services to beneficiaries under the Puerto Rico Health Insurance Administration.

The Organization 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 Organization 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

The financial statements presentation follows the recommendations of the *Financial Accounting Standard Board* (FASB) in its Accounting Standard Code (ASC) No. 958-210, Financial Statements of "Not-for-Profit Entities", and the AICPA Audit and Accounting Guide for Health Care Organizations. Under ASC No. 958-210, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted:

➤ Unrestricted

Unrestricted net assets represent contributions and grants which have no "donor-imposed" restrictions or which arise as a result of operations. However, the Board of Directors has approved to classify certain amounts as designated for specific uses.

➤ Temporarily Restricted

Temporarily restricted net assets represent contributions and grants which have "donor-imposed" limitations on their use for a specified time period or purpose.

➤ Permanently Restricted

Permanently restricted net assets represent contributions and grants that have been restricted by donors to be maintained by the Organization in perpetuity. There were no permanently restricted net assets at June 30, 2014.

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Notes to Financial Statements

June 30, 2014

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

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support, if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Receivables for Patient Care

Patient accounts receivable for which the Organization receives payments under cost reimbursement or prospective payment formula or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payors, which are generally less than the established billing rates of the Organization.

Allowance for Uncollectible Accounts

The amount of the allowance for uncollectible is based on management's assessment of historical and expected collections, business economic conditions, trends in health care coverage, and other collection indicators. Additions to the allowance for uncollectible result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for uncollectible. As of June 30, 2014, the balance of the allowance was \$2,671,970.

Inventory

Inventory consist of medicines, materials and medical supplies and are stated at the lower of cost (first-in first-out) or market.

Property, Plant and Equipment

Property, Plant and Equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Notes to Financial Statements

June 30, 2014

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

Property, Plant and Equipment, (Continued)

Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. 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.

Gifts of long-lived assets such as land, buildings, 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. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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 Statement of Activities and Changes in Net Assets as net assets released from restrictions.

Net Patient Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization 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, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Notes to Financial Statements

June 30, 2014

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

Premium Revenues

The Organization has agreements with various HMO to provide medical services to subscribing participants. Under these agreements, the Organization receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Organization. In addition, the HMO make "fee-for-service" payments to the Organization for certain covered services based upon discounted fee schedules. Premiums are due monthly and are recognized as revenue during the period in which the Organization is obligated to provide services to members.

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 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 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.

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.

Charity Care

The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Income Taxes

The Organization is exempt from federal income taxes under section 501(c) (3) of the Internal Revenue Code, and exempt from Puerto Rico income taxes under section 1101.01 of the New Puerto Rico Internal Revenue Code (previously known as Section 101(6) of the 2004 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.

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Notes to Financial Statements

June 30, 2014

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

Income Taxes, (Continued)

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 Statement of Activities and Changes in Net Assets. As of June 30, 2014, the Organization believes that there are no uncertain tax positions and has no accrued income tax related interest and/or penalties in the Statement of Financial Position.

The Organization is potentially subject to income tax audits in the Commonwealth of Puerto Rico for taxable years from 2009 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.

Functional Allocation of Expenses

The costs of providing the program services and other activities have been summarized on a functional basis in the Statement of Functional Expenses, as supplementary information. Accordingly, certain costs have been allocated between the program services and management and general services benefited.

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.

2. **NET PATIENTS' SERVICE REVENUE**

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Organization's established rates for service and amounts reimbursed by third-party payors.

A summary of the payment arrangements with major third-party payors are as follows:

Medicare

Outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain outpatient's services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology.

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Notes to Financial Statements

June 30, 2014

2. NET PATIENTS' SERVICE REVENUE, (Continued)

Medicare, (Continued)

Outpatient services are paid based on various methodologies as determined by regulations of the Medicare Program. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicare fiscal intermediary. The Medicare fiscal intermediary has audited the Organization's Medicare Costs Reports. It is the opinion of management that the intermediary will not materially affect the amounts set on books as a result of an audit.

3. PREMIUM REVENUES

PR Health Reform and Others

Outpatient services rendered to Puerto Rico Health Reform program beneficiaries are reimbursed under a capitation methodology.

During 2011, the Government of Puerto Rico implemented a new Puerto Rico Health Reform, known as "Mi Salud". The most noticeable change brought by "Mi Salud" is the switch from the longstanding independent-practice association (IPA) model to a preferred-provider-network organization (PPO). With this change, the new program's architects vowed to eliminate the biggest complaint of previous health reform "La Reforma" patients: the requirement of a referral from one's primary-care physician to see a specialist or get a prescription from a specialist filled. Under "Mi Salud's" PPO model, patients would not be required to go through a primary-care physician and would be free to see any doctor within the PPO. Also, "Mi Salud" looks to decrease the excessive use of the emergency rooms by the beneficiaries. To avoid this, "Mi Salud" looks to extend the service hours by the primary physician and other providers, such as the laboratories centers, and requesting to the beneficiaries a higher deductible amount if the beneficiary visits the emergency without a referral. With respect to the risk, the 100% of the prescription drugs and other test and vaccines and 50% of the emergency room is transferred to the Insurance Company. Under "La Reforma" these risks were under the Organization.

The Organization also has entered into payment agreements with certain commercial insurance carriers, HMO, and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

4. ACCOUNTS RECEIVABLE

At June 30, 2014, accounts receivable consisted of the following:

Patients Receivable	\$ 4,407,968
Pharmacy	332,168
Rent	253,209
Other	3,923
	<hr/>
	4,997,268
Less: Allowance for Bad Debts	<hr/> (2,671,970)
	<hr/>
Accounts Receivable, Net	<u>\$ 2,325,298</u>

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Notes to Financial Statements

June 30, 2014

5. WRAPAROUND RECEIVABLES

Wraparound receivables consist of current year wraparound payments recorded, under the prospective payment system methodology (PPS). At June 30, 2014, the wraparound receivable consisted of the following:

Wraparound Claims for 2014	\$ 3,306,352
Amount Collected	<u>(2,469,603)</u>
	<u>\$ 836,749</u>

6. INVENTORY

At June 30, 2014, the inventory consisted of the following:

Drugs and Medicines	\$ 134,550
Medical Supplies	<u>26,579</u>
Inventory	<u>\$ 161,129</u>

7. PROPERTY, PLANT AND EQUIPMENT

At June 30, 2014, the Property, Plant and Equipment consisted of the following:

Building and Building Improvements	\$ 5,831,436
Furniture and Fixtures	559,940
Medical Equipment	2,748,343
Computer Hardware and Software	619,075
Vehicles	<u>283,482</u>
	10,042,276
Less: Accumulated Depreciation and Amortization	<u>(4,585,179)</u>
	5,457,097
Land	<u>583,342</u>
Property, Plant and Equipment, Net	<u>\$ 6,040,439</u>

8. IBNR FUND DEPOSIT

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 June 30, 2014, the Insurance Reserve Fund Deposit amounted to \$2,339,308.

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.

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Notes to Financial Statements

June 30, 2014

9. IBNR RESERVE

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 June 30, 2014, the Organization's IBNR reserve amounted to \$635,581.

10. STOP - LOSS INSURANCE

The Organization has a stop-loss insurance agreement with the Insurance Company to limit its losses on individual claims. Under the terms of this agreement, the Insurance Company will cover all cost of each member's annual services, in excess of a \$10,000. In the event the Organization ceases operations, (a) plan benefits will continue for members who are confined in an acute care hospital on the date of insolvency until their discharge, and (b) plan benefits will continue for any other member until the end of the contract period for which premiums have been paid.

11. LINE OF CREDIT

Unsecured line of credit agreement with financial institution with maximum borrowing up to \$100,000 at 3% plus prime rate. At June 30, 2014, there is no outstanding balance on the line of credit.

12. FEDERAL GRANTS AND CONTRACTS

During current fiscal year, the U.S. Department of Health and Human Services awarded grants to the Organization under the following programs as follows:

Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for The Homeless, Public Housing Primary Care, and School Based Health Centers)	\$ 4,161,747
Grant to Provide Outpatient Early Intervention Services with Respect to HIV Disease	153,989
HIV Prevention Programs for Women	135,000
Special Project of National Significance	<u>80,000</u>
	<u>\$ 4,530,736</u>

In addition, during the current fiscal year the Organization received funds from prior year grants. The total amount amended for that previous grants is as follows:

Affordable Care Act (ACA) Grant for Capital Development in Health Centers	<u>\$ 1,172,440</u>
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CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Notes to Financial Statements

June 30, 2014

12. FEDERAL GRANTS AND CONTRACTS, (Continued)

The grant for the Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for The Homeless, Public Housing Primary Care, and School Based Health Centers) was approved on November 21, 2013, for the amount of \$3,662,755 and has a one year coverage period from December 1, 2013 to November 30, 2014. Subsequently, grant have been increase to \$4,161,747 for the same period. As of June 30, 2014, the amount recorded as grant income of these federal contributions amounted to \$3,027,544.

The grant to Provide Outpatient Early Intervention Services with Respect to HIV Disease was approved on July 5, 2013 for the amount of \$153,989 and has a period of coverage from July 1, 2013 to June 30, 2014. As of June 30, 2014, the amount recorded as grant income amounted to \$89,846.

The grant for HIV Prevention Programs for Women in the amount of \$135,000 was approved on August 9, 2013 for the period beginning on September 1 2013, though August 31, 2014. Of this amount, \$129,792 was recorded as grant income during fiscal year 2014.

The grant for Special Projects of National Significance was approved on August 31, 2012 for the amount of \$80,000 and has a period of coverage from September 1, 2012 to August 31, 2013. As of June 30, 2014, the grant income amounted to \$41,178.

The Affordable Care Act (ACA) Grant for Capital Development in Health Centers was approved on June 30, 2011, for the amount of \$1,172,440 and has a period of coverage from October 1, 2010 to September 30, 2012. As of June 30, 2014, the grant income recorded amounted to \$125,276.

13. COMMITMENTS AND CONTINGENCIES

Wraparound Claims

Since 2003, the Organization is a party in a legal proceeding in Puerto Rico Court brought by all the "Community Health Centers" (CHC) on the island along with the Primary Care Association (together the "Plaintiff") against the Commonwealth of Puerto Rico, Dr. Rosa Pérez Perdomo, Secretary of Puerto Rico Department of Health, Lic. William González, director of the Medicaid Office of the Commonwealth of Puerto Rico; and the Health Insurance Administration (ASSES) (together the "Defendants").

The Plaintiff allege that the Defendants have not complied with current social security laws which under the "Balance Budget Act" amendment to section 1902 (a)(13)(c), requires states and territories to reimburse to Federally Qualified Health Centers (FQHC) contracting with Managed Care Organizations (MCO) for reasonable costs of providing to Medicaid beneficiaries. Under these amendments, states and territories are required to reimburse FQHC for the difference, if any, between the reasonable costs of providing services to Medicaid patients and the amounts paid to FQHC by the MCO.

Furthermore, states and territories are required to make wraparound payments at least on a quarterly basis to FQHC in accordance with the provisions of the amendments. As remedy, plaintiffs are requesting the Court to compel the defendants to comply with FQHC provision and to make the required wraparound payments in accordance with the law.

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Notes to Financial Statements

June 30, 2014

13. **COMMITMENTS AND CONTINGENCIES, (Continued)**

Wraparound Claims, (Continued)

During this legal process, the Court appointed a special master (the Special Master) to deal with this issue and make its recommendation.

On November 28, 2011, the Special Master issued its report in which he recommended the Court to order the Defendant to pay approximately \$14.4 million to the Organization to cover wraparound claims for the period of January 1, 2001 through June 30, 2006. During the year, the Organization received the payment of \$9,908,241. Amount was recorded as wraparound legal claim income in the Statement of Activities and Changes in Net Assets.

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.

Other Legal Cases

The Organization is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Organization's future financial position or results from operations.

Federal Assistance

The Organization has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the Organization. The Organization does estimate and recognize a claims and judgments liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the Organization's overall financial condition.

Collective Bargaining Agreement

The non-administrative employees of the Organization are covered under a new collective bargaining agreement, which was signed in August 2012.

14. **CONCENTRATION OF CREDIT RISK**

Cash

At June 30, 2014, the Organization's cash in bank balances exceeded the federal insured limits of \$250,000 by approximately \$15.5 million.

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Notes to Financial Statements

June 30, 2014

14. CONCENTRATION OF CREDIT RISK, (Continued)

Accounts Receivable

The Organization grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. Significant concentrations of patient accounts receivable at June 30, 2014, are as follows:

Medicare	13%
Health Reform - Capitation	16%
Other Third Party Payors	71%
	<hr/>
	100%
	<hr/> <hr/>

15. LEASE ARRANGEMENT

Operating Leases

The Organization leases part of the building facilities to a third-party, under cancellable operating leases through June 2014. Total rental income in 2014 for these operating leases arrangements amounted to approximately \$152,000.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the Statement of Financial Position for cash and cash equivalents approximates fair value.

Accounts Receivable and Accounts Payable

The carrying amount of accounts receivable and accounts payable in the Statement of Financial Position approximates fair value.

17. PENSION PLAN

The employees of the Organizations participate in a qualified defined contribution plan (the Plan), as defined by Section 401(k) of the Internal Revenue Code, sponsored by the Organization. Employees are eligible to participate in the plan after twelve (12) months of service and are fully vested after three (3) years of continuous service. The Organization contributes three percent (3%) of employee' compensation, as defined in the Plan. The Organization's contribution to such plan amounted to approximately \$198,000 during the fiscal year 2014.

18. SUBSEQUENT EVENTS

In preparing these financial statements, we evaluated these transactions and other events and transactions for potential recognition or disclosures through March 4, 2015, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Schedule of Functional Expenses

For the Year Ended June 30, 2014

**DEPARTMENT OF HEALTH AND
HUMAN SERVICES**

	General Fund	Fund 330(e)	Ryan White Title III	HIV/AIDS Preventions	Capital Development	ARRA	Special Project	Total
COMPENSATION AND RELATED EXPENSES								
Salaries	\$ 1,579,156	\$ 1,413,325	\$ 32,897	\$ 31,712	\$ 42,779	\$ -	\$ -	\$ 3,099,869
Payroll Taxes and Fringe Benefits	459,766	206,787	6,174	8,606	5,371	-	-	686,704
Total Compensation and Related Expenses	2,038,922	1,620,112	39,071	40,318	48,150	-	-	3,786,573
OTHER EXPENSES								
Professional Services	483,897	190,858	577	-	-	-	6,446	681,778
Laboratory and X-Ray Services	4,619,222	-	8,059	-	-	-	-	4,627,281
Hospital Services	2,676,320	-	-	-	-	-	-	2,676,320
Training and Conferences	72,492	6,532	976	77,267	-	-	-	157,267
Drugs and Medical Supplies	85,679	827,504	37,189	-	-	-	-	950,372
Office Supplies	158,269	111,463	-	8,416	-	-	-	278,148
Utilities	481,943	6,422	-	-	-	-	-	488,365
Rent	11,200	26,087	-	-	-	-	-	37,287
Equipment	34,996	2,811	-	-	-	-	-	37,807
Legal	1,235,187	-	-	-	-	-	-	1,235,187
Accounting	567,119	20,741	-	-	-	-	-	587,860
Repair and Maintenance	510,779	26,336	-	-	-	-	-	537,115
Travel and Lodging	4,963	12,083	3,974	3,756	-	-	-	24,776
Donations	305,376	-	-	-	-	-	-	305,376
Insurance	53,939	-	-	-	-	-	-	53,939
Security Guard	173,325	-	-	-	-	-	-	173,325
Electric Data	137,704	1,886	-	-	-	-	-	139,590
Bank Charges	10,083	569	-	35	-	-	-	10,687
Postage and Shipping	11,332	500	-	-	-	-	-	11,832
Licenses and Memberships	37,348	6,090	-	-	-	-	-	43,438
Bad Debts	421,264	-	-	-	-	-	-	421,264
Other	39,773	-	-	-	-	-	-	39,773
Expenses Before Depreciation Expense	14,171,132	2,859,994	89,846	129,792	48,150	-	6,446	17,305,360
Depreciation Expense	476,675	103,405	-	-	77,019	66,241	10,743	734,083
Total Expenses	14,647,807	2,963,399	89,846	129,792	125,169	66,241	17,189	18,039,443
Less: In-Kind Expenses	305,376	-	-	-	-	-	-	305,376
Total Expenditures	\$ 14,342,431	\$ 2,963,399	\$ 89,846	\$ 129,792	\$ 125,169	\$ 66,241	\$ 17,189	\$ 17,734,067

See Independent Auditors' Report.



De Angel & Compañía
CORPORACIÓN PROFESIONAL
CONTADORES PÚBLICOS AUTORIZADOS

PO Box 5460
Caguas, Puerto Rico 00726-5460
Glasgow 1890 College Park
Río Piedras, Puerto Rico
(787) 758-4428 • Fax 763-9386

**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
Concilio de Salud Integral de Loíza, Inc.
(A Nonprofit Organization)
Loíza, 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 **Concilio de Salud Integral de Loíza, Inc.** (a nonprofit organization), (the Organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 4, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses identified as Items 2014-001 and 2014-003.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be significant deficiency identified as item 2014-002.

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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned cost as items 2014-004 and 2014-005.

Organization's Response to Findings

The Organization's response to the 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 the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of **Concilio de Salud Integral de Loíza, Inc.** in a separate letter dated March 4, 2015.

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.



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March 4, 2015
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CORPORACIÓN PROFESIONAL
CONTADORES PÚBLICOS AUTORIZADOS

PO Box 5460
Caguas, Puerto Rico 00726-5460

Glasgow 1890 College Park
Río Piedras, Puerto Rico
(787) 758-4428 • Fax 763-9386

**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
Concilio de Salud Integral de Loíza, Inc.
(A Nonprofit Organization)
Loíza, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited **Concilio de Salud Integral de Loíza, Inc.'s**, (a nonprofit Organization), (the Organization), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the Organization's major federal programs for the year ended June 30, 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.

Auditor's 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.

Basis for Qualified Opinion on 93.224 Consolidated Health Center (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care).

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding CFDA 93.224 Consolidated Health Center (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care) as described in finding numbers 2014-004 for Cash Management and 2014-005 for Program Income. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to the program.

Qualified Opinion on 93.224 Consolidated Health Center (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care).

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 Consolidated Health Center (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care) for the year ended June 30, 2014.

Other 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weakness and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-004 and 2014-005 to be significant deficiencies.

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.



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San Juan, Puerto Rico
March 4, 2015
2015-03-19

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CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services Direct Programs (HHS):		
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless and Public Housing Primary Care)	93.224	\$ 2,865,228
Grant to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	89,846
HIV Prevention Programs for Women	93.015	129,792
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	48,150
Special Projects of National Significance	93.928	<u>6,446</u>
Total Expenditures of Federal Awards		<u><u>\$ 3,139,462</u></u>

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

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

1. **BASIS PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Organization 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 the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations". Because the Schedule presents only a selected portion of the operations of Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of Organization.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized followings the cost principles contained in OMB Circular A-122, "Cost Principle for Non-profit Organizations", where in certain types of expenditures are not allowed 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 NUMBERS**

The Catalog of Federal Domestic Assistance (CFDA) numbers, included in this Schedule were determined based on the program name, review of grant contract information, and the first two digits identify the federal department or agency that administrators the program and the last three numbers are assigned by numerical sequence.

5. **RELATIONSHIP TO THE STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**

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 Statement of Activities and Changes in Net Assets	\$ 18,039,443
Less: Non-Federal Expenditures	(14,905,215)
Plus: Federal Expenses Capitalized	<u>5,234</u>
Total Expenditures of Federal Awards in the Schedule of Expenditures of Federal Awards	<u>\$ 3,139,462</u>

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	<input checked="" type="checkbox"/>	Unmodified Opinion	<input type="checkbox"/>	Qualified Opinion
Internal Control Over Financial Reporting:				
Material weakness(es) identified?	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No
Significant deficiency(ies) identified not considered to be material weaknesses?	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	None reported
Noncompliance material to financial statements noted?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No

Federal Awards

Internal Control Over Major Programs:				
Material weakness(es) identified?	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No
Significant deficiency(ies) identified not considered to be material weaknesses?	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No
Type of auditors' report issued on compliance for major programs?	<input type="checkbox"/>	Unmodified Opinion	<input checked="" type="checkbox"/>	Qualified Opinion
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	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)	93.224

Dollar threshold used to distinguish between Type A and Type B programs:	<input checked="" type="checkbox"/>	\$300,000		
Auditee qualified as low-risk auditee?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No

See Independent Auditors' Report.

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2014

SECTION II – FINDING – FINANCIAL STATEMENTS AUDIT

Area: Financial Records and Reports

Ref. No.	Finding
2014-001	<p>Criteria:</p> <p>Subsidiary ledger of accounts receivable and, general ledger must be reconciled on a monthly basis in order to ascertain accurate and timely financial records.</p> <p>Condition:</p> <p>Our review of the financial and accounting records revealed that the Organization does not reconcile the subsidiary ledger of accounts receivable with the general ledger on a monthly basis.</p> <p>Cause and Effect:</p> <p>During our audit procedures over the Organization's accounts receivable, we noted that the subsidiary was not reconciled with general ledger until year end. As a result, the financial information related to patient revenues were inaccurate during the year.</p> <p>Recommendation:</p> <p>We recommend that a reconciliation of the detail to the accounts receivable general ledger be made at the end of each month, and that any reconciling items be investigated, cleared promptly, and on a timely basis.</p> <p>Corrective Action Plan:</p> <p>The Organization established a process to reconcile the subsidiary ledger of accounts receivable with the general ledger on a month to month basis in order to ascertain timely financial records.</p>

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2014

SECTION II – FINDING – FINANCIAL STATEMENTS AUDIT, (Continued)

Ref. No.	Finding
2014-002	<p>Criteria:</p> <p>All computerized Organization's financial systems must be integrated to ascertain accurate and timely financial information.</p> <p>Condition:</p> <p>Our review of the financial and accounting records revealed that the accounts receivable module is not currently integrated with the accounting system. As such, lack of integration of this module has resulted in inaccurate information and is not providing such information on a timely manner.</p> <p>Cause and Effect:</p> <p>During our audit procedures over the Organization's accounts receivable, we noted that "Meditrack" and "Success" billing systems were not integrated with "Cougar" accounting system. As a result, the financial information related to patient revenues were inaccurate during the year.</p> <p>Recommendation:</p> <p>We recommend that the computerized system be integrated with the financial and accounting records promptly and appropriately.</p> <p>Corrective Action Plan:</p> <p>The Organization contracted an external MIS consultant who is helping with the implementation and updates of the software and the integration of the accounts receivable modules with the general ledger. Currently the external consultant is working with this process.</p>

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2014

SECTION II – FINDING – FINANCIAL STATEMENTS AUDIT, (Continued)

Ref. No.	Finding
2014-003	<p>Criteria:</p> <p>Capitation Settlement from the Puerto Rico Health Reform, know as "Mi Salud", must be reconciled on a monthly basis in order to ascertain proper accounting records and timely financial information.</p> <p>Condition:</p> <p>Our review of the financial and accounting records revealed that Capitation Settlement is no properly reconciled. As such, the Organization's Statement of Financial Position presents inaccurate balances of the Institutional Fund and IBNR Fund Deposit accounts. In the same manner, the Statement of Activities and Change in Net Assets presents inaccurate information in Premiums Revenues and Patient Expenses accounts.</p> <p>Cause and Effect:</p> <p>During our audit procedures over premium revenues and costs, we noted that no reconciliation was made for the Capitation Settlement. Revenues and costs were understated and other assets accounts as well.</p> <p>Recommendation:</p> <p>We recommend that the Organization's prepared monthly reconciliations and record the corresponding transactions on a monthly basis. Also, we recommend that a year-end analysis and an annual reconciliation be prepared against the Capitation Settlement and any reconciling items be investigated and cleared on a timely basis.</p> <p>Corrective Action Plan:</p> <p>Since July 2014, the Organization prepares monthly reconciliations and records the transactions on a monthly basis. Also, the Organization will prepare and reconcile a year-end analysis against the capitation settlement received.</p>

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2014

**SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

Federal Program Information: Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care and School Based Health Centers)
CFDA # 93.224
Award Number: H80CS00323
Award Year-End: November 30, 2014
Department of Health and Human Services
Cash Management

Ref. No.	Finding/Noncompliance	Questioned Costs
2014-004 Criteria	<p>OMB Circular A-110, Cash Management Compliance Requirement, establishes that when advance payment procedures are used, entities must follow procedures to minimize the time elapsing between the transfer of funds from the Federal Government and the corresponding disbursements.</p> <p>Condition:</p> <p>Our review over the Organization's federal compliance requirements revealed that the Organization did not comply with the Cash Management requirement for the year ended June 30, 2014.</p> <p>Cause and Effect:</p> <p>During our audit procedures over Cash Management federal requirement, we noted that four (4) of ten (10) funds transfers received from the Federal Government were not disbursed within the 3 or 5 working days period.</p> <p>Recommendation:</p> <p>We recommend that the Organization establishes internal control procedures to ascertain that the time elapsing between the transfer of funds from the Federal Government and the corresponding disbursement are made within the time frame required by the Federal Program.</p> <p>Corrective Action Plan:</p> <p>Since March 2014, the Organization established a process to request and disburse federal funds. First, the Finance Department prepares the checks and then requests the funds for the payments.</p>	N/A

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2014

**SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT, (Continued)**

Federal Program Information: Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care and School Based Health Centers)
CFDA # 93.224
Award Number: H80CS00323
Award Year-End: November 30, 2014
Department of Health and Human Services
Program Income

Ref. No.	Finding/Noncompliance	Questioned Costs
2014-005 Criteria	<p>OMB Circular A-110, for Program Income compliance requirement established that the Organization's must have a corresponding schedule of discounts applied and adjusted based on the patient's ability to pay. The patient's ability to pay is determined based on the official poverty guideline, as revised annually.</p> <p>Condition:</p> <p>Audit procedures revealed that the evaluation form used by the Organization to determined the patient's sliding fee is not in accordance with the revised sliding fee schedule discounts for fiscal year 2013-2014.</p> <p>Cause and Effect:</p> <p>The sliding fee patient's evaluation form is not revised and actualized with the correct poverty guidelines. As a result the patient's sliding fee is not determined correctively.</p> <p>Recommendation:</p> <p>We recommend management revised and change the sliding fee patient's evaluation form to be in accordance with the revised poverty guidelines.</p> <p>Corrective Action Plan:</p> <p>In October 2014, the Organization revised and changed the sliding fee procedures including the evaluation form in accordance with to the poverty guidelines.</p>	N/A

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2014

SECTION IV – SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Ref. No.	Finding
12-01	<p>Condition:</p> <p>Our review of the financial and accounting records revealed that the Organization does not reconciled the subsidiary ledger of accounts receivable with the general ledger on a monthly basis.</p> <p>Status:</p> <p>Repeated Finding (13-01 and 2014-001).</p>
12-02	<p>Condition:</p> <p>Our review of the financial and accounting records revealed that the accounts receivable module is not currently integrated with the accounting system. As such, lack of integration of this module has resulted in inaccurate information and is not providing such information on a timely manner.</p> <p>Status:</p> <p>Repeated Finding (13-02 and 2014-002).</p>
12-03	<p>Condition:</p> <p>Our review of the financial and accounting records revealed that Capitation Settlement is no properly reconciled. As such, the Organization's Statement of Financial Position presents inaccurate balances of the Institutional Fund receivable and IBNR Fund Deposit accounts. In the same manner, the Statement of Activities and Change in Net Assets presents inaccurate information in Premiums Revenues and Patient Expenses accounts.</p> <p>Status:</p> <p>Repeated Finding (13-03 and 2014-003).</p>
12-05	<p>Condition:</p> <p>Our review over the Organization's federal compliance requirements revealed that the Organization did not comply with the Cash Management requirement for the fiscal year.</p> <p>Status:</p> <p>Repeated Finding (13-05 and 2014-004).</p>

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2014

SECTION IV – SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS, (Continued)

Ref. No.	Finding/Noncompliance	Questioned Costs
13-04	Condition: The Data Collection Form (DCF) and Single Audit reporting package were not submitted within nine (9) months after the end of the audit period. Status: Fully Corrected.	N/A

Ref. No.	Finding/Noncompliance	
13-06	Condition: During our audit procedures, we noted that the last physical inventory of equipment was taken during the fiscal year ended June 30, 2009. Status: Fully Corrected.	N/A

Ref. No.	Finding/Noncompliance	
13-07	Condition: Audit procedures revealed that the evaluation form used by the Organization to determine the patient's sliding fee is not in accordance with the revised sliding fee schedule discounts for fiscal year. Status: Repeated Finding (2014-005).	N/A



De Angel & Compañía
CORPORACIÓN PROFESIONAL
CONTADORES PÚBLICOS AUTORIZADOS

PO Box 5460
Caguas, Puerto Rico 00726-5460

Glasgow 1890 College Park
Río Piedras, Puerto Rico
(787) 758-4428 • Fax 763-9386

March 4, 2015

To the Board of Directors
Concilio de Salud Integral de Loíza, Inc.
Loíza, 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 deserves 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 Ramírez
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.