

FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT WITH
ADDITIONAL REPORTS REQUIRED
UNDER THE OMB CIRCULAR A-133

CONSEJO DE SALUD DE PUERTO RICO, INC.
(MED CENTRO)

NOVEMBER 30, 2014 AND 2013

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Independent Auditor's Report

To the Governing Board of
Consejo de Salud de Puerto Rico, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Consejo de Salud de Puerto Rico, Inc. (a nonprofit organization), which comprise the statement of financial position as of November 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 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 Institution'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 Institution'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.

Members of:

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Consejo de Salud de Puerto Rico, Inc. as of November 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules – combining statements of activities are presented for purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of functional expenses are presented for purpose of additional analysis and are not a required part of the basic financial statements. 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. The accompanying supplemental schedules – combining statements of activities, accompanying schedules of functional expenses and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 August 7, 2015, on our consideration of Consejo de Salud de Puerto Rico, 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 Consejo de Salud de Puerto Rico, Inc.'s internal control over financial reporting and compliance.

Rodriguez, Rivera + Toro, PSC

License number 243 which expires
on December 1, 2016.

Mayagüez, Puerto Rico
August 7, 2015

The stamp number E190465 of the Puerto Rico Society
of Certified Public Accountants was affixed to the
original of this report.

**CONSEJO DE SALUD DE PUERTO RICO, INC.
(MED CENTRO)**

**STATEMENTS OF FINANCIAL POSITION
NOVEMBER 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 15)	\$ 18,621,555	\$ 14,605,655
Certificates of deposit	2,345,117	2,337,261
Contracts receivable - Grants (Note 3)	586,843	1,401,497
Accounts receivable - net of uncollectible accounts of \$314,472 and \$118,456 for 2014 and 2013, respectively (Notes 4 and 15)	1,639,858	2,393,528
Inventories (Note 5)	683,612	528,368
Prepaid expenses	79,652	78,236
Total current assets	<u>23,956,637</u>	<u>21,344,545</u>
Property, plant and equipment - net (Note 6)	16,981,786	13,383,486
Land (Note 6)	5,446,962	5,075,312
Other assets (Notes 7 and 11)	208,318	627,160
TOTAL	<u><u>\$ 46,593,703</u></u>	<u><u>\$ 40,430,503</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 1,018,825	\$ 468,941
Accrued expenses (Note 8)	238,440	209,757
Payroll and payroll taxes payable	1,754,884	1,297,923
IBNR reserves (Note 2)	-	1,314,783
Deferred revenues	177,907	216,702
Total current liabilities	<u>3,190,056</u>	<u>3,508,106</u>
Deferred compensation plan obligation (Note 11)	240,000	120,000
Estimated provision for claims (Note 10)	-	2,410,395
Total liabilities	<u>3,430,056</u>	<u>6,038,501</u>
Net assets (Note 12):		
Permanently restricted	1,821,789	1,821,789
Temporarily restricted	3,244,321	3,365,305
Unrestricted	38,097,537	29,204,908
Total net assets	<u>43,163,647</u>	<u>34,392,002</u>
TOTAL	<u><u>\$ 46,593,703</u></u>	<u><u>\$ 40,430,503</u></u>

See notes to financial statements.

**CONSEJO DE SALUD DE PUERTO RICO, INC.
(MED CENTRO)**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED NOVEMBER 30, 2014**

	<u>Total</u>	<u>Permanently Restricted Funds</u>	<u>Temporary Restricted Funds</u>	<u>Unrestricted Funds</u>
REVENUES:				
Federal and state grants and contracts	\$ 9,860,052	\$ -	\$ 9,860,052	\$ -
Premium revenue (Note 10)	30,232,562	-	-	30,232,562
Net patient service revenue (Note 13)	6,442,114	-	-	6,442,114
Wraparound payments (Note 2)	6,278,514	-	-	6,278,514
Other revenues	2,204,261	-	-	2,204,261
Net assets released from restrictions	-	-	(9,981,036)	9,981,036
	<u>55,017,503</u>	<u>-</u>	<u>(120,984)</u>	<u>55,138,487</u>
EXPENSES:				
Personnel services	9,576,434	-	-	9,576,434
Fringe benefits	3,612,963	-	-	3,612,963
Professional services	2,561,317	-	-	2,561,317
Claims paid and IBNR reserves	23,942,088	-	-	23,942,088
Travel	116,485	-	-	116,485
Equipment	357,109	-	-	357,109
Medical supplies and drugs	2,262,005	-	-	2,262,005
Rental and utilities	1,089,678	-	-	1,089,678
Depreciation and amortization	1,125,301	-	-	1,125,301
Other	1,602,478	-	-	1,602,478
	<u>46,245,858</u>	<u>-</u>	<u>-</u>	<u>46,245,858</u>
CHANGE IN NET ASSETS	8,771,645	-	(120,984)	8,892,629
NET ASSETS, BEGINNING OF YEAR	<u>34,392,002</u>	<u>1,821,789</u>	<u>3,365,305</u>	<u>29,204,908</u>
NET ASSETS, END OF YEAR	<u>\$ 43,163,647</u>	<u>\$ 1,821,789</u>	<u>\$ 3,244,321</u>	<u>\$ 38,097,537</u>

See notes to financial statements.

**CONSEJO DE SALUD DE PUERTO RICO, INC.
(MED CENTRO)**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED NOVEMBER 30, 2013**

	<u>Total</u>	<u>Permanently Restricted Funds</u>	<u>Temporary Restricted Funds</u>	<u>Unrestricted Funds</u>
REVENUES:				
Federal and state grants and contracts	\$ 9,814,299	\$ -	\$ 9,814,299	\$ -
Premium revenue (Note 10)	25,859,816	-	-	25,859,816
Net patient service revenue (Note 13)	5,404,875	-	-	5,404,875
Wraparound payments (Note 2)	6,947,846	-	-	6,947,846
Other revenues	2,125,955	-	69	2,125,886
Net assets released from restrictions	-	-	(9,994,189)	9,994,189
	<u>50,152,791</u>	<u>-</u>	<u>(179,821)</u>	<u>50,332,612</u>
EXPENSES:				
Personnel services	9,176,400	-	-	9,176,400
Fringe benefits	3,164,709	-	-	3,164,709
Professional services	2,645,119	-	-	2,645,119
Claims paid and IBNR reserves	24,187,540	-	-	24,187,540
Travel	121,579	-	-	121,579
Equipment	351,329	-	-	351,329
Medical supplies and drugs	2,294,465	-	-	2,294,465
Rental and utilities	1,086,837	-	-	1,086,837
Depreciation and amortization	1,041,629	-	-	1,041,629
Other	1,339,426	-	-	1,339,426
	<u>45,409,033</u>	<u>-</u>	<u>-</u>	<u>45,409,033</u>
CHANGE IN NET ASSETS	4,743,758	-	(179,821)	4,923,579
NET ASSETS, BEGINNING OF YEAR	<u>29,648,244</u>	<u>1,821,789</u>	<u>3,545,126</u>	<u>24,281,329</u>
NET ASSETS, END OF YEAR	<u>\$ 34,392,002</u>	<u>\$ 1,821,789</u>	<u>\$ 3,365,305</u>	<u>\$ 29,204,908</u>

See notes to financial statements.

**CONSEJO DE SALUD DE PUERTO RICO, INC.
(MED CENTRO)**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2014 AND 2013**

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2014</u>	<u>2013</u>
Change in net assets	\$ 8,771,645	\$ 4,743,758
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,125,301	1,041,629
Bad debt expenses	196,016	83,544
Loss on disposition of assets	-	24,221
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Grants and contracts receivable	814,654	(556,860)
Accounts receivable	566,649	752,684
Inventories	(155,244)	57,722
Prepaid expenses	(1,416)	(3,851)
Other assets	13,333	(4,619)
Increase (decrease) in:		
IBNR reserves	(1,314,783)	561,718
Accounts payable	549,884	268,246
Deferred revenues	(38,795)	(3,954)
Accrued expenses and estimated provision for claims	(2,381,712)	1,154,664
Payroll and payroll taxes payable	456,961	229,391
Due to Triple-C and Humana	-	(948,735)
Deferred compensation plan obligation	120,000	120,000
Net cash provided by operating activities	<u>8,722,493</u>	<u>7,519,558</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land, property and equipment	(1,840,418)	(3,281,413)
Construction in progress	(2,783,913)	(1,171,783)
Advances for acquisition of equipment	(74,406)	(599,916)
Increase in certificate of deposit	(7,856)	(50,342)
Net cash used in investing activities	<u>(4,706,593)</u>	<u>(5,103,454)</u>
NET INCREASE (DECREASE) IN CASH	4,015,900	2,416,104
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>14,605,655</u>	<u>12,189,551</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 18,621,555</u>	<u>\$ 14,605,655</u>

See notes to financial statements.

**CONSEJO DE SALUD DE PUERTO RICO, INC.
(MED CENTRO)**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2014 AND 2013**

1. ORGANIZATION

Consejo de Salud de Puerto Rico, Inc. (MED CENTRO), ("**the Institution**") is a nonprofit Corporation organized in 1971. **The Institution** is a comprehensive primary care program which provides primary health services to the low income individuals, including agricultural workers in the Municipalities of Ponce, Peñuelas, Juana Díaz and Villalba.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements of **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 the Financial Accounting Standards Board in its Accounting Standard Codification (ASC) 958-210. According to FASB ASC 958-210, **the Institution** is required to report information regarding its financial position and activities according to following three classes of net assets:

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Certificates of deposits - Certificates of deposits with original maturities of more than three months are valued at cost, plus accrued interest.

Allowance for uncollectible accounts - The allowance for uncollectible accounts is an amount that management believes is adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of collectability of the receivables and prior credit loss experience. In evaluating the collectability of accounts receivable, **the Institution** analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, **the Institution** analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), **the Institution** records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

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 Center follows the capitalization policy of the federal government which considers as property and equipment tangible nonexpendable property, including exempt property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. Repair and maintenance are expensed as incurred. Expenses that increase the value or productive capacity of assets are also capitalized.

Gift 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 expirations of restrictions as depreciation expense is recognized over the time.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

In accordance with the provisions of FASB ASC 360-10-50-2, **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.

Federal and state 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.

Net patient service revenue - **The Institution** recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients, **the Institution** recognizes revenue on the basis of its standard rates for services provided less basis of discounted rates. On the basis of historical experience, a significant portion of **the Institution's** uninsured patients will be unable or unwilling to pay for the services provided. Thus, **the Institution** records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers for services rendered and is recognized in the period in which **the Institution** is obligated to provide services to its patients, net of contractual allowances, discounts and provision for bad debts.

Premium revenue - **The Institution** has agreements with various Manage Care Organizations ("MCO") to provide primary health care services to enrolled members. 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 MCO 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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Based on the requirements, and commencing in 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 the Commonwealth administers its Medicaid System throughout the "Health Reform" and the contract with Manage Care Organizations (MCO), 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 to receive those payments.

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

Expense recognition - Expenses are recognized when the related liability is incurred. Program service expenses are the costs related to providing programs and services or the costs of the activities for which purpose the organization exists. Management and general expenses relate to the overall direction of **the Institution**.

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**. Medical claims, which has been incurred but not reported by providers (IBNR), are estimated based on historic data; trends and other financial information submitted by the insurance carrier and amounted to \$-0- and \$1,314,783 for November 30, 2014 and 2013, respectively.

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 of the 2011 Puerto Rico Tax Code, as amended.

Management of **the Institution** has evaluated the implications of FASB ASC 740-10 and accordingly is unaware of any material tax position that do not meet the more-likely-than-not threshold as of November 30, 2014 and 2013.

Recently Adopted Accounting Standards – In July 2011, the FASB issued an update to Health Care Entities. This update provides amendments to ASC Subtopic 954-10 and requires **the Institution** to change the presentation of their statement of activity by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, **the Institution** is required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The new disclosures and presentation are effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter, with early adoption permitted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Reclassifications - Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statements presentation. Such reclassifications had no effect on net income as previously reported.

3. GRANTS – CONTRACTS RECEIVABLE

Grants and contracts receivable as of November 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Due from Corp. for National and Community Service:		
Senior Companion Program	\$ 115,460	\$ 152,121
Americorp Vista Program	7,112	5,908
Due from US Department of Health:		
Consolidated Health Centers and (ACA) Grants for New and Expanded Services under the Health Centers Program	225,288	1,027,985
Ryan White Part C Funds	238,983	170,018
Due from Municipality of Ponce (Ryan White Part A Funds)	-	45,465
	<u>\$ 586,843</u>	<u>\$ 1,401,497</u>

4. ACCOUNTS RECEIVABLE - NET

Accounts receivable - net as of November 30, 2014 and 2013, consists of the following:

	<u>2014</u>	<u>2013</u>
Capitation fees	\$ 23,912	\$ 399,760
Wraparound payments	1,105,731	1,357,660
Patients and third-party payors	661,727	654,362
Other	162,960	100,202
	<u>1,954,330</u>	<u>2,511,984</u>
Less allowance for uncollectible accounts	<u>(314,472)</u>	<u>(118,456)</u>
Accounts receivable - net	<u>\$ 1,639,858</u>	<u>\$ 2,393,528</u>

5. INVENTORIES

Inventories are comprised of the following:

	<u>2014</u>	<u>2013</u>
Drugs and medicines	\$ 437,021	\$ 346,381
Medical and surgical supplies	136,163	96,666
Laboratory supplies	65,631	36,076
Dental supplies	35,384	36,284
Other	9,413	12,961
	<u>\$ 683,612</u>	<u>\$ 528,368</u>

6. PROPERTY, PLANT AND EQUIPMENT - NET

Property, plant and equipment as of November 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Building and building improvements	\$ 12,102,066	\$ 10,921,476
Furniture and equipment	4,381,601	2,578,875
Equipment under capital leases	130,057	130,057
Motor vehicles	1,723,733	1,698,987
Softwares	1,111,437	999,219
Land improvements	623,980	623,981
	<u>20,072,874</u>	<u>16,952,595</u>
Less: accumulated depreciation and amortization	(5,914,902)	(4,789,601)
	<u>14,157,972</u>	<u>12,162,994</u>
Construction in progress	2,823,814	1,220,492
Property, plant and equipment - net	<u>\$ 16,981,786</u>	<u>\$ 13,383,486</u>
Land	<u>\$ 5,446,962</u>	<u>\$ 5,075,312</u>

7. OTHER ASSETS

Other assets are comprised of the following:

	<u>2014</u>	<u>2013</u>
Advances for capital assets and property not placed in service	\$ 74,406	\$ 479,916
Cash in Rabbi Trust – deferred compensation plan (Note 11)	120,000	120,000
Deposits and others	<u>13,912</u>	<u>27,244</u>
	<u>\$ 208,318</u>	<u>\$ 627,160</u>

8. ACCRUED EXPENSES

Accrued expenses as of November 30, are comprised of the following:

	<u>2014</u>	<u>2013</u>
Legal claims and accrued legal counsels fees	\$ 153,925	\$ 179,118
Other accrued liabilities	<u>84,515</u>	<u>30,639</u>
	<u>\$ 238,440</u>	<u>\$ 209,757</u>

9. DUE TO TRIPLE C, INC. AND HUMANA HEALTH PLAN OF PUERTO RICO

As of November 30, 2012, Triple C, Inc. and Humana Health Plan of Puerto Rico (contracted government health plans) have made payments under fee-for-service basis to **the Institution** for medical services that are funded under a capitation agreement. Those payments for medical services were accrued as liabilities in the 2012 financial statements of **the Institution**. As of November 30, 2013 such payments were analyzed by management and determined to be recognized as revenues. Therefore, those payments were reclassified to other income in the accompanying 2013 statement of activities.

10. COMMITMENTS AND CONTINGENCIES

Operating leases

The Institution conducts its program activities in the Municipality of Peñuelas, Villalba and Juana Díaz on leased facilities and has also certain medical and office equipment under various operating leases. Operating leases do not give rise to property rights or lease obligation, and therefore the results of lease agreement are not reflected in the Corporation's property and equipment accounts.

Rental expenses for all operating leases for the years ended November 30, 2014 and 2013 were \$200,496 and \$240,281, respectively.

10. COMMITMENTS AND CONTINGENCIES, Continued

The following is a schedule by year of future minimum rental payments for the next years required under operating lease that has lease terms in excess of one year as of November 30, 2014.

<u>Year ending November 30,</u>	<u>Amount</u>
2015	\$ 92,439
2016	<u>50,477</u>
	<u>\$ 142,916</u>

Puerto Rico Health Reform Contract - Singapur Health Center and Playa de Ponce Health Center (including the adjacent areas of El Tuque and Peñuelas)

On October, 1, 2011 **the Institution** entered into a capitation contract (“the Contract”) with a Manage Care Organization (MCO) Humana Health Plan 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 the south area of PR. Pursuant to the Contract, among other things, **the Institution** agrees and commits itself in provide all covered health services to the designated beneficiaries, under the dispositions of the health insurance plan of the Government of the Commonwealth of Puerto Rico, which are specified in the Contract. In consideration to the covered services rendered by **the Institution**, Humana pay an amount per beneficiary per month (known as capitation), as defined in the Contract. The capitation is subject to monthly retentions to be used for the payment of IBNR claims and for a Medical Service 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. The Contract expired on October 31, 2012 but had been renewed automatically by Humana for additional terms for the period ending in September 30, 2013.

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.

10. COMMITMENTS AND CONTINGENCIES, Continued

As of November 30, 2013 **the Institution's** management determined, based on its legal counsel and financial consultants advises, that any amount resulting from excess of services provided over the operating budget on the prior MCO contract may not be enforceable and subject to extensive analysis and negotiations. Furthermore, those negotiations and settlement procedures may extend beyond the 2013 fiscal period. The ultimate settlement amount, if any, cannot be known with certainty at 2013 year-end. Notwithstanding, the Institution's management has decided to recognize in the statement of financial position as of November 30, 2013, an estimated provision in the amount of \$2,410,395 on a long-term basis as a contingency reserve for any amount that might be settled as a result of this matter.

The negotiation period for this kind of contracts is usually 360 days. Because there has not been the intention of the parties to negotiate for any amount that might be settled and the negotiation period has ended, **the Institution's** management has decided to write-down to \$0 such reserve as of November 30, 2014.

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**.

11. DEFERRED COMPENSATION PLAN

Effective November 1, 2013, **the Institution** established the Consejo de Salud de PR Inc. Executive Deferred Compensation Plan ("the Plan"), a nonqualified deferred compensation plan covering eligible senior management as defined in the Plan Adoption Agreement ("the Agreement").

The Plan adopted the Popular Prototype Nonqualified Deferred Compensation Plan Rabbi Trust established by Banco Popular de Puerto Rico, ("the Trustee"), to carry out the purposes of the Plan. The Plan is designed and operates in accordance with regulations under the 2011 Puerto Rico Internal Revenue Code and is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Pursuant to the Agreement, participants may elect to have his compensation reduced by an amount as designated in writing to the Committee. The Employer may make profit sharing credits to the deferred compensation account of each active participant in an amount determined based on excess program income or institutional fund. Participants may terminate his compensation deferral agreement effective the first full payroll period commencing after the date written notice of the termination is received by the Committee.

11. DEFERRED COMPENSATION PLAN, Continued

An active participant shall be fully vested in the employer credits made to the deferred compensation account upon (i) normal retirement date, (ii) death, (iii) disability, and (iv) completion of three years of service calculated from the effective date of the Plan participation. The Plan may be terminated at discretion of the Institution's Board of Directors in which case the deferred compensation account will be immediately distributed to each participant in a single lump sum payment.

On termination of service with **the Institution**, a participant may generally elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or payments in approximately equal annual installments over a term no longer than 10 years or participant life expectancy as elected by the Participant upon his or her entry into the Plan.

In order to fund the deferred compensation obligation, **the Institution** remits the cash deferrals to the Rabbi Trust. In accordance with the provisions of ASC 710-10-25, the cash deferrals deposited in the Rabbi Trust are reported as Other Assets (see note 7) and the corresponding liability as long term – deferred compensation obligation. Total deferrals as of November 30, 2014 and 2013 amounted to \$240,000 and \$120,000, respectively.

12. NET ASSETS

Permanently restricted net assets - Permanently restricted net assets consist of a parcel of land donated by the Commonwealth of Puerto Rico-Department of Transportation and Public Works in 2001. The land was given for the construction of facilities for the treatment of HIV patients and patients with drugs and alcohol problems and other medical services. The land has specific conditions and restriction as to use, sale or disposition. These specific restrictions in use shall not be changed without written consent of the Puerto Rico Legislature.

Temporarily restricted net assets - Temporarily restricted net assets in the statement of financial position consist of Section 330 funds (Consolidated Health Centers), ACA Funds (New and Expanded under the Health Center Program and School-Based Health Center Capital Program), ARRA funds, (New Access Point, and capital improvement funds), funds for early interventions services and comprehensive medical services for HIV patients (Ryan White Parts C and A), and Senior companion program funds. Section 330 and ACA funds are available for primary and preventive health services to medically underserved populations. School-Based Capital Funds are available to address significant and pressing capital needs to improve delivery and support expansion of services at School-Based Health Centers. ARRA funds are available to establish new access points that will increase the number of underserved and uninsured individuals with access to comprehensive primary and preventive health care, to enable health centers to increase services at existing sites and to carry out alteration, repair and renovation of health facilities (capital improvement). Ryan White funds are available to improve the availability, accessibility and organization of ambulatory health services to persons infected with HIV; and Senior Companion funds are available to provide assistance and friendship to older persons with exceptional needs.

12. NET ASSETS, Continued

Temporarily restricted net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. During the years ended November 30, 2014 and 2013 the amount of net assets released from restrictions aggregated \$9,981,036 and \$9,994,189, respectively. Such net assets were contributed to **the Institution** through conditional governmental programs and private contribution in the form of grants, awards and contracts, which are recorded as temporarily restricted revenues until specified conditions are met. As of November 30, 2014 the conditions for all government programs and private contributions recorded as revenues were met.

Unrestricted net assets – Unrestricted net assets in the statement of financial position includes funds designated by the Board of Directors. For the years ended November 30, 2014 and 2013, **the Institution's** Board of Directors designated the amount of \$11,000,000 from the legal settlement received in 2011 to further the objectives of the project through capital investments and sponsoring educational activities.

13. NET PATIENT SERVICE REVENUE

The Institution has agreements with third-party payers, including Medicare, that provide for payments to **the Institution** at amount different from its established rates. Payment arrangements include prospectively determined rates per visit, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers for services rendered and are recognized in the period in which **the Institution** is obligated to provide services to its patients, net of contractual allowances, discounts and provision for bad debts.

A summary of gross and net patient service revenue for the years ended November 30, 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
Gross patient service revenue	\$ 10,941,023	\$ 7,501,848
Less provision for contractual allowance	(4,428,756)	(2,013,562)
Less provision for bad debt	(70,153)	(83,411)
	<u> </u>	<u> </u>
Net patient service revenue	<u>\$ 6,442,114</u>	<u>\$ 5,404,875</u>

14. CLASSIFICATION OF EXPENSES

The statements of activities disclose expenses by natural classification. The classification of expenses by function is as follows:

	<u>2014</u>	<u>2013</u>
Program Services		
Health care and patient support services	\$ 37,754,760	\$ 37,194,552
Volunteers and community services (senior companion)	131,407	119,403
	<u>37,886,167</u>	<u>37,313,955</u>
Management and general	<u>8,359,691</u>	<u>8,095,078</u>
Total expenses	<u><u>\$ 46,245,858</u></u>	<u><u>\$ 45,409,033</u></u>

15. 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 as of November 30, 2014 and 2013, per financial institution. At November 30, 2014 and 2013, **the Institution** uninsured cash balances amounted to \$20,546,754 and \$16,805,893, respectively.

Also, **the Institution** grants credit without collateral to its patients, most of who are local residents and are insured under third-party payors agreements. The mix of receivables from patients and third-party payors at November 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Capitation fees	1%	16%
Patients and third-party payers	34%	26%
Wraparound payments	57%	54%
Others	8%	4%
	<u>100%</u>	<u>100%</u>

16. SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

Other cash flows transactions – No interest or income taxes were paid for the years ended November 30, 2014 and 2013.

Non-cash transactions – During the year \$405,509 were reclassified from other assets to property, plant and equipment.

17. SUBSEQUENT EVENTS

The Commonwealth of Puerto Rico established a Governmental Health Insurance Plan (“Plan Mi Salud”) or (“the Plan”) to provide health services to eligible beneficiaries. The Puerto Rico Health Insurance Administration (“PRHIA”) is the governmental agency empowered in law to administer these services. PRHIA contracted Molina Healthcare of Puerto Rico, Inc. (“Molina”) and PMC Medicare Choice, LLC (“PMC”) as the administrators of the Plan in the southwestern and southeast areas of Puerto Rico, respectively, effective from April 1, 2015 to June 30, 2017. Effective April 1, 2015 **the Institution** entered into a Contract with Molina and PMC to provide health services to the designated beneficiaries of the Plan. Molina agreement is effective from April 1, 2015 to March 31, 2016 and thereafter will automatically be renewed for successive (1) year terms unless and until terminated by either party. PMC agreement is effective from April 1, 2015 to June 30, 2015 and thereafter it shall be renewed automatically for successive full calendar months unless and until either party provides written notice on non-renewal to the other party.

The Management of **the Institution** has evaluated subsequent events through August 7, 2015 which is the date the financial statements were available to be issued. Except for the subsequent event mentioned above, no additional events were identified that should be disclosed or adjusted in **the Institution’s** financial statements or its related notes.

SUPPLEMENTAL INFORMATION

**CENTRO DE SALUD DE PUERTO RICO, INC.
(MED CENTRO)**

**SUPPLEMENTAL SCHEDULE - COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED NOVEMBER 30, 2014**

	Total	Permanently Restricted Funds				Temporarily Restricted Funds			Unrestricted Funds Program Income and Other
		Puerto Rico Legislature	Consolidated Health Centers	Ryan White Part A	Ryan White Part C	Other Federal			
REVENUES:									
Federal and state grants and contracts	\$ 9,860,052	\$ -	\$ 8,538,376	\$ 166,219	\$ 978,672	\$ 176,785	\$ -	\$ -	
Premium revenue - PR Health Reform	30,232,562	-	-	-	-	-	30,232,562	-	
Net patient service revenue	6,442,114	-	-	-	-	-	6,442,114	-	
Wrap-around reimbursement	6,278,514	-	-	-	-	-	6,278,514	-	
Other	2,204,261	-	-	-	-	-	2,204,261	-	
Total revenues	55,017,503	-	8,538,376	166,219	978,672	176,785	45,157,451	45,157,451	
EXPENSES:									
Personnel services	9,576,434	-	5,665,116	8,071	698,781	40,274	3,164,192	3,164,192	
Fringe benefits	3,612,963	-	587,952	1,418	119,521	7,523	2,896,549	2,896,549	
Professional services	2,561,317	-	352,399	-	33,546	105,110	2,070,262	2,070,262	
Claims paid and IBNR reserve	23,942,088	-	-	-	-	-	23,942,088	23,942,088	
Travel	116,485	-	35,572	-	1,800	9,138	69,975	69,975	
Equipment	357,109	-	-	-	3,417	-	353,692	353,692	
Consumable supplies	2,262,005	-	951,118	101,067	61,063	839	1,147,918	1,147,918	
Rental and utilities	1,089,678	-	846,348	-	-	-	243,330	243,330	
Depreciation and amortization	1,125,301	-	248,310	-	-	-	876,991	876,991	
Other	1,602,478	-	59,474	25,251	13,882	4,046	1,499,825	1,499,825	
Total expenses	46,245,858	-	8,746,289	135,807	932,010	166,930	36,264,822	36,264,822	
CHANGE IN NET ASSETS	8,771,645	-	(207,913)	30,412	46,662	9,855	8,892,629	8,892,629	
NET ASSETS, BEGINNING OF YEAR	34,392,002	1,821,789	3,186,637	16,224	6,913	155,531	29,204,908	29,204,908	
NET ASSETS, END OF YEAR	\$ 43,163,647	\$ 1,821,789	\$ 2,978,724	\$ 46,636	\$ 53,575	\$ 165,386	\$ 38,097,537	\$ 38,097,537	

**CENTRO DE SALUD DE PUERTO RICO, INC.
(MED CENTRO)**

**SUPPLEMENTAL SCHEDULE - COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED NOVEMBER 30, 2013**

	Total	Permanently Restricted Funds				Temporarily Restricted Funds			Unrestricted Funds Program Income and Other
		Puerto Rico Legislature	Consolidated Health Centers	Ryan White Part A	Ryan White Part C	Other Federal			
REVENUES:									
Federal and state grants and contracts	\$ 9,814,299	\$ -	\$ 8,566,161	\$ 164,677	\$ 905,582	\$ 177,879	\$ -	\$ -	
Premium revenue - PR Health Reform	25,859,816	-	-	-	-	-	25,859,816	-	
Net patient service revenue	5,404,875	-	-	-	-	-	5,404,875	-	
Wrap-around reimbursement	6,947,846	-	-	-	-	-	6,947,846	-	
Other	2,125,955	-	69	-	-	-	2,125,886	-	
Total revenues	50,152,791	-	8,566,230	164,677	905,582	177,879	40,338,423	-	
EXPENSES:									
Personnel services	9,176,400	-	5,343,392	18,421	694,102	43,716	3,076,769	-	
Fringe benefits	3,164,709	-	771,504	3,042	98,620	10,380	2,281,163	-	
Professional services	2,645,119	-	386,248	-	12	106,594	2,152,265	-	
Claims paid and IBNR reserve	24,187,540	-	-	-	-	-	24,187,540	-	
Travel	121,579	-	49,935	75	5,413	11,213	54,943	-	
Equipment	351,329	-	8,123	-	4,915	1,947	336,344	-	
Consumable supplies	2,294,465	-	792,001	129,222	92,062	1,210	1,279,970	-	
Rental and utilities	1,086,837	-	978,551	-	-	-	108,286	-	
Depreciation and amortization	1,041,629	-	248,310	-	-	-	793,319	-	
Other	1,339,426	-	158,389	21,468	10,490	4,834	1,144,245	-	
Total expenses	45,409,033	-	8,736,453	172,228	905,614	179,894	35,414,844	-	
CHANGE IN NET ASSETS	4,743,758	-	(170,223)	(7,551)	(32)	(2,015)	4,923,579	-	
NET ASSETS, BEGINNING OF YEAR	29,648,244	1,821,789	3,356,860	23,775	6,945	157,546	24,281,329	-	
NET ASSETS, END OF YEAR	\$ 34,392,002	\$ 1,821,789	\$ 3,186,637	\$ 16,224	\$ 6,913	\$ 155,531	\$ 29,204,908	\$ -	

**CENTRO DE SALUD DE PUERTO RICO, INC.
(MED CENTRO)**

**SUPPLEMENTAL SCHEDULES - FUNCTIONAL EXPENSES
FOR THE YEARS ENDED NOVEMBER 30, 2014 AND 2013**

	2014			2013		
	Total	Program Services	Management and General	Total	Program Services	Management and General
Personnel services	\$ 9,576,434	\$ 7,744,855	\$ 1,831,579	\$ 9,176,400	\$ 7,401,786	\$ 1,774,614
Fringe benefits	3,612,963	2,361,564	1,251,399	3,164,709	1,961,194	1,203,515
Professional services	2,561,317	1,019,392	1,541,925	2,645,119	1,023,342	1,621,777
Claims paid and IBNR reserve	23,942,088	23,942,088	-	24,187,540	24,187,540	-
Travel	116,485	51,648	64,837	121,579	55,852	65,727
Equipment	357,109	152,694	204,415	351,329	91,476	259,853
Consumable supplies	2,262,005	2,076,391	185,614	2,294,465	2,100,563	193,902
Rental and utilities	1,089,678	87,094	1,002,584	1,086,837	92,051	994,786
Depreciation and amortization	1,125,301	330,156	795,145	1,041,629	287,662	753,967
Other	1,602,478	120,285	1,482,193	1,339,426	112,489	1,226,937
Total expenses	\$ 46,245,858	\$ 37,886,167	\$ 8,359,691	\$ 45,409,033	\$ 37,313,955	\$ 8,095,078

EXPENSES:

SINGLE AUDIT SECTION

**CONSEJO DE SALUD DE PUERTO RICO, INC.
(MED CENTRO)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED NOVEMBER 30, 2014**

Federal Grantor/Pass-Through Grantor / Program Name	Federal CFDA No.	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Health and Human Services:</u>			
<u>Direct programs:</u>			
Consolidated Health Centers (Community Health Centers, Migrant Health Center)	93.224	-	\$ 4,125,553
(Affordable Care Act) Grants for New and Expanded Services Under the Health Center Program	93.527	-	<u>4,412,823</u>
Total Health Centers Cluster			8,538,376
Grants to Provide Outpatient Early Intervention Services with respect to HIV disease (Ryan White Part C)	93.918	-	932,010
<u>Pass-through programs:</u>			
Municipality of Ponce HIV Emergency Relief Project Grant (Ryan White - Part A)	93.914	2012-00-1630; 2013-00-1811	<u>135,807</u>
Total U.S. Department of Health and Human Services			<u>9,606,193</u>
<u>Corporation for National and Community Service:</u>			
<u>Direct programs:</u>			
Senior Companion Program	94.016	-	157,527
Volunteers in Service to America	94.013	-	<u>9,403</u>
Total Corporation for National and Community Service			<u>166,930</u>
Total expenditures of federal awards			<u><u>\$ 9,773,123</u></u>

See notes to schedule of expenditures of federal awards.

**CONSEJO DE SALUD DE PUERTO RICO, INC.
(MED CENTRO)**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED NOVEMBER 30, 2014**

NOTE A - BASIS OF PRESENTATION

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA 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 Nonprofit Organizations*, wherein certain type of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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.

NOTE D - RECONCILIATION OF EXPENDITURES IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENSES PRESENTED IN THE SUPPLEMENTAL SCHEDULE-COMBINING STATEMENT OF ACTIVITIES

Description	Consolidated Health Centers	Ryan White Part A	Ryan White Part C	Other Federal	Total
Expenses per SEFA	\$ 8,538,376	\$ 135,807	\$ 932,010	\$ 166,930	\$ 9,773,123
Add: Depreciation expense	248,310	-	-	-	248,310
Plus (less): change in capitalized expenditures	(40,397)	-	-	-	(40,397)
Total-Supplemental	<u>\$ 8,746,289</u>	<u>\$ 135,807</u>	<u>\$ 932,010</u>	<u>\$ 166,930</u>	<u>\$ 9,981,036</u>

INDEPENDENT AUDITOR'S 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
Consejo de Salud de Puerto Rico, Inc.

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 Consejo de Salud de Puerto Rico, Inc. (a nonprofit organization) (“**the Institution**”), which comprise the statement of financial position as of November 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 August 7, 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 Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Members of:

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 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 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 **Institution'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 **Institution's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rodriguez, Rivera + Torres, PSC

License number 243 which expires
on December 1, 2016.

Mayagüez, Puerto Rico
August 7, 2015

The stamp number E190466 of the Puerto Rico Society
of Certified Public Accountants was affixed to the
original of this report.

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

To the Governing Board of
Consejo de Salud de Puerto Rico, Inc.

Report on Compliance for Each Major Federal Program

We have audited Consejo de Salud de Puerto Rico, Inc.'s ("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's major federal programs for the year ended November 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 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 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.

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 November 30, 2014.

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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

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.

Rodriguez, Rivera + Toro, PSC

License number 243 which expires
on December 1, 2016.

Mayagüez, Puerto Rico
August 7, 2015

The stamp number E190467 of the Puerto Rico Society
of Certified Public Accountants was affixed to the
original of this report.

Consejo de Salud de Puerto Rico, Inc.
(Med Centro)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended November 30, 2014

I. Summary of audit results:

Part I - Financial statements

- | | | |
|--|--|---|
| 1. Type of auditor's report issued: | <input checked="" type="checkbox"/> Unmodified
<input type="checkbox"/> Adverse | <input type="checkbox"/> Qualified
<input type="checkbox"/> Disclaimer |
| 2. Material weakness(es) identified: | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| 3. Significant deficiency(ies) identified: | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> None reported |
| 4. Noncompliance material to financial statements noted: | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Part II - Federal Award

- | | | |
|--|--|---|
| 1. Material weakness(es) identified: | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| 2. Significant deficiency(ies) identified: | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> None reported |
| 3. Type of report issued on compliance for major programs | <input checked="" type="checkbox"/> Unmodified
<input type="checkbox"/> Adverse | <input type="checkbox"/> Qualified
<input type="checkbox"/> Disclaimer |
| 4. Audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

- | | | |
|--|---|--|
| 5. Identification of major programs: | <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
| | 93.224 | Consolidated Health Centers (Community, Migrant Health Centers and Public Housing Primary Care) (Health Centers Cluster) |
| | 93.527 | (ACA) Grants For New And Expanded Services Under The Health Center Program (Health Centers Cluster) |
| | 93.918 | Outpatient Early Intervention Services with respect to HIV disease. |
| 6. Dollar threshold used to distinguish Type A and Type B programs | <input checked="" type="checkbox"/> \$300,000 | <input type="checkbox"/> \$ _____ |
| 7. Low-risk auditee | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Consejo de Salud de Puerto Rico, Inc.
(Med Centro)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended November 30, 2014

II. Findings related to the financial statements reported in accordance with GAGAS:

- No matters were reported.

Consejo de Salud de Puerto Rico, Inc.
(Med Centro)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended November 30, 2014

III. Findings and Questioned Costs for Federal Awards:

- No matters were reported.

Consejo de Salud de Puerto Rico, Inc.
(Med Centro)

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year ended November 30, 2014

<u>Fiscal Year</u> <u>Ended</u>	<u>No.</u>	<u>Condition</u>	<u>Status</u>
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No prior year audit findings to follow up.