

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

Audited Financial Statements
and Single Audit Report

For the Years Ended March 31, 2019 and 2018

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1
Audited Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets.....	4
Statements of Functional Expenses.....	6
Statements of Cash Flows.....	8
Notes to Financial Statements.....	10
Supplementary Information:	
Combining Statement of Activities	23
Other Report:	
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 <i>Government Auditing Standards</i>	24
Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), (Single Audit) Report:	
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by Uniform Guidance	26
Schedule of Expenditures of Federal Awards	28
Notes to the Schedule of Expenditures of Federal Awards	29
Schedule of Findings and Questioned Costs	30
Summary Schedule of Prior Audit Findings.....	32
Independent Auditors' Peer Review Report:	
Letter to the User.....	33
Peer Review Report	34



De Angel & Compañía
COMPAÑÍA DE RESPONSABILIDAD LIMITADA
CONTADORES PÚBLICOS AUTORIZADOS

PO Box 5460
Caguas, Puerto Rico 00726-5460

Glasgow 1890 College Park IV
San Juan, Puerto Rico 00921-4813

www.deangel.com
(787) 758-4428 • Fax 763-9386

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of **Centro de Salud de Lares, Inc.** a non-profit organization (the Organization), which comprise the statements of financial position as of March 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Centro de Salud de Lares, Inc.** as of March 31, 2019 and 2018, 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

Other Information

Our audits were 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the Combined Statement of Activities are presented for purposes of additional analysis and is not a required part of the financial statements. Such information are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2019, on our consideration of **Centro de Salud de Lares, Inc.**'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Centro de Salud de Lares, Inc.**'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Centro de Salud de Lares, Inc.**'s internal control over financial reporting and compliance.



License No. LLC-317
Expires on December 1, 2020

San Juan, Puerto Rico
December 16, 2019
2019-12-74

Stamp No.
E-406753
was affixed
to original



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

Statements of Financial Position

ASSETS

	March 31,	
	2019	2018
Current Assets:		
Cash and Cash Equivalents	\$ 18,920,498	\$ 16,447,472
Contracts Receivable	747,263	470,663
Accounts Receivable, Net	1,574,600	1,084,294
Inventories	321,098	256,232
Prepaid Expenses	63,264	30,208
Total Current Assets	21,626,723	18,288,869
Property, Plant and Equipment, Net	8,363,708	7,944,234
Land	739,754	711,095
Other Assets:		
Capitation Receivable	385,116	17,132
Other	11,143	29,601
Total Assets	\$ 31,126,444	\$ 26,990,931

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts Payable	\$ 376,484	\$ 438,630
Accrued Expenses	172,055	124,575
IBNR Reserves	247,045	-
Payroll and Payroll Taxes Payable	572,432	522,821
Total Current Liabilities	1,368,016	1,086,026
Medical Fund Payable	-	1,440,606
Total Liabilities	1,368,016	2,526,632
Net Assets:		
With Donor Restrictions	1,140,129	1,032,945
Designated for Operating Reserves	2,350,000	-
Without Donor Restrictions	26,268,299	23,431,354
	29,758,428	24,464,299
Total Liabilities and Net Assets	\$ 31,126,444	\$ 26,990,931

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

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

Statements of Activities and Changes in Net Assets

For the Year Ended March 31, 2019

	With Donor Restriction	Without Donor Restriction	Total
<u>REVENUES</u>			
Federal Grants and Contracts	\$ 5,425,402	\$ 4,127	\$ 5,429,529
Premium Revenue - PR Health Reform	-	11,427,199	11,427,199
Net Patient Service Revenue	-	3,356,397	3,356,397
Wrap-Around Reimbursement	-	3,062,586	3,062,586
Other Revenues	-	1,458,864	1,458,864
Net Assets Released from Restrictions	(5,318,218)	5,318,218	-
Total Revenues	<u>107,184</u>	<u>24,627,391</u>	<u>24,734,575</u>
<u>EXPENSES</u>			
Program Services	-	15,360,135	15,360,135
Management and General	-	4,080,311	4,080,311
Total Expenses	<u>-</u>	<u>19,440,446</u>	<u>19,440,446</u>
Change in Net Assets	107,184	5,186,945	5,294,129
Net Assets at Beginning of Year	<u>1,032,945</u>	<u>23,431,354</u>	<u>24,464,299</u>
Net Assets at End of Year	<u>\$ 1,140,129</u>	<u>\$ 28,618,299</u>	<u>\$ 29,758,428</u>

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

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

Statements of Activities and Changes in Net Assets

For the Year Ended March 31, 2018

	With Donor Restriction	Without Donor Restriction	Total
<u>REVENUES</u>			
Federal Grants and Contracts	\$ 4,484,660	\$ 26,500	\$ 4,511,160
Premium Revenue - PR Health Reform	-	8,007,126	8,007,126
Net Patient Service Revenue	-	4,039,273	4,039,273
Wrap-Around Reimbursement	-	2,439,980	2,439,980
Other Revenues	-	1,107,458	1,107,458
Net Assets Released from Restrictions	(4,604,178)	4,604,178	-
Total Revenues	(119,518)	20,224,515	20,104,997
<u>EXPENSES</u>			
Program Services	-	12,888,034	12,888,034
Management and General	-	4,116,827	4,116,827
Total Expenses	-	17,004,861	17,004,861
Change in Net Assets	(119,518)	3,219,654	3,100,136
Net Assets at Beginning of Year	1,152,463	20,211,700	21,364,163
Net Assets at End of Year	<u>\$ 1,032,945</u>	<u>\$ 23,431,354</u>	<u>\$ 24,464,299</u>

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

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

Statements of Functional Expenses

For the Year Ended March 31, 2019

<u>EXPENSES</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Personnel Services	\$ 4,285,800	\$ 1,642,387	\$ 5,928,187
Fringe Benefits	508,081	251,072	759,153
Professional Services	941,154	542,198	1,483,352
Claims Paid	6,823,239	-	6,823,239
Consumable Supplies	2,320,347	60,548	2,380,895
Rental and Utilities	-	403,659	403,659
Travel	43,718	16,396	60,114
Repairs and Maintenance	226,711	313,769	540,480
Insurance	-	81,830	81,830
Depreciation and Amortization	55,943	494,670	550,613
Other	155,142	273,782	428,924
Total Expenses	<u>\$ 15,360,135</u>	<u>\$ 4,080,311</u>	<u>\$ 19,440,446</u>

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

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

Statements of Functional Expenses

For the Year Ended March 31, 2018

<u>EXPENSES</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Personnel Services	\$ 3,856,516	\$ 1,506,731	\$ 5,363,247
Fringe Benefits	611,685	283,365	895,050
Professional Services	814,701	449,298	1,263,999
Claims Paid	5,063,538	-	5,063,538
Consumable Supplies	2,150,231	320,506	2,470,737
Rental and Utilities	-	395,983	395,983
Travel	17,464	16,056	33,520
Repairs and Maintenance	212,194	269,053	481,247
Insurance	-	66,117	66,117
Depreciation and Amortization	99,330	508,193	607,523
Other	62,375	301,525	363,900
Total Expenses	<u>\$ 12,888,034</u>	<u>\$ 4,116,827</u>	<u>\$ 17,004,861</u>

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

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

Statements of Cash Flows

	For the Years Ended March 31,	
	2019	2018
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets	<u>\$ 5,294,129</u>	<u>\$ 3,100,136</u>
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	550,613	607,523
Bad Debts Expense	173,669	75,625
Loss on Disposition of Property and Equipment	-	11,185
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Contracts Receivable	(276,600)	(315,844)
Accounts Receivable	(663,975)	(119,385)
Inventories	(64,866)	(58,858)
Prepaid Expenses	(33,056)	11,050
Capitation Receivable	(367,984)	604
Other Assets	18,458	(18,458)
Increase (Decrease) in:		
Accounts Payable	(62,146)	114,490
Accrued Expenses	47,480	36,675
Payroll and Payroll Taxes Payable	49,611	43,402
IBNR Reserves	247,045	-
Medical Fund Payable	<u>(1,440,606)</u>	<u>(49,245)</u>
Total Adjustments	<u>(1,822,357)</u>	<u>338,764</u>
Net Cash Provided by Operating Activities	<u>3,471,772</u>	<u>3,438,900</u>

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

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

Statements of Cash Flows

	For the Years Ended March 31,	
	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS USED IN INVESTING ACTIVITIES</u>		
Investment in Property, Plant and Equipment, Net	<u>(998,746)</u>	<u>(452,743)</u>
Net Cash Used in Investing Activities	<u>(998,746)</u>	<u>(452,743)</u>
Net Change in Cash and Cash Equivalents	2,473,026	2,986,157
Cash and Cash Equivalents at Beginning of Year	<u>16,447,472</u>	<u>13,461,315</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 18,920,498</u></u>	<u><u>\$ 16,447,472</u></u>

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

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

Notes to Financial Statements

For the Years Ended March 31, 2019 and 2018

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

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

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Financial Accounting Standards Board ("FASB") has established the Accounting Standards Codification ("ASC") as the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with GAAP. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets and changes therein are classified and reported as follows:

➤ Net Assets Without Donor Restrictions

Net assets available for general use and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The **Organization's** policy is to designate donor gifts without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

➤ Designated for Donor Advised Grants

Funds designated for donor-advised grants are available for distribution upon recommendation by the donor.

➤ Designated for Operating Reserves

Cash reserves designated for future needs such as technology, capital purchases, art acquisitions, and other operating needs.

➤ Designated for Discretionary Grants

Amounts remaining from annual spendable income of board designated endowments are designated for discretionary grants.

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

Notes to Financial Statements

For the Years Ended March 31, 2019 and 2018

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

Basis of Accounting, (Continued)

➤ Designated for Endowment

Gifts without donor restrictions designated by the board of directors to provide perpetual support for community grant-making and the Foundation's operations.

➤ Net Assets with Donor Restrictions

Net assets that are contributions and endowment investment earnings subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by actions of the **Organization** and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. As of March 31, 2019 and 2018, the **Organization's** net assets with donor restrictions are restricted for funding various community educational and philanthropic programs specified by the donors and funding renovations to the Center's properties.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

The **Organization** reports gifts of land, buildings, and equipment as revenues without donor restrictions 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 revenue with donor restrictions. The Foundation reports expirations of donor's restrictions when the donated or acquired long-lived assets are placed in service.

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three (3) months or less to be cash equivalents.

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

Notes to Financial Statements

For the Years Ended March 31, 2019 and 2018

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

Allowance for Uncollectible Accounts

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

Inventories

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

Property, Plant and Equipment and Depreciation

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

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

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

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

Notes to Financial Statements

For the Years Ended March 31, 2019 and 2018

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

Property, Plant and Equipment and Depreciation, (Continued)

In accordance with the provisions of FASB ASC 360-10-50-2 "*Impairment and Disposal of Long-Lived Assets*" the Organization reviews for the impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an assets may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Federal Grants and Contracts

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

All grants and contracts are considered to be available for unrestricted use unless specifically restricted by the grantor. Amounts received that are designated for future periods or restricted by the grantor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Net Patient Service Revenue

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

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

Premium Revenue

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

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

Notes to Financial Statements

For the Years Ended March 31, 2019 and 2018

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

Functional Allocation of Expenses

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

Contribution

The Organization also elected to adopt FASB ASC Topic 958, "*Non-for-Profit Entities*". In accordance with FASB ASC Topic 958, contributions received are recorded as without donor restrictions and with donor restrictions support depending on the existence and/or nature.

Donations "In-Kind"

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

Wraparound Payments

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

Based on those requirements, commencing on January 1, 2001, the Commonwealth shall reimburse FQHC/RHC the Medicaid covered services under the new prospective payment system rate per visit. Due to the fact that (1) the Commonwealth administers its Medicaid System throughout the "Health Reform" and contracts with Health Maintenance Organizations (HMO's) and, (2) pay providers for Medicaid covered services based on a capitation model, the Commonwealth shall provide for wraparound or supplementary payment when capitation payments are less than the amount that the FQHC/RHC would have received under new PPS.

Wraparound payments are recognized as income in the period that the Organization is entitled to receive those payments. At present, the Organization is plaintiff against the Puerto Rico Department of Health at the State Court in two separate cases for wraparound payments; one for the periods between January 1, 2001 and June 30, 2006, and the second for the period between July 1, 2006 and June 30, 2009.

Health Care Services Cost Recognition

The cost of health care services provided or contracted for, is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not reported to the Organization. Medical claims, which has been incurred but not reported by providers, are estimated based on historic data; trends and other financial information submitted by the insurance carrier.

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

Notes to Financial Statements

For the Years Ended March 31, 2019 and 2018

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

Income Taxes

The Organization is a non-profit organization that is exempt from federal and state income tax under Section 501 (c)(3) of the Internal Revenue Code and Section 1101 (01) of the Puerto Rico Tax Code.

The Organization follows the provision of FASB ASC 740-10 “*Income Taxes*”, which clarifies the accounting for uncertainty in income taxes recognized in an Organization’s financial statements in accordance with FASB ASC 740. Under the provision for this Interpretation, the Organization is required to evaluate its income tax position each year to determine whether the Organization’s tax provision is more-likely-than-not to be sustained if examined by the applicable taxing authority. Management of the Organization has evaluated its tax position and has concluded that this requirement had no effect on the Organization’s financial position or changes in its net assets.

The Organization’s policy for interest and penalties related to income tax exposures is to recognize interest and penalties as a component of the provision for income taxes in the Statements of Activities and Changes in Net Assets. As of March 31, 2019, the Organization believes that there are no uncertain tax positions and has no accrued income tax related interest and/or penalties in the Statements of Financial Position.

The Organization is potentially subject to income tax audits in the Commonwealth of Puerto Rico for taxable years from 2016 to 2019, until the applicable statute of limitations expires, 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.

2. CONTRACTS RECEIVABLE

Contracts Receivable as of March 31, 2019 and 2018, consists of the following:

	<u>2019</u>	<u>2018</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White HIV/AIDS Program Part C)	\$ 161,718	\$ 200,825
Consolidated Health Centers and Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Centers Program	547,218	267,786
Other	<u>38,327</u>	<u>2,052</u>
	<u>\$ 747,263</u>	<u>\$ 470,663</u>

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

Notes to Financial Statements

For the Years Ended March 31, 2019 and 2018

3. ACCOUNTS RECEIVABLE, NET

Accounts Receivable, Net as of March 31, 2019 and 2018, consists of the following:

	<u>2019</u>	<u>2018</u>
Third-Party Payors	\$ 400,136	\$ 389,765
Wraparound Payments	1,251,369	625,677
PRDH (Emergency Room)	6,525	67,988
Others	168,589	211,734
	<u>1,826,619</u>	<u>1,295,164</u>
Less: Allowance for Uncollectible Accounts	(252,019)	(210,870)
	<u><u>\$ 1,574,600</u></u>	<u><u>\$ 1,084,294</u></u>

4. INVENTORIES

Inventories as of March 31, 2019 and 2018, are comprised of the following:

	<u>2019</u>	<u>2018</u>
Drugs and Medicines	\$ 154,921	\$ 146,960
Medical and Surgical Supplies	35,676	31,771
Laboratories Supplies	47,805	46,021
Dental Supplies	13,167	12,369
X-Ray Supplies	5,647	10,267
Office Supplies	12,458	8,844
Inmunization	51,424	-
	<u>\$ 321,098</u>	<u>\$ 256,232</u>

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2019 and 2018, consists of the following:

	<u>2019</u>	<u>2018</u>
Building and Building Improvements	\$ 9,166,502	\$ 8,466,542
Furniture and Equipment	2,868,849	2,598,722
Motor vehicles	412,923	412,923
Softwares	545,492	545,492
	<u>12,993,766</u>	<u>12,023,679</u>
Less: Accumulated Depreciation and Amortization	(4,630,058)	(4,079,445)
Property, Plant and Equipment, Net	<u><u>\$ 8,363,708</u></u>	<u><u>\$ 7,944,234</u></u>
Land	<u><u>\$ 739,754</u></u>	<u><u>\$ 711,095</u></u>

CENTRO DE SALUD DE LARES, INC.

(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2019 and 2018

5. PROPERTY, PLANT AND EQUIPMENT, (Continued)

During years ended March 31, 2019 and 2018, the Organization expended approximately \$998,000 and \$452,000, in building improvements, motor vehicles, furniture and equipment, respectively. These amounts are included in Property, Plant, and Equipment in the accompanying Statements of Financial Position.

6. IBNR CLAIMS

The incurred but not reported (IBNR) claims are those medical costs that have been provided but have not been yet paid. Unpaid claims are estimated based on historic data, trends and other statistical information. The Health Department is the single state agency designated to administer medical assistance in Puerto Rico under Title XIX of the Social Security Act of 1935, an amended, and is charged with ensuring the appropriate delivery of health care services under Medicaid and the Children's Health Insurance Program ("CHIP") in Puerto Rico. The Puerto Rico Health Insurance Administration ("ASES") manages these programs pursuant a 1993 interagency collaborative agreement. Medicare y Mucho Mas, Triple S, Molina Healthcare and Plan de Salud Menonita assigns the Organization a capitation based on a per member per month basis.

The capitation is then allocated by the managed care organizations amongst different "Funds" (Medical Fund and Institutional Fund). Each "Fund" represents a particular scope of covered medical services. The Organization's Provider contracts with Medicare y Mucho Mas, Triple S, Molina Healthcare and Plan de Salud Menonita provides that each fund will be reconciled by the managed care organization on a monthly basis. And, if the reconciliation results in a deficit it will be offset from the corresponding fund, because federal Medicaid law specifies the way they are to be reimbursed and sets a floor for payment. As of March 31, 2019, IBNR reserve amounted to approximately \$247,000 and in 2018, no IBNR reserve have been considered necessary due to the risks assumed by the parties involved.

7. MEDICAL AND INSTITUTIONAL FUNDS PAYABLE

As part of the contracts with the Insurance Companies, the Health plans will manage and administer the provider network for Government Health Plan Members. Under the contract financial models, the financial responsibility is divided in two (2) funds; Medical Fund and Institutional Fund. Institutional Fund will pay hospital, emergency room, high tech laboratories and ambulatories facilities claims. Medical Fund will pay all primary services including; gynecology, laboratories, X-ray, pharmacy and other primary services.

The Organization legal counsel for the wraparound federal case cited in Note 1 Wraparound Payments section, established in its legal confirmation letter that under Federal Medicaid statutes this payable will be unlawful and that it is unlikely that a claim for this debt be asserted by the Puerto Rico Medicaid Program. At the date of this report, the Special Master assigned to the case, issued a report to the Federal District Court recommending the Court to order the Commonwealth of Puerto Rico to indemnify the Organization for any debts to managed care companies that has been reported on the periodic settlement Medicaid payments reports. On January 11, 2016, Judge Gustavo A. Gelpi ordered the adoption in its entirety of Special Mastering recommendations meaning that the Commonwealth should hold the Organization harmless against any debts accrued to any of the HMO administering Mi Salud, the government health plan. This decision mean that the amounts of accrued deficits allegedly owed by the Section 330 Centers to the managed care organizations are not enforceable against the Centers. Based on these facts and the communication by the legal counsel, the management of the Organization decided to write-off the accrued deficit under the Medical Fund.

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

Notes to Financial Statements

For the Years Ended March 31, 2019 and 2018

7. MEDICAL AND INSTITUTIONAL FUNDS PAYABLE, (Continued)

In October 2019, the Center received a legal opinion interpretation related that the deficit will be compensated by Management Care Companies or the state based on January 11, 2016, Judge Opinion.

8. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Organization operated its program activities in the Municipality of Quebradillas in a leased facility for a monthly rent payment of \$4,842 until June 2012. There is no formal lease agreement between the Organization and PRDH which is the landlord. Since August 2005, the PRDH ceased to charge the Organization for rent due to controversies between the Organization, the landlord, and the Municipality of Quebradillas.

The Organization suspended the monthly rent payments since May 2007, however, rent expense have been accrued until May 2012 due to the moving of a significant part of the program activities to the new building. During 2015, management have determined to eliminate accrued balance of \$497,529, due to lack of PRDH efforts to collect such rental payments. No rent expense has been incurred during the years ended March 31, 2019 and 2018, respectively.

In June 2012, the Organization requested a Change in Scope (CIS) from the US Department of Health and Human Resources (HRSA) to relocate one approved site to a new location. The CIS also includes changes in the previous approved operational budget for the grant. The Organization relocated its Quebradillas facilities to a new land and building acquired during fiscal year 2012 and began its operations during July 2012, except clinical laboratory and X-Ray Departments that are subject to the requirements and licenses of the Puerto Rico Department of Health, which are currently operating in the old facilities. On September 2013, the Puerto Rico Department of Health granted the Organization required licenses to operate clinical laboratory and X-Ray Departments, however the license is about to expire due to the fact that an emergency room has not been constructed.

On August 22, 2016, Puerto Rico Department of Health granted the Organization need and convenience Certifications to operate clinical laboratory and X-Ray Departments in Quebradillas site. In addition, on April 26, 2016, HRSA grated the Organization \$1,000,000 from the Health Infrastructure Investment Program funds for the emergency room construction and pharmacy renovation in Quebradillas site.

Puerto Rico Health Reform Contract - Lares and Quebradillas Health Center

On October 15, 2014, the Health Insurance Administration of Puerto Rico (ASES) divulge the selection of the HMO's that will administer and provide the services of physical and mental health to the 1.4 million beneficiaries of the Government Health Plan of Puerto Rico beginning in April 2015. First Medical Health Plan, Inc. was the HMO selected for the North Region. Under the new structure, HMO's contracted entities selected will assume 100% of the risk of all services. ASES will pay a fixed amount per participant per month (capitation) rate which depends on the profile and use of services by the population of each region. The new agreement between First Medical Health Plan, Inc. and the Organization was signed in July 2015.

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

Notes to Financial Statements

For the Years Ended March 31, 2019 and 2018

8. COMMITMENTS AND CONTINGENCIES, (Continued)

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

On October 30, 2018, the Health Insurance Administration (ASES) issued a Normative Letter 18-1003- Amended to coordinated Health Management Organizations (HMO's) contracted to offer the Government Health Plan, under the name "Vital", effective November 1, 2018. Beginning on November 1, 2018, the beneficiaries will have more access to medical and hospital services throughout Puerto Rico under this new model. To ensure continuity of care and treatment, beneficiaries will be receiving a "Certificate of Benefit" under the Government Health Plan, "Vital". This certification will allow the participants to continue receiving services with the doctors who currently serve them during the open enrollment period from November 1, 2018 to January 31, 2019, while receiving the new card.

Federal Grants and Contracts

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

Malpractice Liability Coverage

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

Legal Claims

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.

9. NET ASSETS

With Donor Restrictions

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

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

Notes to Financial Statements

For the Years Ended March 31, 2019 and 2018

9. NET ASSETS, (Continued)

With Donor Restrictions, (Continued)

Ryan White funds are available to improve the availability, accessibility, and organization of ambulatory health services to persons infected with HIV.

With donor restrictions were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. During the years ended March 31, 2019 and 2018, the amount of net assets released from restrictions aggregated \$5,013,320 and \$4,604,178, respectively. Such net assets were contributed to the Organization through conditional governmental programs and private contribution in the form of grants, awards, and contracts, which are recorded as temporarily restricted revenues until specified conditions are met. As of March 31, 2019 and 2018, the conditions for all government programs and private contributions recorded as revenues were met.

In August 2018, Direct Relief granted the amount of \$283,634 in response to a proposal for funds offered as part of the mitigation of damages after Hurricane Maria.

The budget of funds granted contained three items: 1) \$200,000 for the acquisition of a second mobile unit, 2) \$31,853 for the loss due to the operating costs of the two weeks in which the Quebradillas site was closed after the hurricane, and 3) \$51,781 as reimbursement for community services at external clinics offered after the hurricane. The mobile unit was purchased in June 2019.

The Red Cross granted the amount of \$350,000 as part of a proposal for mitigation funds after the passage of the Hurricane. In general, the proposal required psychological support programs in public schools in the Center's service region. Part of the purpose was to educate children, teachers and non-teaching staff and the community in general in safety and mitigation measures. In addition to psychologically supporting the affected population. At March 31, 2019, the amount transferred to the Center to cover program costs was \$132,500 and expenses incurred of \$121,264 for a surplus of \$11,236.

Designated for Operating Reserves

The Board of Directors has approved two (2) projects for improvements to the building and parking space at Lares facilities. Currently, contractor proposals are reevaluated to integrate design and architecture changes to improvements and aspects of soil studies to form the final project of parking improvements. The estimated cost of the building improvement project is estimated at \$1,700,000 and parking lot at \$650,000 for a total designated project of \$2,350,000.

10. NET PATIENT SERVICES REVENUE

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

CENTRO DE SALUD DE LARES, INC.

(Non-Profit Organization)

Notes to Financial Statements

For the Years Ended March 31, 2019 and 2018

10. NET PATIENT SERVICES REVENUE

A summary of gross and net patient service revenue for the years ended March 31, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Gross Patient Service Revenue	\$ 6,825,833	\$ 8,744,246
Less: Provision for Contractual Allowance	(3,295,767)	(4,629,348)
Less: Provision for Bad Debt	<u>(173,669)</u>	<u>(75,625)</u>
	<u>\$ 3,356,397</u>	<u>\$ 4,039,273</u>

11. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balance in a commercial bank and various credit unions located in Puerto Rico. Commercial bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and credit unions are insured by the "Corporación para la Supervisión y Seguros de Cooperativas de Puerto Rico" (COSSEC) up to \$250,000. At March 31, 2019 and 2018, the significant concentration of credit risk for uninsured cash balances, including certificates of deposit, amounted to approximately \$17.7 million and \$15.2 million, respectively.

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

The mix of receivables from patients and third-party payors at March 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Patients and Third-Party Payors	22%	30%
Wraparound Payments	69%	48%
Others	9%	22%
	<u>100%</u>	<u>100%</u>

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

13. RECENTLY ISSUED ACCOUNTING STANDARES

On August 18, 2016, FASB released Accounting Standards Update (ASU 2016-14): "Presentation of Financial Statements of Not-for-Profit Entities". In general, the new standard will not require additional accounting or tracking. It simplifies and asks for a more consistent financial statement presentation.

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

Notes to Financial Statements

For the Years Ended March 31, 2019 and 2018

13. RECENTLY ISSUED ACCOUNTING STANDARDS, (Continued)

The most impactful change may be the new liquidity calculations and disclosure that will be required as follows:

Liquidity Disclosure - Requires qualitative information that communicates how the nonprofit manages the liquid resources available to meet its cash needs within one year. Requires quantitative information that communicates the availability of the nonprofit's financial assets within one year. Availability of assets may be affected by their type/nature, external limits (by grantors, donors, laws, etc.) and internal limits (Board designations).

Net Asset Classes and Disclosures - The three current classes of net assets (unrestricted, temporarily restricted and permanently restricted) will be condensed into two (net assets with donor restrictions and net assets without donor restrictions) on the face of the financial statements. Disclosure of much of the current detail will still be required in the footnotes in order to help users understand the composition of net assets and how the restrictions affect the use of resources. More specific quantitative and qualitative disclosures of Board designated net assets will also be required.

Expenses by Function - Disclosure of expenses by natural and functional categories and expanded disclosure of the method(s) used to allocate costs among program and support functions will be required.

Investment Expenses - Currently, investment fees are often segregated from investment income. Under the new ASU, investment return will be netted with investment fees and only the net income will be reported.

Cash Flows - Nonprofits will have the flexibility to present operating cash flows using either the direct or indirect method. Currently, the indirect method, otherwise known as reconciliation, is required.

The ASU includes other enhanced disclosures, including underwater endowments. The disclosure flexibility around the release of donor-imposed restriction over the estimated useful life of a long-term asset has been removed. Nonprofits will be required to use the placed-in-service approach for reporting expirations of restrictions on gifts.

The effective date of the ASU is for fiscal years beginning after December 15, 2017, with early adoption permitted. A second phase is expected in the future to address measures of operations (or financial performance) on the statements of activities and cash flows.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events occurring subsequent to March 31, 2019, through December 16, 2019, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the financial statements. Management has determined that there are no material events or transactions that would affect the financial statements through such date.

SUPPLEMENTARY INFORMATION

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

Combining Statement of Activities

For the Year Ended March 31, 2019

	With Donor Restrictions					Without Donor Restriction Program Income	Total
	Consolidated Health Center including ACA funds	ARRA CIP	ARRA IDS	Special Project	Ryan White Title III		
<u>REVENUES</u>							
Federal and State Grants and Contracts	\$ 4,549,375	\$ -	\$ -	\$ -	\$ 876,027	\$ 4,127	\$ 5,429,529
Premium Revenue - PR Health Reform	-	-	-	-	-	11,427,199	11,427,199
Net Patient Service Revenue	-	-	-	-	-	3,356,397	3,356,397
Wrap-around Reimbursement	-	-	-	-	-	3,062,586	3,062,586
Other	-	-	-	-	-	1,458,864	1,458,864
Total Revenues	4,549,375	-	-	-	876,027	19,309,173	24,734,575
<u>EXPENSES</u>							
Personnel Services	2,416,461	-	-	-	103,998	3,407,728	5,928,187
Fringe Benefits	390,487	-	-	-	18,010	350,656	759,153
Professional Services	97,374	-	-	-	484,873	901,105	1,483,352
Claims Paid	-	-	-	-	-	6,823,239	6,823,239
Consumable Supplies	135,166	-	-	-	154,977	2,090,752	2,380,895
Rental and Utilities	-	-	-	-	-	403,659	403,659
Travel	13,302	-	-	-	17,376	29,436	60,114
Repairs and Maintenance	4,842	-	-	-	770	534,868	540,480
Insurance	9,564	-	-	-	-	72,266	81,830
Depreciation	71,068	49,944	-	-	7,255	422,346	550,613
Other	42,506	-	-	-	62,338	324,080	428,924
Total Expenses	3,180,770	49,944	-	-	849,597	15,360,135	19,440,446
Change in Net Assets	1,368,605	(49,944)	-	-	26,430	3,949,038	5,294,129
Net Assets at Beginning of Year	909,121	72,571	6,180	22,603	22,470	23,431,354	24,464,299
Net Assets at End of Year	<u>\$ 2,277,726</u>	<u>\$ 22,627</u>	<u>\$ 6,180</u>	<u>\$ 22,603</u>	<u>\$ 48,900</u>	<u>\$ 27,380,392</u>	<u>\$ 29,758,428</u>

See Independent Auditors' Report.



De Angel & Compañía

COMPAÑÍA DE RESPONSABILIDAD LIMITADA
CONTADORES PÚBLICOS AUTORIZADOS

PO Box 5460
Caguas, Puerto Rico 00726-5460

Glasgow 1890 College Park IV
San Juan, Puerto Rico 00921-4813

www.deangel.com
(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
Centro de Salud de Lares, Inc.
(Non-Profit Organization)
Lares, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Centro de Salud de Lares, Inc.** a nonprofit organization, (the Organization) which comprise the statement of financial position as of March 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of **Centro de Salud de Lares, Inc.** in a separate letter dated December 16, 2019.

Purpose of this Report

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



License No. LLC-317
Expires on December 1, 2020

San Juan, Puerto Rico
December 16, 2019
2019-12-75

Stamp No.
E-406754
was affixed
to original





De Angel & Compañía

COMPAÑÍA DE RESPONSABILIDAD LIMITADA
CONTADORES PÚBLICOS AUTORIZADOS

PO Box 5460
Caguas, Puerto Rico 00726-5460

Glasgow 1890 College Park IV
San Juan, Puerto Rico 00921-4813

www.deangel.com
(787) 758-4428 • Fax 763-9386

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited **Centro de Salud de Lares, Inc.'s**, a non-profit organization, (the Organization), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended March 31, 2019. 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 federal statutes, regulations, and the terms and condition of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each of the Other Major Federal Programs

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended March 31, 2019.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the uniform Guidance.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



License No. LLC-317
Expires on December 1, 2020

San Juan, Puerto Rico
December 16, 2019
2019-12-76

Stamp No.
E-406755
was affixed
to original



SINGLE AUDIT REPORT

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

Schedule of Expenditures of Federal Awards

For the Year Ended March 31, 2019

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services:		
<u>Direct programs:</u>		
<u>Health Centers Cluster:</u>		
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care)	93.224	\$ 915,893
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Centers Program	93.527	<u>3,149,626</u>
Total Health Centers Cluster		4,065,519
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White HIV/AIDS Program Part C)	93.918	<u>849,218</u>
Total Expenditures of Federal Awards		<u><u>\$ 4,914,737</u></u>

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

CENTRO DE SALUD DE LARES, INC.

(Non-Profit Organization)

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended March 31, 2019

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (“the Schedule”) includes the federal grant activity of **Centro de Salud de Lares, Inc.** (“the Organization”) under the programs of the federal government for the year ended March 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the **Organization**, it is not intended to and does not present the financial position, changes in net assets or cash flows of the **Organization**.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARDS REPORTING

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

4. FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

5. RELATIONSHIP TO THE STATEMENT OF ACTIVITIES

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

Expenses per Statements of Activities and Changes in Net Assets	\$ 19,440,446
Less: Unrestricted Funds Expenditures (Non-Federal)	(14,784,247)
Depreciation Expense in Federal Programs	<u>(128,267)</u>
	4,527,932
Plus: Federal Capitalized Expenses	<u>386,805</u>
Total Expenditures of Federal Awards in the Schedule of Expenditures of Federal Awards	<u>\$ 4,914,737</u>

6. INDIRECT COST

For the purpose of charging indirect costs to federal award, the Organization has not prepared or submitted indirect cost proposal as permitted by CFR 200.414 of the Uniform Guidance.

7. PASS-TROUGH

No federal grant dollar has been passed-through to sub-recipient.

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

Schedule of Findings and Questioned Costs

For the Year Ended March 31, 2019

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion Qualified Opinion

Internal Control Over Financial Reporting:

Material weakness(es) identified? Yes No

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal Control Over Major Programs:

Material weakness(es) identified? Yes No

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) Yes No

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

See Independent Auditors' Report.

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

Schedule of Findings and Questioned Costs

For the Year Ended March 31, 2019

SECTION II - FINDING – FINANCIAL STATEMENTS AUDIT

- None Reported.

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

- None Reported.

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

Summary Schedule of Prior Audit Findings

For the Year Ended March 31, 2019

SUMMARY OF PRIOR AUDIT FINDINGS

- None Reported.



De Angel & Compañía
COMPAÑÍA DE RESPONSABILIDAD LIMITADA
CONTADORES PÚBLICOS AUTORIZADOS

PO Box 5460
Caguas, Puerto Rico 00726-5460
Glasgow 1890 College Park IV
San Juan, Puerto Rico 00921-4813
www.deangel.com
(787) 758-4428 • Fax 763-9386

December 16, 2019

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

The stockholders and staff of De Angel & Compañía, CPA, LLC, 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 **Roman Toro & Co., CPA, PSC** an independent firm (the Reviewer). The Reviewer first determined that we have an adequate quality control system, and then checked to see that professional's standards were followed in a representative sample of our accounting and auditing engagements.

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

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

Sincerely,

Carlos De Ángel Ramírez
President

Report on the Firm's System of Quality Control

January 28, 2019

To the Partners of De Angel & Compañía, CPA, LLC
and the Peer Review Committee of the Puerto Rico Society of CPAs.

We have reviewed the system of quality control for the accounting and auditing practice of De Angel & Compañía, CPA, LLC (the firm) in effect for the year ended April 30, 2018. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Review established by Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

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 material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

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.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit, and an audit of an employee benefit plan.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of De Angel & Compañía, CPA, LLC, in effect for the year ended April 30, 2018 has been suitable 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. Firm can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. De Angel & Compañía, CPA, LLC, has received a peer review rating of pass.



ROMAN TORO & CO., CPA, P.S.C.
LICENSE #35 - IN FORCE
Expires December 1, 2020

Stamp Number E358129 was
affixed to the original of this report