

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)

AUDITED FINANCIAL STATEMENTS
WITH ADDITIONAL REPORTS REQUIRED
UNDER THE UNIFORM GUIDANCE

FOR THE YEAR ENDED JUNE 30, 2019

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)

Financial Statements
June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Concilio de Salud Integral de Loiza, Inc.
Loiza, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of Concilio de Salud Integral de Loiza, Inc., a nonprofit organization (the Organization), which comprise the statement of financial position as of June 30, 2019 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Concilio de Salud Integral de Loiza, Inc. as of June 30, 2019, and the respective changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purposes of forming an opinion on the financial statements that collectively comprise the Organizations basic financial statements. The schedule of expenditures of federal awards, is presented for the purpose of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Requirements for Federal Awards*. Is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 6, 2020, on our consideration of the Organization internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* is considering the Organization internal control over financial reporting and compliance.

May 6, 2020
San Juan, Puerto Rico

Diaz & Candelaria, PSC

License No. 34, Expires December 1, 2022
The C.P.A. Stamp O2771717 No. of the P.R.
State Society of Certified Public Accountants
was affixed to the record copy of this report.



CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)

Statement of Financial Position

June 30, 2019

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 15,692,136
Accounts Receivable - Net	1,454,886
Wraparound Receivables	1,106,877
Inventory	97,694
Prepaid Expenses	<u>9,167</u>
 Total Current Assets	 18,360,760
 Property and Equipment - Net	 6,463,207
Other Assets:	
Investment in Marketable Securities	16,204,563
Certificate of Deposits (Due over one year)	5,230,515
Deposits	<u>24,080</u>
 Total Assets	 \$ <u><u>46,283,125</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Account Payable	\$ 788,683
Accrued Payroll Taxes and Benefits	384,665
Deferred Revenues	112,801
Other Liabilities	<u>28,177</u>
 Total Current Liabilities	 <u>1,314,326</u>
 Net Assets:	
With donor restrictions	847,705
Without donor restrictions:	
Designated by the Board of Directors	37,269,728
Undesignated	<u>6,851,366</u>
 Total Net Assets	 <u>44,968,799</u>
 Total Liabilities and Net Assets	 \$ <u><u>46,283,125</u></u>

The accompanying notes are an integral part of these financial statements.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Statement of Activities

For the year ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUES			
Support:			
Federal Grants Awards	\$ -	\$ 5,738,142	\$ 5,738,142
Donations	458,349	-	458,349
Donated Services and Supplies	320,496	-	320,496
Total Support	<u>778,845</u>	<u>5,738,142</u>	<u>6,516,987</u>
Program Income:			
Patient Service Fees-Net of Contractual	585,368	-	585,368
Premium Revenues	21,258,338	-	21,258,338
Pharmacy Revenues	3,209,143	-	3,209,143
Wraparound Payments	4,271,757	-	4,271,757
Rent Income	123,455	-	123,455
Interest Income	552,950	-	552,950
Other Income	626,044	-	626,044
Total Revenue	<u>30,627,055</u>	<u>-</u>	<u>30,627,055</u>
Net Assets Released from Restrictions by Satisfaction of Program Restriction	<u>5,793,042</u>	<u>(5,793,042)</u>	<u>-</u>
Total Support and Revenues	37,198,942	(54,900)	37,144,042
EXPENSES			
Program Services			
Primary Care Physicians and State Managed Care Program	<u>26,175,622</u>	<u>-</u>	<u>26,175,622</u>
Total Program Services	26,175,622	-	26,175,622
Support Services			
Management and General	<u>5,678,632</u>	<u>-</u>	<u>5,678,632</u>
Total Support Services	<u>5,678,632</u>	<u>-</u>	<u>5,678,632</u>
TOTAL EXPENSES	<u>31,854,254</u>	<u>-</u>	<u>31,854,254</u>
Changes in Net Assets Before Other (Expenses) Revenues	5,344,688	(54,900)	5,289,788
Net Unrealized Gain (Loss) on Marketable Securities	<u>167,711</u>	<u>-</u>	<u>167,711</u>
Changes in Net Assets	5,512,399	(54,900)	5,457,499
Net Assets at Beginning of Year-As Restated	<u>38,608,695</u>	<u>902,605</u>	<u>39,511,300</u>
Net Assets at End of Year	<u>\$ 44,121,094</u>	<u>\$ 847,705</u>	<u>\$ 44,968,799</u>

The accompanying notes are an integral part of these financial statements.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Statement of Functional Expenses

For the year ended June 30, 2019

	Program Services	Support Services	Total Expenses
Personnel	\$ 3,392,618	\$ 1,536,336	\$ 4,928,954
Payroll taxes	253,582	128,855	382,437
Fringe benefits	226,048	378,766	604,814
Contractual	2,242,855	1,048,370	3,291,225
Claims paid-Health Reform	16,860,468	-	16,860,468
Office expenses	126,751	144,030	270,781
Communications	15,628	191,225	206,853
Rent of facilities and equipment	48,865	30,378	79,243
Travel	27,184	16,664	43,848
Staff education	16,155	41,899	58,054
Activities	64,405	35,758	100,163
Insurance expense	-	71,263	71,263
Drugs and medicines	805,671	200	805,871
Repair and maintenance	91,661	845,579	937,240
Equipment	10,562	14,167	24,729
Utilities	-	554,560	554,560
Bank charges	120,956	292	121,248
Depreciation	-	572,174	572,174
Bad debt Expenses	1,711,137	489	1,711,626
Other expenses	161,076	67,627	228,703
Total Expenditures	\$ 26,175,622	\$ 5,678,632	\$ 31,854,254

The accompanying notes are an integral part of these financial statements.

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)

Statement of Cash Flows

For the year ended June 30, 2019

Cash Flow from Operating Activities:	
Changes in Net Assets	\$ 5,457,499
Adjustment to reconcile changes in net assets to net cash (used) provided by operating activities:	
Depreciation	572,174
Bad Debt Expenses	1,711,626
Net Unrealized (Gain) Loss on Marketable Securities	(167,711)
(Increase) Decrease in:	
Receivables	(1,914,233)
Wraparound Receivables	(156,877)
Inventories	(796)
Prepaid Expenses	(1,468)
IBNR Fund Deposit	921,083
Increase (Decrease) in:	
Accounts Payable	374,772
Accrued Expenses	593
Deferred Revenues	112,801
Other Liabilities	(5,570)
Net Cash provided by (used in) operating activities	<u>6,903,893</u>
Cash Flow from Investing Activities:	
Purchase of Property and Equipment	(2,618,692)
Investment in Treasury and Municipal Bonds	(4,339,524)
Net Cash provided by (used in) investing activities	<u>(6,958,216)</u>
Net Increase (Decrease) in Cash	(54,323)
Cash at Beginning of Year	<u>21,770,772</u>
Cash at End of Year	<u><u>\$ 21,716,449</u></u>

The accompanying notes are an integral part of these financial statements.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2019

1. ORGANIZATION

The accompanying financial statements include the accounts and transactions of Concilio de Salud Integral de Loíza, Inc. (the Organization). Concilio de Salud Integral de Loíza, Inc. was organized under the laws of the Commonwealth of Puerto Rico on April 27, 1972, to provide primary ambulatory, supplemental and environmental health services to the medically under-served residents in the Municipalities of Loíza, Río Grande, and Luquillo, Puerto Rico.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation - Financial statements presentation follows the recommendations of Financial Accounting Standards Board (FASB) and its Accounting Standard Code (ASC) Topic 958-205, Financial Statements of Non-for-Profit Organizations. Under FASB ASC 958-205, net assets, 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 asset with donor restrictions:

Net assets restricted in perpetuity - Represent contributions and grants that have been restricted by donors to be maintained by the Organization in perpetuity. Generally, the donors of such assets permit the Organization to use all or part of the income earned on the assets, for general or specific purposes.

Net assets restricted for specified purpose or passage of time - Represent contributions and grants which have donors-imposed limitations on their use for specified time period or purpose.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Net assets without donor restrictions – Represent contributions and grants which have no donor-imposed restrictions or which arise as a result of operations. The Board of Directors has designated net assets as follows:

Net Assets Without Donor Restrictions Designated for:	<u>Balance as of June 30, 2019</u>
Acquisition and Renovation of Building:	\$27,486,774
Operational Reserve and Other Administrative Expenses	7,893,380
Acquisition and Renovation of Equipment:	1,389,574
Expanded Health Services in Other Areas	<u>500,000</u>
Total	<u>\$37,269,728</u>

Contributions, including unconditional promises to give, are measured at their fair value and are reported as an increase in net assets. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as restricted support, for specified purpose, passage of time or restricted in perpetuity, if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Use of estimates - The preparation of financial statements 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.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
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Notes to Financial Statements

For the year ended June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and cash equivalents - The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization, also has Certificate of Deposits and Money Market, designated by the Board for acquisition of non-current assets and for other than current operation. The statement of cash flows, ending balance as of June 30, 2019, consists of the following:

Cash and Cash Equivalent	\$15,692,136
Certificate of Deposits (Due over one year)	5,230,515
Money Market-Designated by the Board for Acquisition and Renovation of Non-Current Assets	<u>793,798</u>
Total	<u>\$21,716,449</u>

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

Allowance for uncollectible accounts- The 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. Additions to the allowance for uncollectible result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for uncollectible.

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, net - Property, plant and equipment are recorded at cost. Contributed properties are recorded at their fair value at the time of donation. Depreciation is provided using the straight-line method based on the estimated useful life of each class of depreciable assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property, plant and equipment, net, continued - The Organization's capitalization policy considers as property and equipment tangible nonexpendable property, with a useful life of more than one year and a cost of at least \$500. 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. 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. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

In accordance with the provisions of FASB ASC 360-10-50-2 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 asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Vacations and sick leave - Employees of the Organization are entitled to compensated absences: vacation and sick leave. Sick leave is not accrued because it does not vest; employees are not paid for any sick leave balance at termination of employment or any other time. As of June 30, 2019, the accrued vacations of \$197,292 were included with the payroll and payroll taxes payable in the statement of financial position.

Federal grants and contracts - The Organization 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 restricted support, for specified purpose, passage of time or restricted in perpetuity, that increases those net asset classes. When time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Net patient service revenue – The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors, and others for services rendered, and are recognized in the period in which the Organization is obligated to provide services to its patients, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Premium revenue - The Organization has agreements with various Health Maintenance Organizations (“HMOs”) to provide primary health care services to subscribing participants. Under these agreements, the Organization receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Organization. In addition, the HMO make “fee-for-service” payments to the Organization, for certain covered services based upon discounted fee schedules. Premiums are due monthly and are recognized as revenue during the period in which the Organization is obligated to provide services to members. The Organization’s health care premiums are reported as revenues in the month that enrolled members are entitled to health care benefits.

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

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

Wraparound payments are recognized as incomes in the period that the Organization is entitled receive those payments. The amount reported in the 2019 statement of activities includes wraparound payments for the period from July 1, 2018 to June 30, 2019.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2019

2. 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 Statement of Functional Expenses. Accordingly, certain costs have been allocated between the program services and management and general services benefited.

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 have been incurred but not reported by providers (IBNR) are estimated based on historical data; trends and other financial information.

During the year ended June 30, 2019, the Managed Care Organizations (MCOs) have retained the amount of \$1,722,758 to cover medial claims incurred but not reported which have been report as expenses in the accompanying financial statements.

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 restricted support, for specified purpose, passage of time or restricted in perpetuity, depending on the existence and/or nature of any donor restrictions.

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

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

Donations and in-kind contributions - 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.

Adoption of new accounting standard - In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities. This ASU changes certain financial statements requirements for not-for-profit entities in an effort to make the information more meaningful to users and reduce reporting complexity. The Organization adopted the ASU and has adjusted the presentation in these financial statements accordingly.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
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Notes to Financial Statements

For the year ended June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income Taxes - The Organization is exempt from federal income taxes under section 501(c) (3) of the Internal Revenue Code, and exempt from Puerto Rico income taxes under section 1101.01 of the New Puerto Rico Internal Revenue Code.

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 Statement of Activities. As of June 30, 2019, the Organization believes that there are no uncertain tax positions and has no accrued income tax related interest and/or penalties in the Statement of Financial Position.

The Organization is potentially subject to income tax audits in the Commonwealth of Puerto Rico for taxable years from 2014 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.

3. NET PATIENTS SERVICE REVENUE-MEDICARE

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

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

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
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Notes to Financial Statements

For the year ended June 30, 2019

4. CAPITATION REVENUES

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

During 2011, the Government of Puerto Rico implemented a new Puerto Rico Health Reform, known as “Mi Salud”. The most noticeable change brought by “Mi Salud” is the switch from the longstanding independent-practice association (IPA) model to a preferred-provider-network organization (PPO). With this change, the new program’s architects vowed to eliminate the biggest complaint of previous health reform “La Reforma” patients: the requirement of a referral from one’s primary-care physician to see a specialist or get a prescription from a specialist filled. Under “Mi Salud’s” PPO model, patients would not be required to go through a primary-care physician and would be free to see any doctor within the PPO.

Also, “Mi Salud” looks to decrease the excessive use of the emergency rooms by the beneficiaries. To avoid this, “Mi Salud” looks to extend the service hours by the primary physician and other providers, such as the laboratories centers, and requesting to the beneficiaries a higher deductible amount if the beneficiary visits the emergency without a referral.

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

On November 2018, the Organization entered in new service agreements with participating MCOs to continue provide health service to the designated beneficiaries of the Plan Vital, therefor, the previous contracts ended on October 31, 2018.

5. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2019, consists of the following:

Patients Receivable	\$ 11,653,320
Pharmacy	828,608
Rent	216,844
Federal Grant Receivable	57,944
Other	<u>10,217</u>
	12,766,933
Less: Allowance for Doubtful Accounts	<u>(11,312,047)</u>
Accounts receivable-Net	<u>\$ 1,454,886</u>

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)

Notes to Financial Statements

For the year ended June 30, 2019

6. WRAPAROUND RECEIVABLE

Wraparound receivables consist of current year wraparound payments recorded, under the prospective payment system methodology (PPS). At June 30, 2019, the wraparound receivable consisted of the following:

Wraparound Claims	\$ 4,271,757
Amount Collected	<u>(3,164,880)</u>
Wraparound Receivable	<u>\$ 1,106,877</u>

7. INVENTORY

At June 30, 2019, the inventory consisted of the following:

Drug and Medicines	\$ 81,910
Medical and Other Supplies	<u>15,784</u>
Total	<u>\$ 97,694</u>

8. PROPERTY, PLANT AND EQUIPMENT

The major classification of Property, Plant and Equipment at June 30, 2019, consisted of the following:

Building and Building Improvements	\$ 7,891,318
Furniture and Fixtures	641,434
Medical and Other Equipment	3,753,756
Computer Hardware and Software	748,858
Vehicles	<u>649,332</u>
	13,684,698
Less: Accumulated Depreciation and Amortization	<u>(7,804,833)</u>
	5,879,865
Land	<u>583,342</u>
Property, Plant and Equipment - Net	<u>\$ 6,463,207</u>

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2019

9. FAIR VALUE MEASUREMENTS

The Financial Accounting Standards Board established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as flows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices for similar assets or liabilities in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for the assets or liabilities.

Level 3 – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Organization uses valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Corporation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 and Level 3 inputs are only used when higher level inputs are unavailable.

The following table summarizes the valuation of the Organization’s financial assets as of June 30, 2019

Description	Level	Amortized Cost	Gross Unrealized Gain (Loss)	Fair Value
<u>Held-to-Maturity:</u>				
Money Market	1	\$ 793,798	\$ -	\$ 793,798
Municipal Bonds	1	6,746,892	93,694	6,840,586
U.S. Treasury/Agent Securities	1	<u>8,496,162</u>	<u>74,017</u>	<u>8,570,179</u>
Total Held-to-Maturity		<u>\$16,036,852</u>	<u>\$ 167,711</u>	<u>\$16,204,563</u>

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2019

10. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and Cash Equivalents	\$15,692,136
Accounts Receivable - Net	1,454,886
Wraparound Receivable	1,106,877
Certificate of Deposits (Due over one year)	5,230,515
Investment in Marketable Securities	<u>16,204,563</u>
Total Financial Assets	39,688,977
Less: Financial Assets Designated by the Board of Directors for Other Than Current Operations	<u>(29,376,348)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$10,312,629</u>

As part of the liquidity management, the Organization structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

11. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

During the year ended June 30, 2019, the Organization noted that, in priors' years, the depreciation and other expenses in connection with federal programs, were not included in the release from restrictions, as required by the Organization's, accounting policies and procedures. The effect of these omissions was the overstatement of the net assets with donor restrictions and the understatement of net assets without donor restrictions. The restatement in the prior year financial statements is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning, as previously reported	\$37,066,264	\$2,445,036	\$39,511,300
Prior period adjustments:			
Decrease in net assets with donor restrictions	-	(1,542,431)	(1,542,431)
Increase in net assets without donor restrictions	<u>1,542,431</u>	<u>-</u>	<u>1,542,431</u>
Net assets, beginning, as restated	<u>\$38,608,695</u>	<u>\$ 902,605</u>	<u>\$39,511,300</u>

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2019

12. GRANT AWARDS REVENUES

Grant awards revenues for the years ended June 30, 2019, consist of the following:

Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care). Grants for New and Expanded services Under the Health Center Program	\$ 5,513,974
Grant to Provide Outpatient Early Interventions Services with Respect to HIV Disease (Ryan White HIV/Aids Program Part C)	205,712
HIV Emergency Relief Project Grants (Ryan White HIV/AIDS Program Part A)	<u>18,456</u>
	<u><u>\$ 5,738,142</u></u>

13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions in the statement of financial position, as of June 30, 2019, consist of the following:

Program	Activity	Balance
Section 330 Cluster Funds	Available for primary and preventive health services to medically underserved populations. This temporarily restricted net asset will be decreased by recording the depreciation expenses during the useful life of the assets.	\$ 242,599
ARRA funds	Represent ARRA funds used for capital improvements. This temporarily restricted net asset will be decreased by recording the depreciation expenses during the useful life of the assets.	<u>605,106</u>
Total temporarily restricted net assets		<u><u>\$ 847,705</u></u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. During the year ended June 30, 2019 the aggregated amount of net assets released from restrictions was \$5,793,042. Such net assets were contributed to the Organization through conditional government program in the form of grants and award, which are recorded as restricted revenues until specified conditions are met.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2019

14. CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances in local financial institutions. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, the uninsured balance is \$15,830,993. The Organization has not experienced any loss in such accounts, as of June 30, 2019.

15. PENSION PLAN

The employees of the Organizations participate in a qualified defined contribution plan (the Plan), as defined by Section 401(k) of the Internal Revenue Code, sponsored by the Organization. Employees are eligible to participate in the plan after twelve (12) months of service and are fully vested after three (3) years of continuous service. The Organization contributes three percent (3%) of employee compensation, as defined in the Plan. The Organization's contribution to such plan amounted to approximately \$310,435 during the fiscal year 2019.

16. COMMITMENTS AND CONTINGENCIES

Puerto Rico Health Reform Contract

The Organization provide health services to the designated beneficiaries of the health insurance plan of the Government of the Commonwealth of Puerto Rico in Loiza, Luquillo and Río Grande, Puerto Rico, under MCOs Service Agreements ("the Agreements"). Pursuant to the Agreements, among other things, the Organization agrees and commits itself to provide all covered health services to the designated beneficiaries, as defined and restricted under the dispositions of the health insurance plan of the Government of the Commonwealth of Puerto Rico, which are specified in the Agreements. In consideration to the covered services rendered by the Organization, the MCOs will pay it a capitation amount per beneficiary per month, as defined in the Contracts. The MCO up to October 2018 was MMM. Beginning on November 2018, the MCOs are Triple S Salud, First Medical, Plan Menonita, Molina Health and MMM. The terms of the contracts remain substantially the same as those with the former contract with MMM. The capitation amount will be subject to retention of money to be used for the payment of the IBNR claims and for the Medical Services Reserve. The Organization 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.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2019

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Federal grants and contracts

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

Stop-Loss Insurance

The Organization has a stop-loss insurance agreement with the Insurance Company to limit its losses on individual claims. In the event the Organization ceases operations, (a) plan benefits will continue for members who are confined in an acute care hospital on the date of insolvency until their discharge, and (b) plan benefits will continue for any other member until the end of the contract period for which premiums have been paid.

Malpractice Liability Coverage

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

Legal claims

The Organization 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 Organization.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2019

18. SUBSEQUENT EVENTS

Management of the Organization has evaluated subsequent event through May 6, 2020, the date which the financial statements were available to be issued, except the events described in the following paragraphs, no events were identified that required adjustment or disclosure in the financial statements.

On August 2019, the Organization adds a New Access Point (NAP) site in Ceiba, Puerto Rico, to provide general primary medical care. The federal grant approved for this project was \$650,000.

On March 12, 2020, the Governor of Puerto Rico declared a state of emergency in response to the worldwide coronavirus, COVID-19, outbreak. On March 15, 2020, the Governor issued an executive order enacting an island-wide lock-down by ordering a 7:00 p.m. to 5:00 a.m. curfew that was extended until May 25, 2020, also non-essential business be closed. Even though since the beginning of this crisis operations have not been normal and some services have had to be limited or temporarily suspended, the Organization Management cannot at this time specify the magnitude of any negative impact, if any, on the financial statements of the Organization.

During the period from March 1, 2020 to May 6, 2020, the Organization received the following grant awards:

\$60,438 Coronavirus Supplemental Funding for Health Center

\$739,670 Health Center Coronavirus Aid, Relief, and Economic Security (CARES)

\$48,250 Ryan White Part C, COVID-19 Response

\$290,704 Expanding Capacity for Coronavirus Testing (ECT)

SUPPLEMENTAL INFORMATION

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Additional Schedules and Reports Required
Under the Uniform Guidance

For the year ended June 30, 2019

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES- DIRECT PROGRAMS:			
<u>Health Centers Cluster:</u>			
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	-	\$ 1,805,413
Grants for New and Expanded Services under the Health Center Program	93.527	-	3,708,561
			<u>5,513,974</u>
Grant to Provide Outpatient Early Interventions Services with Respecto to HIV Disease (Ryan White HIV/Aids Program Part C)	93.918	-	205,712
<u>Pass-through from MUNICIPALITY OF SAN JUAN:</u>			
HIV Emergency Relief Project Grants (Ryan White HIV/AIDS Program Part A)	93.914	-	18,456
Total Expenditures of Federal Awards			\$ <u><u>5,738,142</u></u>

See accompanying Notes to the Schedule of Expenditure of Federal Award.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Notes to Schedule of Expenditures of Federal Awards

For the year ended June 30, 2019

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents activity of all federal awards programs of Concilio de Salud Integral de Loiza, Inc. All federal awards received directly from federal agencies, as well as federal awards passed through other agencies to Concilio de Salud Integral de Loiza, Inc. are included in the accompanying schedules.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Requirements for Federal Awards* (Uniform Guidance), Audits of States, Local Governments, and Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - FEDERAL CFDA NUMBER

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

NOTE D – PASS-TROUGH

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

NOTE E – RELATIONSHIP TO FINANCIAL STATEMENTS

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

Expenses in the financial statements	\$ 31,854,254
Add: Capital expenses in connection with temporarily restricted net assets	80,577
Less: Depreciation expenses, in connection with temporarily restricted net assets	(135,477)
Less: Non-federal expenses	<u>(26,061,212)</u>
Total Federal Expenditures	<u>\$ 5,738,142</u>



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

To the Governing Board of
Concilio de Salud Integral de Loiza, Inc.
Loiza, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Concilio de Salud Integral de Loiza, Inc., a nonprofit corporation ("the Organization") which comprise the statements of financial position as of June 30, 2019, 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 May 6, 2020.

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 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, may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be material weaknesses.

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

(CONTINUED)

Organization's Response to Findings

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

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 grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

May 6, 2020,
San Juan, Puerto Rico

Diaz & Candelaria, PSC

License No. 34, Expires December 1, 2022
The C.P.A. Stamp No. O2771718, of the P.R.
State Society of Certified Public Accountants
was affixed to the record copy of this report.





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

To the Governing Board of
Concilio de Salud Integral de Loiza, Inc.
Loiza, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited Concilio de Salud Integral de Loiza, Inc., a nonprofit corporation (“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 major federal programs for the year ended as of June 30, 2019. The Organization'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 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Requirements for Federal Awards* (Uniform Guidance). Those standards and 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.

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

Opinion on Each Major Federal Program

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 major federal programs for the year ended June 30, 2019.

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 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. 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.

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

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

May 6, 2020,
San Juan, Puerto Rico

Díaz & Candelaria, PSC

License No. 34, Expires December 1, 2022
The C.P.A. Stamp No. O2771719 of the P.R.
State Society of Certified Public Accountants
was affixed to the record copy of this report.



**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Schedule of Findings and Questioned Costs

For the year ended June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

Internal control over major federal programs:	
➤ Material Weakness(es) identified?	No
➤ Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Part 200.516(a) of Uniform Guidance?	No

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless and Public Housing Primary Care, and School Based Health Centers (Cluster).
93.527	Affordable Care Act. (ACA) Grants for New and Expanded Services under the Health Center Program.

Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	No

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Schedule of Findings and Questioned Costs

For the year ended June 30, 2019

Section II - Financial Statements Findings

<u>Program</u>	<u>Findings / Non-Compliance</u>	<u>Questioned Costs</u>
<p>Programs Without Restrictions</p>	<p>2019-001 Standards for Financial and Program Management</p> <p><u>Criteria:</u> Financial management system must provide accurate, current, and complete disclosure of the financial results.</p> <p><u>Condition:</u> During our review of the accounting records, we noted that the capitation revenues and the related contractual expenses, are not properly reconciled with the Capitation Settlements, provided by the Managed Care Organizations (Triple S Salud, First Medical, Plan Menonita, Molina Health and MMM). These agreements are to provide health care services to state government Medicaid participants (Vital).</p> <p>Also, several audit adjustments were needed to correct certain inaccurate balances.</p> <p><u>Cause:</u> The Managed Care Organization, did not send the information, in a monthly basis and on time, as it needed to keep the accounting records, accurate, current, and complete.</p> <p>Also, the Organization lack a well-designed and efficient month-end and annual closing process.</p> <p><u>Effect:</u> A material misstatement in the financial statements may not be prevented or detected. Also, the lack of current and accurate financial information, difficult the decision-making process, related to the Organization's fiscal operation.</p>	<p>N/A</p>

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Schedule of Findings and Questioned Costs

For the year ended June 30, 2019

**Section II - Financial Statements Findings
(Continued)**

<u>Program</u>	<u>Findings / Non-Compliance</u>	<u>Questioned Costs</u>
Programs Without Restrictions	2019-001 Standards for Financial and Program Management (Continued)	

Auditors' Recommendation: We recommend management to make additional efforts to improve the communication with the Managed Care Organizations, in order to obtain all the necessary data to prepared monthly reconciliations and record the corresponding transactions in monthly basis. Management also, should develop a well-designed and efficient month-end and annual closing process in order to provide accurate, current, and complete disclosure of the financial results.

Finally, management should provide continued professional education to the accounting personnel in these areas.

Views of responsible Officials and Planned Corrective Actions: Refer to the corrective action plan.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Schedule of Findings and Questioned Costs

For the year ended June 30, 2019

Section III - Findings and Questioned Costs for Federal Awards

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

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.
(A NONPROFIT CORPORATION)**

Summary Schedule of Prior Year Findings

For the year ended June 30, 2019

<u>Program</u>	<u>Findings / Non-Compliance</u>	<u>Questioned Costs</u>
Programs Without Restrictions	<p>2018-001 Financial Records and Reports</p> <p><u>Condition:</u> Our review of the financial and accounting records revealed that Capitation Settlement is no properly reconciled. As such, the Organization’s Statement of Financial Position presents inaccurate balances of the Institutional Fund receivable and IBNR Fund Deposit accounts. In the same manner, the Statement of Activities and Change in Net Assets presents inaccurate information in Premiums Revenues and Patient Expenses accounts.</p> <p><u>Current Status:</u> Condition still prevails</p>	N/A
Programs Without Restrictions	<p>2018-002 Financial Records and Reports</p> <p><u>Condition:</u> During our audit, we noted certain errors in the presentation and recording of financial statements amounts, resulting in proposed audit adjustments. These were necessary to correct various accounts and balances in the financial statements to conform their presentation with accounting principles generally accepted in the United States of America.</p> <p><u>Current Status:</u> Condition still prevails</p>	N/A



“Tradición en Servicios de Salud Primaria”

Corrective Action Plan
For the Year Ended June 30, 2019

SECTION II - FINDING - FINANCIAL STATEMENTS AUDIT

2019-001 Standards for Financial and Program Management

Condition: During our review of the accounting records, we noted that the capitation revenues and the related contractual expenses, are not properly reconciled with the Capitation Settlements, provided by the Managed Care Organizations (Triple S Salud, First Medical, Plan Menonita, Molina Health and MMM). These agreements are to provide health care services to state government Medicaid participants (Vital). Also, several audit adjustments were needed to correct certain inaccurate balances.

Views of Responsible Officials and Planned Corrective Actions: The organization will continue to strengthen the processes in the Finance Department, with the goal of minimizing adjustments at the fiscal year end. In connection with the Managed Care Program (Puerto Rico Health Reform, known as “Vital”), which is one of the most complex area, we will be working with the consultants, to get all the necessary data on time and record transactions monthly. The accounting personnel will also continue to train in the Managed Care Program area, to provide accurate, current and complete data to be reported in the Organization’s financial statements.

On or before the month of August 2020, we will present changes to the policies and procedures, in connection with the Organization’s out of scope income and expenses recognition (Health Reform of Puerto Rico). The training of the accounting personnel will be during the six-month period from July 1, 2020 to December 31, 2020, the date on which we intend to complete the implementation of this corrective action plan.

Jannette Díaz

Jannette Díaz
Director of Finance
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