

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.**  
(Non-Profit Organization)

Audited Financial Statements

For the Year Ended June 30, 2012

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditors' Report.....	1
Audited Financial Statements:	
Statement of Financial Position.....	3
Statement of Activities and Change in Net Assets.....	4
Statement of Cash Flows.....	5
Notes to Financial Statements.....	6
Supplementary Information:	
Schedule of Functional Expenses .....	18
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.....	19
Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	21
Schedule of Expenditures of Federal Awards.....	23
Notes to the Schedule of Expenditures of Federal Awards .....	24
Schedule of Findings and Questioned Costs .....	25
Independent Auditors' Peer Review Report:	
Letter to the User.....	31
Peer Review Report .....	32



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
**CONCILIO DE SALUD INTEGRAL  
DE LOIZA, INC.**  
(Non-Profit Organization)  
Loíza, Puerto Rico

We have audited the accompanying statement of financial position of **Concilio de Salud Integral de Loíza, Inc.** (the Organization) as of June 30, 2012, and the related statements of activities and change in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 *Governmental 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Concilio de Salud Integral de Loíza, Inc.** as of June 30, 2012, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2013, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Organization's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



License No. 113  
Expires on December 1, 2015

San Juan, Puerto Rico  
March 15, 2013  
2013-03-10



**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.**

Statement of Financial Position

June 30, 2012

**ASSETS**

Current Assets:	
Cash and Cash Equivalents	\$ 6,220,669
Accounts Receivable, Net	2,176,490
Wraparound Claims Receivables	341,630
Inventory	172,595
Prepaid Expenses	6,140
Total Current Assets	<u>8,917,524</u>
Wraparound Claims Receivables	317,050
Property, Plant and Equipment, Net	5,538,503
Other Restricted Assets:	
Institutional Fund	314,154
IBNR Fund Deposit	1,491,553
Certificate of Deposit	100,000
Deposits	55,253
Total Assets	<u>\$ 16,734,037</u>

**LIABILITIES AND NET ASSETS**

Current Liabilities:	
Accounts Payable	\$ 488,369
Accrued Expenses	181,936
Other Liabilities	216,004
IBNR Reserve	1,302,000
Current Portion of Long-Term Debt	194,083
Total Current Liabilities	<u>2,382,392</u>
Long-Term Debt, Net of Current Portion	323,475
Total Liabilities	<u>2,705,867</u>
Unrestricted Net Assets:	
Designated for Adquisition and Renovation of Building	1,734,146
Designated for Adquisition and Equipment	100,400
Designated for Operational Reserve	2,046,300
Undesignated	10,147,324
Total Liabilities and Net Assets	<u>\$ 16,734,037</u>

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

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.**

Statement of Activities and Change in Net Assets

For the Year Ended June 30, 2012

**REVENUES AND SUPPORT**

Revenues:

Net Patients' Service Revenues	\$ 1,700,788
Premium Revenues	6,410,131
Pharmacy Revenues	1,556,018
Wraparound Claim Income	1,333,677
Rent Income	152,195
Other Income	94,722
	<u>11,247,531</u>

Support:

Federal Financial Assistance	4,134,228
Donated Services	136,409
Other	4,156
	<u>4,274,793</u>

Total Revenues and Support 15,522,324

**EXPENSES**

Program Services	9,049,997
Program Supporting Services	<u>3,415,234</u>

Total Expenses 12,465,231

Change in Net Assets 3,057,093

Net Assets at Beginning of Year 10,971,077

Net Assets at End of Year \$ 14,028,170

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

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.**

Statement of Cash Flows

For the Year Ended June 30, 2012

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets \$ 3,057,093

Adjustments to Reconcile Change in Net Assets  
to Net Cash Provided by Operating Activities:

Depreciation and Amortization 392,951

Provisions for Bad Debts 84,237

Changes in Assets and Liabilities:

Increase in Accounts Receivable (377,040)

Increase in Wraparound Claims Receivable (10,978)

Decrease in Institutional Fund 588,052

Increase in Inventory (7,329)

Decrease in Prepaid Expenses 1,255

Increase in IBNR Fund Deposit (926,346)

Increase in Accounts Payable and Other Liabilities 113,642

Increase in IBNR Reserve 396,000

Increase in Deposit (31,173)

Increase in Accrued Liabilities 987

Net Cash Provided by Operating Activities 3,281,351

**CASH FLOWS FROM INVESTING ACTIVITIES**

Land and Building Improvements (759,206)

Purchase of Vehicles (54,495)

Purchase of Equipment (787,548)

Net Cash Used in Investing Activities (1,601,249)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Principal Payments on Long-Term Debt (194,083)

Net Cash Used in Financing Activities (194,083)

Net Change in Cash and Cash Equivalents 1,486,019

Cash and Cash Equivalents at Beginning of Year 4,734,650

Cash and Cash Equivalents at End of Year \$ 6,220,669

**SUPPLEMENTAL DISCLOSURES**

Interest Paid \$ 50,429

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

## CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

### Notes to Financial Statements

June 30, 2012

#### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### General

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

##### Basis of Presentation

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

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

Temporarily restricted net assets represent contributions and grants which have donor-imposed limitations on their use for a specified time period or purpose. There were no temporarily restricted net assets at June 30, 2012.

Permanently restricted net assets represent contributions and grants that have been restricted by donors to be maintained by the Organization in perpetuity. There were no permanently restricted net assets at June 30, 2012.

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

##### Use of Estimates

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

## CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

### Notes to Financial Statements

June 30, 2012

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

##### Cash and Cash Equivalents

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

##### Receivables for Patient Care

Patient accounts receivable for which the Organization receives payment 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.

The amount of the allowance for uncollectible is based on management's assessment of historical and expected collections, business economic conditions, trends in health care coverage, and other collection indicators. Additions to the allowance for uncollectible result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for uncollectible. As of June 30, 2012, the balance of the allowance was \$1,626,625.

##### Supplies Inventories

Supplies inventory are stated at the lower of cost (first-in first-out) or market.

##### Property, Plant and Equipment

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

##### Net Patient Service Revenue

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

## CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

### Notes to Financial Statements

June 30, 2012

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

##### Premium Revenues

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

##### Contribution

The Organization also elected to adopt FASB ASC Topic 958, "*Non-for-Profit Entities*". In accordance with FASB ASC Topic 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

##### Charity Care

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

##### 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.

##### Income Taxes

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

##### Functional Allocation of Expenses

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

##### Donations in Kind

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

## CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

### Notes to Financial Statements

June 30, 2012

#### 2. NET PATIENTS' SERVICE REVENUE

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

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

##### Medicare

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

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

#### 3. PREMIUM REVENUES

##### PR Health Reform and Others

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

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

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

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.**

Notes to Financial Statements

June 30, 2012

**4. ACCOUNTS RECEIVABLE**

At June 30, 2012, accounts receivable consisted of the following:

Patients Receivable (Including Capitation of \$196,684)	\$ 3,160,326
Pharmacy	356,384
Rent	170,561
Other	115,844
	<u>3,803,115</u>
Less: Allowance for Bad Debts	<u>(1,626,625)</u>
Accounts Receivable, Net	<u><u>\$ 2,176,490</u></u>

**5. INVENTORY**

At June 30, 2012, the inventory consisted of the following:

Drugs and Medicines	\$ 149,742
Medical Supplies	22,853
	<u>172,595</u>
Inventory	<u><u>\$ 172,595</u></u>

**6. WRAPAROUND CLAIMS RECEIVABLES**

Wraparound claims receivables consist of prior years management's estimates of collectible amount of claims entitled to the Organization by the US Federal Court, in relation to the legal proceeding mentioned in Note 15. During the fiscal year 2012, the Organization did not receive payments related to prior years wraparound claims. Managements have determined not recognize revenues for the current year due to the uncertainty of the future outcome.

At June 30, 2012, the wraparound claims receivables consisted of the following:

Current:

Wraparound Claims for 2012	\$ 1,333,586
Amount Collected in 2012	(991,956)
	<u>341,630</u>

Non-Current:

Wraparound Claims Recorded in Previous Years	\$ 3,206,035
Amount Collected in 2011	(2,888,985)
	<u>317,050</u>

## CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

### Notes to Financial Statements

June 30, 2012

#### 6. WRAPAROUND CLAIMS RECEIVABLES, (Continued)

Also, as of June 30, 2012, the Organization has an accrual for the estimated legal expenses of approximately \$191,000, which will be incurred if those wraparound claims are collected.

#### 7. PROPERTY, PLANT AND EQUIPMENT

At June 30, 2012, the Property, Plant and Equipment consisted of the following:

Building and Building Improvements	\$ 5,156,087
Furniture and Fixtures	477,083
Medical Equipment	2,119,169
Computer	283,286
Vehicles	179,154
	<hr/>
	8,214,779
Less: Accumulated Depreciation and Amortization	3,259,618
	<hr/>
	4,955,161
Land	583,342
	<hr/>
Property, Plant and Equipment, Net	<u>\$ 5,538,503</u>

#### 8. INSTITUTIONAL FUND

As part of the contract with the Insurance Company, the Institutional Fund is held at the Insurance Company to pay hospital, emergency room, high tech laboratories and ambulatories facilities claims. At June 30, 2012, the Institutional Fund at the Insurance Company amounted to \$314,154.

#### 9. IBNR FUND DEPOSIT

As part of the contract with the Insurance Company, the Organization is required to maintain an incurred but not reported reserve fund deposit. The Insurance Company withholds a ten percent (10%) from the monthly medical fund capitation. At June 30, 2012, the Insurance Reserve Fund Deposit amounted to \$1,491,553.

#### 10. IBNR RESERVE

Medical Expenses and Drugs cost are recognized as they occur and not reported to the Organization. Because of this basis of recognition, unpaid benefits are reported as incurred but not reported (IBNR) by the Insurance Company. Reported benefits are those incurred, paid and deducted from the monthly capitation by the Insurance Company. The IBNR claims are those benefits that have been provided but have not yet been deducted by the Insurance Company. Unpaid claims are estimated based on predictions of benefits frequency and severity. These estimates are based on historic data, trends, and other statistical information. Management believes that the liability for IBNR Reserve is reasonable and reflective of anticipated ultimate experience. Since the liability for accounts payable-medical services is based on estimate, the net amounts that will ultimately be paid may vary from the estimated amounts provided for. The resulting difference between the estimated liability and the actual payment, if any, as subsequently determined, is reflected in current operations. At June 30, 2012, the Organization's IBNR reserve amounted to \$1,302,000, which represent an increase in the reserve of \$396,000 when compared with fiscal year 2011.

## CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

### Notes to Financial Statements

June 30, 2012

#### 11. STOP - LOSS INSURANCE

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

#### 12. LINE OF CREDIT

Unsecured line of credit agreement with financial institution with maximum borrowing up to \$100,000 at 2.5% plus prime rate. At June 30, 2012, there is no outstanding balance on the line of credit.

#### 13. LONG - TERM DEBT

On July 16, 1999, the Organization entered into a first mortgage note of \$2,911,250 for the acquisition of the Building. The note is payable in monthly installments of \$16,174 plus interest at 8%, due in 2015 and secured by the real estate, Agricultural and Rural Development of the United States, and a certificate of deposit of \$100,000.

Maturities of this long-term debt for the next years are as follows:

2013	\$	194,083
2014		194,083
2015		<u>129,392</u>
	\$	<u><u>517,558</u></u>

#### 14. CONTRIBUTION AND GRANTS

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

Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for The Homeless, Public Housing Primary Care, and School Based Health Centers)	\$	3,900,100
Grant to Provide Outpatient Early Intervention Services with Respect to HIV Disease		194,513
HIV Prevention Programs for Women		141,666
Affordable Care Act (ACA) Grant for Capital Development in Health Centers		<u>1,172,440</u>
	\$	<u><u>5,408,719</u></u>

## CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

### Notes to Financial Statements

June 30, 2012

#### 14. CONTRIBUTION AND GRANTS, (Continued)

In addition, during the current fiscal year the organization received funds from prior year grants awarded as follows:

ARRA-Grant to Health Center Programs (Capital Improvement Program)	\$ 772,865
ARRA-Grant to Health Center Programs (Increase Services)	<u>258,388</u>
	<u>\$ 1,031,253</u>

The Grant for the Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for The Homeless, Public Housing Primary Care, and School Based Health Centers) was approved on June 16, 2012, for the amount of \$3,900,100 and has a one year coverage period from December 1, 2011 to November 30, 2012. As of June 30, 2012, the amount recorded as grant income of these federal contributions amounted to \$3,230,472.

The Grant to Provide Outpatient Early Intervention Services with Respect to HIV Disease was approved on August 13, 2011 for the amount of \$194,513 and has a period of coverage from July 1, 2011 to June 30, 2012 and recorded as grant income during 2012.

The Grant for HIV Prevention Programs for Women in the amount of \$141,666 was approved on September 20, 2011. Of this amount, \$138,164 was recorded as grant income during fiscal year 2012.

The Affordable Care Act (ACA) Grant for Capital Development in Health Centers was approved on June 30, 2011, for the amount of \$1,172,440 and has a period of coverage from October 1, 2010 to September 30, 2012. As of June 30, 2012, the grant income recorded was amounted to \$322,570.

The ARRA-Grant to Health Center Programs (Capital Improvement Program) was approved on September 17, 2009, for the amount of \$772,865 and has a period of coverage from June 29, 2009 to June 30, 2012. As of June 30, 2012, the amount recorded as a grant income is \$236,977.

The ARRA-Grant to Health Center Programs (Increase Services) was approved on September 18, 2009, for the amount of \$258,388. As of June 30, 2012, the amount recorded as a grant income is \$11,532.

#### 15. COMMITMENTS AND CONTINGENCIES

##### Wraparound Claims

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

## CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

### Notes to Financial Statements

June 30, 2012

#### 15. COMMITMENTS AND CONTINGENCIES, (Continued)

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

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

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

On November 28, 2011, the Special Master issued its report in which he recommended the Court to order the Defendant to pay approximately \$14.4 million to the Organization to cover wraparound claims for the period of January 1, 2001 through June 30, 2006. After the issuance of the Special Master report the Court has no determined the final amount to be received by the Organization.

#### Other Legal Cases

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

#### Federal Assistance

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

#### Collective Bargaining Agreement

The non-administrative employees of the Organization are covered under collective bargaining agreement.

## CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

### Notes to Financial Statements

June 30, 2012

#### 16. CONCENTRATION OF CREDIT RISK

##### Cash

At June 30, 2012, the Organization's cash in bank balances exceeded the federal insured limits of \$250,000 by approximately \$6.1 million.

##### Accounts Receivable

The Organization grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. Significant concentrations of patient accounts receivable at June 30, 2012, are as follows:

Medicare	16%
MCS - PR Health Reform-Capitation	6%
MCS - Plan	44%
Triple S - Plan	21%
Other Third Party Payors	13%
	<hr/>
	100%
	<hr/>

#### 17. LEASE ARRANGEMENT

##### Operating Leases

The Organization leases part of the Building facilities to a third party, under cancellable operating leases through June 2013. Total rental income in 2012 for these operating leases arrangements amounted to approximately \$152,000.

The following is a summary of future minimum lease rentals under operating leases as of June 30, 2012:

2013	<hr/>
	\$ 76,415
	<hr/>

#### 18. 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, and accounts payable and accrued expenses approximate carrying value, principally because of the short maturity of those items.

#### 19. 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 months of service and are fully vested after three 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 \$132,000 during the fiscal year 2012.

## CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

### Notes to Financial Statements

June 30, 2012

#### **20. SUBSEQUENT EVENTS**

On September 10, 2012, the Organization paid in full the amount due of the mortgage note signed for the acquisition of the Loiza's building. At this date, the outstanding balance of this mortgage note was approximately \$471,000.

After year end June 30, 2012, the Organization have invested \$283,000 approximately for the improvement of the Pharmacy area on Loiza's facility and, the construction of a new facility in the Municipality of Rio Grande.

In August 2012, the Organization has acquired a new Electronic Health Record system amounted to approximately \$200,000 and is currently in the implementation process. In addition, the Organization signed the new collective bargaining agreement.

In November 2013, the Organization has opened a new facility location in the Municipality of Luquillo, for primary health services to be provide to residence of that area.

In preparing these financial statements, we evaluated these transactions and other events and transactions for potential recognition or disclosures through March 15, 2013, the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.**

Schedule of Functional Expenses

For the Year Ended June 30, 2012

**DEPARTMENT OF HEALTH AND  
HUMAN SERVICES**

	General Fund	Fund 330(e)	Ryan White Title III	HIV/AIDS Preventions	Capital Development	ARRA	Special Project	Total
<b>COMPENSATION AND RELATED EXPENSES</b>								
Salaries	\$ 873,954	\$ 1,570,486	\$ 15,411	\$ 46,693	\$ 32,042	\$ 72,068	\$ -	\$ 2,610,654
Payroll Taxes and Fringe Benefits	236,969	206,516	2,118	8,348	2,547	6,884	-	463,383
Total Compensation and Related Expenses	1,110,923	1,777,002	17,529	55,041	34,589	78,952	-	3,074,037
<b>OTHER EXPENSES</b>								
Professional Services	316,446	21,013	3,326	4,400	7,000	9,288	-	361,473
Laboratory and X-Ray Services	227,030	509,290	154,678	-	-	-	-	890,998
Hospital Services	3,086,326	-	-	-	-	-	-	3,086,326
Training and Conferences	49,042	375	645	54,860	-	-	-	104,922
Drugs and Medical Supplies	22,388	785,470	14,945	-	-	-	-	822,803
Office Supplies	136,990	59,560	-	2,943	535	-	-	200,028
Utilities	485,622	-	-	-	-	-	-	485,622
Rent	19,400	6,489	-	-	-	-	-	25,889
Equipment	19,451	118	-	-	-	9,907	-	29,476
Legal	229,979	5,992	-	-	-	-	-	235,971
Accounting	36,836	26,006	-	-	-	-	-	62,842
Repair and Maintenance	419,708	16,919	-	-	10,525	2,767	-	449,919
Travel and Lodging	16,156	3,568	2,991	3,597	-	-	-	26,312
Donations	136,409	-	-	-	-	-	-	136,409
Insurance	52,709	-	-	-	-	-	-	52,709
Security Guard	141,168	-	-	-	-	-	-	141,168
Electric Data	34,334	1,663	-	-	-	-	-	35,997
Bank Charges	6,796	371	-	-	-	-	-	7,167
Postage and Shipping	4,262	5,559	-	-	-	-	-	9,821
Licenses and Memberships	33,953	375	-	-	-	-	-	34,328
Bad Debts	480,237	-	-	-	-	-	-	480,237
Other	1,317,427	-	399	-	-	-	-	1,317,826
Total Expenses Before Depreciation Expense	8,383,592	3,219,770	194,513	120,841	52,649	100,914	-	12,072,280
Depreciation Expense	351,051	-	-	-	-	38,839	3,061	392,951
Total Expenses	8,734,643	3,219,770	194,513	120,841	52,649	139,753	3,061	12,465,231
Less: In-Kind Expenses	136,409	-	-	-	-	-	-	136,409
Total Expenditures	\$ 8,598,234	\$ 3,219,770	\$ 194,513	\$ 120,841	\$ 52,649	\$ 139,753	\$ 3,061	\$ 12,328,822

See Independent Auditors' Report.



# De Angel & Compañía

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

To Board of Directors of  
**Concilio de Salud Integral de Loíza, Inc.**  
(Non-Profit Organization)  
Loíza, Puerto Rico

We have audited the financial statements of **Concilio de Salud Integral de Loíza, Inc.** (the Organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated March 15, 2013. 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 *Governmental Audits Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies (12-01 to 12-04).

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course or performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of finding and questioned costs to be material weaknesses (12-01 to 12-04).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 12-05.

We noted certain matters that we reported to management of **Concilio de Salud Integral de Loíza, Inc.** in a separate letter dated March 15, 2013.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly we express no opinion on it.

This report is intended solely for the information and use of the Organization's management, Board of Directors, others within the Organization, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



License No. 113  
Expires on December 1, 2015

San Juan, Puerto Rico  
March 15, 2013  
2013-03-11





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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of  
**Concilio de Salud Integral de Loíza, Inc.**  
(Non-Profit Organization)  
Loíza, Puerto Rico

Compliance

We have audited **Concilio de Salud Integral de Loíza, Inc.'s**, (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2012. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 12-05.

## Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Organization's management, Board of Directors, others within the Organization, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



License No. 113  
Expires on December 1, 2015

San Juan, Puerto Rico  
March 15, 2013  
2013-03-12



**FY International**  
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**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identify Number	Federal Expenditures
<b>U.S. Department of Health and Human Services Direct Programs (HHS):</b>			
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for The Homeless, Public Housing Primare Care, and School Based Health Centers)	93.224	N/A	\$ 3,219,770
Grant to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	194,513
HIV Prevention Programs for Women	93.015	N/A	120,841
ARRA-Grant to Health Center Programs (Capital Improvement Program and Increase Services)	93.703	N/A	348,416
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	N/A	<u>322,570</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,206,110</u></u>

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

## CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

### Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

#### 1. **BASIS PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Organization under programs of the federal government for the year ended June 30, 2012. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations". Because the Schedule presents only a selected portion of the operations of Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of Organization.

#### 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### 3. **SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARDS REPORTING**

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

#### 4. **FEDERAL CFDA NUMBERS**

The federal CFDA numbers, included in this Schedule were determined based on the program name, review of grant contract information, and the Catalog of Federal Domestic Assistance (CFDA).

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

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

Expenses per Statement of Activities and Changes in Net Assets	\$ 12,465,231
Less: Non-Federal Expenditures	(8,776,544)
Plus: Federal Expenses Capitalized	<u>517,423</u>
Total Expenditures of Federal Awards in the Schedule of Expenditures of Federal Awards	<u>\$ 4,206,110</u>

CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: Unqualified 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  None reported

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

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section .510(a)  Yes  No

Identification of major programs:

Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for The Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224
ARRA-Grant to Health Center Programs (Capital Improvement Program and Increase Services)	93.703
Affordable Care Act (ACA) Grants for Capital Development in Health Centers Program	93.526

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

See Independent Auditors' Report.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

**SECTION II – FINDING – FINANCIAL STATEMENTS AUDIT**

**Area: Financial Records and Reports**

<b>Ref. No.</b>	<b>Finding</b>
12-01	<p><b>Condition:</b></p> <p>Our review of the financial and accounting records revealed that the Organization does not reconciled the subsidiary ledger of accounts receivable with the general ledger on a monthly basis.</p> <p><b>Criteria:</b></p> <p>Subsidiary ledger of accounts receivable and, general ledger must be reconciled on a monthly basis in order to ascertain accurate and timely financial records.</p> <p><b>Cause and Effect:</b></p> <p>During our audit procedures over the Organization's accounts receivable, we noted that the subsidiary was not reconciled with general ledger until year end. As a result, the financial information related to patient revenues were innacurate during the year.</p> <p><b>Recommendation:</b></p> <p>We recommend that a reconciliation of the detail to the accounts receivable general ledger be made at the end of each month, and that any reconciling items be investigated, cleared promptly, and on a timely basis.</p> <p><b>Corrective Action Plan:</b></p> <p>The Organization recruited an accountant to strengthen the Finance Department in the process of reconciled the subsidiary ledger of accounts receivable with the general ledger on a month to month basis. A monthly report will be presented to Management and Boards of Directors.</p>
12-02	<p><b>Condition:</b></p> <p>Our review of the financial and accounting records revealed that the accounts receivable module is not currently integrated. As such, lack of integration of this module has resulted in inaccurate information and is not providing such information on a timely manner.</p> <p><b>Criteria:</b></p> <p>All computerized Organization's financial systems must be integrated to ascertain accurate and timely financial information.</p>

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

**SECTION II – FINDING – FINANCIAL STATEMENT AUDIT, (Continued)**

**Area: Financial Records and Reports**

**Cause and Effect:**

During our audit procedures over the Organization's accounts receivable, we noted that "Meditrack" billing system was not integrated with "Cougar", accounting system. As a result, the financial information related to patient revenues were inaccurate during the year.

**Recommendation:**

We recommend that the computerized system be integrated with the financial and accounting records promptly and appropriately.

**Corrective Action Plan:**

The Organization acquired a new software named "SUCCESS EHS" and contracted an external MIS consultant who helped with the implementation of this software and integrated the accounts receivable module with the general ledger.

**12-03**

**Condition:**

Our review of the financial and accounting records revealed that Capitation Settlement is not 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 in Patient Expenses accounts.

**Criteria:**

Capitation Settlement of Puerto Rico Health Reform, known as "Mi Salud", must be reconciled on a monthly basis in order to ascertain proper accounting records and timely financial information.

**Cause and Effect:**

During our audit procedures over premium revenues and costs, we noted that no reconciliation was made for the Capitation Settlement. Revenues and costs were understated and other assets accounts as well.

**Recommendation:**

We recommend that the Organization's prepared monthly reconciliations and record the transactions occurred on a monthly basis. Also, we recommend that a year-end analysis and a reconciliation be prepared against the Capitation Settlement received by the Administrator and any reconciling items be investigated and cleared on a timely basis.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

**SECTION II – FINDING – FINANCIAL STATEMENT AUDIT, (Continued)**

**Area: Financial Records and Reports**

**Corrective Action Plan:**

The Organization recruited an accountant to strengthen the Finance Department in the process of prepare monthly reconciliations and record the transactions of Capitation Settlement on a monthly basis. A monthly report will be presented to Management and Boards of Directors.

**12-04 Condition:**

Our review of the Organization's financial and accounting records revealed that IBNR Reserve balance as of year-end was inaccurate and not properly analyzed. We noted the analysis was not reviewed by Management.

**Criteria:**

IBNR Reserve must be analyzed and revised by Management at least on a yearly basis.

**Cause and Effect:**

During our audit procedures over IBNR Reserve, we noted that analysis of this account was incomplete and inaccurate. As such, account balance as of year-end was understated.

**Recommendation:**

We recommend that the Organization properly analyze and reviews the IBNR reserve. Also, we recommended that at the end of the year this reserve should be review by an independent actuary based on the complex of the analysis and the industry.

**Corrective Action Plan:**

The Organization will be contracting an independent actuary for analyze and review the IBNR reserve. A report of this analysis will be presented to Management and external auditors.

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

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

**Federal Program Information:** Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care and School Based Health Centers)  
 CFDA # 93.224  
 Award number: H80CS00323-09-02  
 Award year: June 30, 2012  
 Department of Health and Human Services  
 Community Health Center Cluster-Fund 330(e) Program

<b>Ref. No.</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
<b>12-05</b>	<p><b>Condition:</b></p> <p>Our review over the Organization's federal compliance requirements revealed that the Organization did not comply with the Cash Management requirement for the year ended June 30, 2012.</p> <p><b>Criteria</b></p> <p>OMB Circular A-110, Cash Management Compliance Requirement, establishes that when advance payment procedures are used, entities must follow procedures to minimize the time elapsing between the transfer of funds from the Federal Government and the corresponding disbursements.</p> <p><b>Cause and Effect:</b></p> <p>During our audit procedures over Cash Management federal requirement; we noted that twelve (12) of twelve (12) funds transfers received from the Federal Government were not disbursed within the three (3) to five (5) working days period.</p> <p><b>Recommendation:</b></p> <p>We recommend that the Organization establishes internal control procedures to ascertain that the time elapsing between the transfer of funds from the Federal Government and the corresponding disbursement are made within the time frame required by the Federal Program.</p> <p><b>Corrective Action Plan:</b></p> <p>The Organization will review their internal control procedures to ensure the compliance of OMB Circular A-110, Cash Management compliance requirement. The Finance Department restructure the advance payment procedures to minimize the time elapsing between the transfer of funds from the federal government and corresponding disbursements.</p>	N/A

**CONCILIO DE SALUD INTEGRAL DE LOIZA, INC.**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

**SECTION IV – SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

**Area: Financial Records and Reports**

**Findings: None**

**Questioned Costs: None**



## *De Angel & Compañía*

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March 15, 2013

To the Board of Directors  
**Concilio de Salud Integral de Loíza, Inc.**  
Loíza, Puerto Rico

The stockholders and staff of De Angel & Compañía, CPA, CSP, are pleased to announce the successful completion of an independent peer review of our accounting and auditing practice. This review was undertaken as a condition of membership in the American Institute of Certified Public Accountants (AICPA), the national organization of CPAs in public practice, industry, government and education.

In 1988, the members of the AICPA overwhelmingly approved a proposal to require members in public practice to participate in a practice-monitoring program. With the adoption of this proposal, the AICPA implemented a peer review program of unprecedented scope in the CPA profession or any other. Our participation in peer review demonstrates our firm's desire to measure up to the profession's high standards of professionalism and our commitment to maintaining and improving the quality of our practice.

In August 2000, the Puerto Rico Society of CPAs (PRSCPA) adopted a voluntary peer review program, which follows the lead established by the AICPA.

Our peer review was conducted by Torres Llompart Sánchez Ruíz, CPA, an independent firm (the Reviewer). The Reviewer first determined that we have an adequate quality control system, and then checked to see that professional's standards were followed in a representative sample of our accounting and auditing engagements.

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

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

Sincerely,

Carlos De Angel Ramírez  
President



Carlos de Ángel, CPA  
Partner  
De Ángel & Compañía, CPA, PSC  
San Juan, Puerto Rico

### SYSTEM REVIEW REPORT

We have reviewed the system of quality control for the accounting and auditing practice of De Ángel & Compañía, CPA, PSC (the firm) in effect for the year ended April 30, 2012. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all materials respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*.

In our opinion, the system of quality control for the accounting and auditing practice of De Ángel & Compañía, CPA, PSC in effect for the year ended April 30, 2012, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*; *pass with deficiency(ies)* or *fail*. De Ángel & Compañía, CPA, PSC has received a peer review rating of *pass*.

December 6, 2012  
License No. 10  
San Juan, Puerto Rico

A handwritten signature in blue ink that reads 'PKF Torres-Llompарт, Sánchez-Ruiz LLC'.

Stamp number E42872 was affixed  
to the original of this report.