



**MIGRANT HEALTH CENTER
WESTERN REGION, INC.
SINGLE AUDIT PACKAGE
YEAR ENDED FEBRUARY 28, 2014**

**MIGRANT HEALTH CENTER
WESTERN REGION, INC.**

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CONTENTS

	<u>PAGES</u>
INDEPENDENT AUDITORS' REPORT	1-3
FINANCIAL STATEMENTS AND NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED FEBRUARY 28, 2014 AND 2013	
Statements of Financial Position	4
Statements of Activities	5
Statements of Cash Flows	6
Notes to Financial Statements	7-18
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	19
Notes to the Schedule of Expenditures of Federal Awards	20
COMPLIANCE AND INTERNAL CONTROL REPORTS	
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	21-22
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	23-25
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	
Section 1 - Summary of Auditors' Results	26
Section 2 - Financial Statements Findings	27
Section 3 - Federal Awards Findings	28
INDEPENDENT AUDITORS' CONCLUSION ON THE SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	29



(Formerly Torres-Llompарт, Sánchez-Ruiz, LLP)

Board of Directors
Migrant Health Center Western Region, Inc.
Mayagüez, Puerto Rico

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Migrant Health Center Western Region, Inc. (the Center), (a nonprofit organization), which comprise the statements of financial position as of February 28, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center'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.

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Mayagüez, Puerto Rico
Page 2

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibility (continued)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Migrant Health Center Western Region, Inc. as of February 28, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended February 28, 2014, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. 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 for the year ended February 28, 2014.



(Formerly Torres-Llompart, Sánchez-Ruiz, LLP)

Board of Directors
Migrant Health Center Western Region, Inc.
Mayagüez, Puerto Rico
Page 3

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other matters (continued)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2014, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended February 28, 2014. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Center's internal control over financial reporting and compliance.

Kreston TLR, LLC

September 19, 2014
License No. 10
San Juan, Puerto Rico

Stamp number E143068 was affixed
to the original of this report.

MIGRANT HEALTH CENTER WESTERN REGION, INC.

STATEMENTS OF FINANCIAL POSITION

FEBRUARY 28, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,288,156	\$ 10,328,672
Accounts receivable from:		
Third party payors	379,358	743,892
Federal grants contracts (Notes 2, 5 and 9)	2,211,332	5,742,900
Capitation contracts (Note 6)	78,619	29,451
Others, net of allowance for doubtful accounts of \$876,338 in 2014 and \$469,477 in 2013	404,185	433,778
Inventories	429,511	432,656
Prepaid expenses	<u>106,387</u>	<u>98,673</u>
Total current assets	<u>17,897,548</u>	<u>17,810,022</u>
Noncurrent assets:		
Property and equipment, net (Notes 3 and 4)	9,610,838	8,952,638
Other assets	<u>156,871</u>	<u>69,223</u>
	<u>9,767,709</u>	<u>9,021,861</u>
	<u>\$ 27,665,257</u>	<u>\$ 26,831,883</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,553,780	\$ 1,371,473
Current portion of obligations under capital leases (Note 4)	19,212	17,524
Accrued liabilities	487,096	357,183
IBNR reserve (Note 6)	2,164,979	2,339,404
Deferred revenues (Note 5)	<u>2,211,332</u>	<u>5,742,900</u>
Total current liabilities	6,436,399	9,828,484
Long- term liabilities:		
Obligations under capital leases, net of current portion (Note 4)	76,625	95,837
Capitation contracts liability (Note 6)	<u>4,132,434</u>	<u>869,811</u>
Total liabilities	<u>10,645,458</u>	<u>10,794,132</u>
Commitments and contingencies (Notes 7, 8 and 9)		
Net assets :		
Unrestricted	17,019,799	16,037,751
Temporary restricted	<u>-</u>	<u>-</u>
	<u>17,019,799</u>	<u>16,037,751</u>
	<u>\$ 27,665,257</u>	<u>\$ 26,831,883</u>

See notes to financial statements.

MIGRANT HEALTH CENTER WESTERN REGION, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED FEBRUARY 28, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Changes in unrestricted net assets:		
Unrestricted revenues:		
Net patient service	\$ 10,713,339	\$ 9,489,433
Health reform	10,699,778	9,492,167
Other	1,540,613	983,612
	<u>22,953,730</u>	<u>19,965,212</u>
Net assets released from restrictions	7,484,168	7,201,961
Total unrestricted revenues and support	<u>30,437,898</u>	<u>27,167,173</u>
Expenses:		
Salaries and wages	10,165,590	7,088,363
Fringe benefits	2,225,761	1,894,537
Consultant and contractual	1,612,344	1,164,676
Drugs and medicines	1,895,176	1,941,495
Health reform	8,635,989	8,073,399
Supplies	1,139,753	897,691
Depreciation and amortization	669,661	696,280
Utilities	558,997	531,629
Repairs and maintenance	168,558	129,789
Rent	46,450	39,650
Insurance	66,088	80,518
Travel	65,630	64,242
Interest and bank charges	29,923	11,968
IBNR provision	546,288	140,627
Others	1,629,642	2,301,312
	<u>29,455,850</u>	<u>25,056,176</u>
Increase in unrestricted net assets	<u>982,048</u>	<u>2,110,997</u>
Changes in temporarily restricted net assets:		
Contributions from federal grants contracts	7,484,168	7,348,029
Net assets released from restrictions	<u>(7,484,168)</u>	<u>(7,201,961)</u>
Increase in temporarily restricted net assets	<u>-</u>	<u>146,068</u>
Increase in net assets	<u>982,048</u>	<u>2,257,065</u>
Net assets, beginning of year, as previously reported	16,037,751	19,523,586
Reclassification of temporarily restricted net assets (Note 12)	<u>-</u>	<u>(5,742,900)</u>
Net assets, beginning of year, as restated	<u>16,037,751</u>	<u>13,780,686</u>
Net assets, end of year	<u><u>\$ 17,019,799</u></u>	<u><u>\$ 16,037,751</u></u>

See notes to financial statements.

MIGRANT HEALTH CENTER WESTERN REGION, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED FEBRUARY 28, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase in net assets	\$ 982,048	\$ 2,257,065
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	669,670	696,820
Provision for doubtful accounts	406,861	469,477
Decrease (increase) in assets:		
Accounts receivable from:		
Third party payors	364,534	(134,589)
Federal grants contracts	3,531,568	(416,705)
Capitation contracts	(49,168)	133,513
Others	(377,268)	(436,540)
Inventories	3,145	(5,917)
Prepaid expenses	(7,714)	121,914
Other assets	(87,648)	428,195
Increase (decrease) in liabilities:		
Accounts payable	182,307	749,610
Accrued liabilities	129,913	(129,147)
IBNR reserve	(174,425)	1,062,150
Deferred revenues	(3,531,568)	-
Capitation contracts liability	3,262,623	869,811
	4,322,830	3,408,592
Net cash provided by operating activities	5,304,878	5,665,657
Net cash (used in) investing activity, acquisition of property and equipment	(1,327,870)	(3,280,745)
Net cash (used in) financing activity, repayment of obligations under capital leases	(17,524)	(8,310)
Net increase in cash and cash equivalents	3,959,484	2,376,602
Cash and cash equivalents, beginning of year	10,328,672	7,952,070
Cash and cash equivalents, end of year	\$ 14,288,156	\$ 10,328,672
 SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:		
Interest paid during the year	\$ 29,923	\$ 15,465

See notes to financial statements.

MIGRANT HEALTH CENTER WESTERN REGION, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED FEBRUARY 28, 2014 AND 2013

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of organization

Migrant Health Center Western Region, Inc. (the Center), is a non-for profit organization incorporated under the laws of the Commonwealth of Puerto Rico on July 24, 1986. The Center provides comprehensive preventive health care services to diverse urban, rural, and special populations (migrants and seasonal agricultural workers, Homeless, HIV/AIDS Patients) in the western region of Puerto Rico. Services are provided through seven delivery sites including five health clinics located in the municipalities of Mayagüez, San Sebastian, Guánica, Lajas, Maricao and Isabela, two office-based satellites in Mayagüez, and a mobile unit. A summary of the most significant accounting policies followed by the Center are set forth below:

Summary of significant accounting policies

Basis of presentation

The financial statements are prepared on an accrual basis of accounting. Financial statements presentation follows the recommendations of the Financial Accounting Standards Board in ASC Topic 958, Not-for-Profit Entities. Under ASC Topic 958, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Under the provisions of FASB ASC 958, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. Temporarily restricted net assets are net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Center pursuant to those stipulations or that expire by the passage of time. Permanently restricted net assets are net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Institution.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

MIGRANT HEALTH CENTER WESTERN REGION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED FEBRUARY 28, 2014 AND 2013

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

Cash and cash equivalents

For purposes of the statements of cash flows, the Center considers cash on deposit, cash on hand, and certificates of deposits with original maturities of three months or less to be cash equivalents. Any penalties on early withdrawals would not have a material effect on the financial statements.

Allowance for doubtful accounts

The allowance for doubtful accounts is maintained at a level which in management's judgment, is adequate to absorb potential losses inherent to the nature of the accounts receivable. The amount of the allowance is based on management's evaluation of the collectability of the accounts receivable, including the nature of the receivables, credit concentrations, trends in historical loss experience, specific doubtful accounts, and economic conditions.

The allowance is increased by a provision for bad debts, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to doubtful accounts are charged or credited to the provision for bad debts. Because of uncertainties inherent to the accounts receivable, the related allowance may change materially in the near term. Accordingly, accounts receivable write-offs and recoveries are charged to the allowance for doubtful accounts.

Inventories

Inventories of drugs, medicines and other supplies are stated at the lower of cost or market. Cost is determined on the first-in, first-out method. Market is determined at net realizable value.

IBNR (Incurred but not reported claims)

In prepaid health contracts, medical services expenses including drugs and medicines are recognized as they occur and not as they are reported to the Health Maintenance Organizations (HMOs). Under this basis of recognition, unpaid benefits are reported as incurred but not reported by the HMOs. The incurred but not reported claims are those benefits that have been provided but have not been yet paid. Unpaid claims are estimated based on historic data, trends and other statistical information. This is the most significant item subject to estimates and assumptions by the Center.

MIGRANT HEALTH CENTER WESTERN REGION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED FEBRUARY 28, 2014 AND 2013

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

Concentration of credit risk

Financial instruments which may potentially expose the Center to concentration of credit risk consist principally of cash deposits and accounts receivable. Management believes that this exposure has no significant concentration of credit risk since losses with respect to accounts receivable is limited due to the large number of medical plans or patients comprising the Center's customer base.

Cash and certificates of deposit

All of the Center's cash and cash equivalents accounts are held on five (5) highly rated banking institutions. Also, the Center maintains a certificate of deposit in a Credit and Savings Cooperative. At times, the balances in these accounts may be in excess of federally insured limits. The accounts are insured by the Federal Deposit Insurance Corporation and the Puerto Rico Supervision and Insurance Corporation (COSSEC in its Spanish acronym) up to \$250,000 per banking institution. At February 28, 2014 the excess over the federally and state insured limits amounted to approximately \$13,480,000.

Accounts receivable

The majority of the Center's health and related support services are provided directly to patients by the Center's personnel or through a group of private service providers within the northwestern and southwestern areas of Puerto Rico. These services are provided to indigent or uninsured patients under federal grants programs, the Puerto Rico Government Health Reform, Medicare and other private medical plans. Also, the Center recognizes any outstanding amounts on federal contracts at the end of the year as receivable and deferred revenue. The composition of receivables at February 28 was as follows:

<u>Description</u>	<u>2014</u>	<u>2013</u>
Federal Grants Programs	72%	77%
Medicare, Private Medical Plans and others	13%	14%
PR Government Health Reform	15%	9%
	<u>100%</u>	<u>100%</u>

MIGRANT HEALTH CENTER WESTERN REGION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED FEBRUARY 28, 2014 AND 2013

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Equipment under capital leases are stated at the present value of the minimum lease payments at the inception of the lease. Depreciation and amortization are computed under the straight-line method. The estimated useful lives used to compute depreciation and amortization are as follows:

Building and improvements	20 to 40 years
Medical and dental equipment	10 to 20 years
Office furniture and equipment	8 to 20 years
Equipment and motor vehicle under capital leases	5 to 20 years
Vehicles	5 years

The Center follows the capitalization policy of the federal government which considers as property and equipment tangible nonexpendable property, including exempt property, having useful lives of more than one year and an acquisition cost per unit of \$5,000 or more.

Income taxes

The Center is exempt from Puerto Rico income taxes under Section 1101 (4) of the Puerto Rico Internal Revenue Code of 1984. Accordingly, no provision for Puerto Rico income taxes has been made. Also, the Internal Revenue Service has determined that the Center is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code.

The Center evaluates uncertain tax positions in the financial statements. The resulting tax impact of these tax positions are recognized in the financial statements based on the result of this evaluation. The Center did not recognize any tax liabilities, interest or penalties associated with unrecognized tax positions.

Temporarily restricted net assets

Temporarily restricted net assets are those whose use by the Center has been limited by federal grants to a specific time period or purpose.

MIGRANT HEALTH CENTER WESTERN REGION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED FEBRUARY 28, 2014 AND 2013

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

Support and expenses

Contributions received are measured at their fair values and are reported as an increase in net assets. The Center reports contributions as restricted support if they are received with stipulations that limit the use of the contributions, or if they are designated as support for future periods. When a restriction expires, that is, when a stipulated time restriction ends or purpose restrictions are accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Net patient service revenue and Health reform

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. 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.

2. ACCOUNTS RECEIVABLE FROM FEDERAL GRANTS CONTRACTS (SEE NOTES 5 and 9)

Federal Grants receivable contracts as of February 28 consist of the following:

	<u>2014</u>	<u>2013</u>
Community health centers - 330 cluster	\$ 1,493,117	\$ 4,742,466
HIV Financial assistance	189,761	351,134
Substance abuse and Mental Health	374,423	431,493
CM Financial assistance	135,570	114,520
CDC Financial assistance	18,461	103,287
	<u>\$ 2,211,332</u>	<u>\$ 5,742,900</u>

MIGRANT HEALTH CENTER WESTERN REGION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED FEBRUARY 28, 2014 AND 2013

3. PROPERTY AND EQUIPMENT (SEE NOTE 4)

A summary of property and equipment at February 28 follows:

	<u>2014</u>	<u>2013</u>
Buildings and buildings improvements	\$ 8,505,783	\$ 7,236,763
Furniture and equipment	2,426,360	2,236,858
Vehicles	<u>968,265</u>	<u>890,116</u>
	11,900,408	10,363,737
Less accumulated depreciation and amortization	<u>(4,436,619)</u>	<u>(3,765,848)</u>
	7,463,789	6,597,889
Land	2,139,426	2,138,876
Construction in progress	<u>7,623</u>	<u>215,873</u>
	<u><u>\$ 9,610,838</u></u>	<u><u>\$ 8,952,638</u></u>

4. OBLIGATIONS UNDER CAPITAL LEASES

Obligations under capital leases as of February 28 consist of the following:

<u>Description</u>	<u>2014</u>	<u>2013</u>
Lease obligation over vehicle, payable in monthly installments of \$314 through 2017, including interest at an annual rate of 5.75%, and a residual payment of \$4,000 in October 2017.	\$ 12,800	\$ 15,481
Lease obligation over vehicle, payable in monthly installments of \$294 through 2018, including interest at an annual rate of 7.6%, and a residual payment of \$1 in February 2018.	11,675	13,846
Lease obligation over laboratory equipment, payable in monthly installments of \$1,578 through 2019, including interest at an annual rate of 8%.	<u>71,362</u>	<u>84,034</u>
	95,837	113,361
Less current portion	<u>19,212</u>	<u>17,524</u>
Long-term portion	<u><u>\$ 76,625</u></u>	<u><u>\$ 95,837</u></u>

MIGRANT HEALTH CENTER WESTERN REGION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED FEBRUARY 28, 2014 AND 2013

4. OBLIGATIONS UNDER CAPITAL LEASES (CONTINUED)

The following is a schedule of the future annual minimum payments under these leases for the following five years:

<u>Year ending February 28,</u>	<u>Amount</u>
2015	\$ 26,229
2016	26,229
2017	28,974
2018	22,466
2019	9,467
Total minimum lease payments	113,365
Less: amount representing interest	17,528
Total present value of minimum payments	<u>\$ 95,837</u>

Total cost of the property under capital leases amounted to \$123,172 and the accumulated amortization was \$69,897 as of February 28, 2014.

5. DEFERRED REVENUES (SEE NOTE 2)

Deferred revenues represent the unearned portion on federal grants contracts. These grants are considered to be an exchange transaction. Accordingly, revenue is recognized on a systematic basis over the periods in which the Center recognizes expenses for the related costs for which the grants are intended to compensate. Revenues and expenses under these grants are recorded in the statement of activities under temporarily unrestricted net assets.

6. CAPITATION CONTRACTS

The Center participates in the Puerto Rico Government Health Reform Program to service the western region of Puerto Rico under several capitation contracts through Health Maintenance Organizations (HMOs) engaged by the Commonwealth of Puerto Rico. The terms of these contracts vary but usually provide for payments to the Center based on a capitation rate and eligible lives under each service area, taking in consideration estimated amounts for the payment to health service providers and health facilities. On a monthly basis, these HMOs provide the Center an activity report which summarizes the advanced amounts to the Center, payments to health service providers and health facilities, and the amounts withheld for IBNR purposes to be reconciled in the future. These transactions are separately recorded in the accounting records of the Center. At February 28, 2014 no final reconciliation of the IBNR under the different capitation contracts has been provided to the Center.

MIGRANT HEALTH CENTER WESTERN REGION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED FEBRUARY 28, 2014 AND 2013

7. PENSION PLAN

The Center provides its employees with a 401 (k) profit sharing plan. The Plan meets the requirements of sections 1165 (a) of the Puerto Rico Internal Revenue Code of 1994, as amended.

The Plan provides benefits in the event of death or disability or in the event of termination of employment prior to normal retirement. Under this plan, there is no fixed dollar amount of retirement benefits. Actual retirement benefits will depend on the amount of each employee account balance at the time of retirement. The employee account balance will reflect the annual allocations, the period of time the employee participates in the plan and the success of the Plan in investing and reinvesting the assets of the trust fund. Pension expense during the years ended February 28, 2014 and 2013, amounted to \$228,734 and \$201,525, respectively.

8. Commitments

The Center entered into an agreement on June 27, 2012 to purchase the building where the administrative facilities are located for the amount of \$1,100,000. The deed and related documents are pending certain resolutions from the seller. Consequently, under the terms of this agreement, the Center entered into a commitment in lieu of an operating lease providing for monthly payments amounting to \$8,000 that are applied to the outstanding balance of the purchase price until the acquisition procedures are completed and the related deed formalized. Payments made under this agreement during the years ended February 28, 2014 and 2013 were \$96,000 and \$72,000, respectively.

The Center is obligated under the terms and conditions of certain lease agreements for facilities accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Center's accounts. Rental payments required under these operating leases during the years ended February 28, 2014 and 2013 were \$2,400 and \$24,000, respectively.

On August 27, 2014, the Center's Board of Directors approved and authorized an agreement with a financial institution for the acquisition of a property in the Municipality of Yauco for the amount of \$185,000. A related agreement was signed on September 3, 2014 requiring a purchase option of \$9,250.

MIGRANT HEALTH CENTER WESTERN REGION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED FEBRUARY 28, 2014 AND 2013

9. CONTINGENCIES

The Health Insurance Portability and Accountability Act (HIPAA) was enacted in August, 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Management is of the opinion that all its facilities are HIPAA compliant and no fines or penalties are to be assessed against the Center.

The Center participates in a number of federal grants contracts and in the Puerto Rico Government Health Reform Program. These contracts and Program are subject to audit in accordance with the provisions of the terms and conditions of the related agreements. Any non-compliance or disallowed costs, including amounts already collected, may constitute a liability of the applicable agreements. The amount, if any, of expenditures which may be disallowed under these agreements cannot be determined at this time. However, the Center's management is of the opinion that the risk of noncompliance with the related terms and conditions on these agreements, or reimbursement is minimal.

10. RISKS AND UNCERTAINTIES

The Center's operations are in part dependent on Federal and State Health Reform and Medicaid funding. Significant changes in the level of government funding could have a favorable or unfavorable impact on the operating results of the Center.

11. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Cash and cash equivalents: The carrying amount reported in the statements of financial position for cash and cash equivalents approximates fair value.

Accounts receivable and accounts payable: The carrying amount of accounts receivable and accounts payable in the statements of financial position approximates fair value.

MIGRANT HEALTH CENTER WESTERN REGION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED FEBRUARY 28, 2014 AND 2013

12. RECLASSIFICATIONS

Certain 2013 amounts have been reclassified to conform to the 2014 presentation. Also, the Center reflected a change in the classification of the unearned amounts from federal government assistance. Effective in 2014, the Center commenced to recognize the unearned portion of the federal grants as deferred revenues with a retroactive effect to 2013 for comparative purposes. On years prior to 2013, the Center recorded the unearned portion of the federal grants as temporarily restricted net assets.

13. SUBSEQUENT EVENTS

Management evaluated subsequent events through September 19, 2014 which is the date the financial statements were available to be issued. Management has determined that there are no events that required disclosure or adjustment to the accompanying financial statements.

**MIGRANT HEALTH CENTER WESTERN REGION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

YEARS ENDED FEBRUARY 28, 2014 AND 2013

14. FUNCTIONAL EXPENSES

Expenses incurred were distributed as follows:

	<u>Year ended February 28, 2014</u>						Total
	Federal Funds			Non-Federal Funds			
	Community Health Centers 330 Cluster	Out Patient Earlier Intervention (Respect to HIV Disease)	Substance Abuse and Mental Health Service	HIV Prevention Activities For Community Based Organizations	HIV Prevention Activities Non Governmental Organization Based	Health Reform and Private Patients	
Salaries and wages	\$ 2,908,844	\$ 499,658	\$ 249,287	\$ 208,930	\$ 183,501	\$ 6,115,370	\$ 10,165,590
Fringe benefits	875,806	71,521	40,072	28,387	29,022	1,180,953	2,225,761
Consultant and contractual	26,891	70,891	15,000		836	1,498,726	1,612,344
Drugs and medicines	1,223,527	240,576				431,073	1,895,176
Health reform						8,635,989	8,635,989
Supplies	323,517	82,655	24,944	25,503	18,750	664,384	1,139,753
Depreciation and amortization	67,315			3,336		599,010	669,661
Utilities	56,935	4,500	6,622	7,248	16,982	466,710	558,997
Repairs and maintenance	14,724			247		153,587	168,558
Rent	-	18,200		8,850	8,400	11,000	46,450
Insurance	4,848					61,240	66,088
Travel	9,088	9,835	10,014	8,822	10,145	17,726	65,630
Interest and bank charges				1,799		28,124	29,923
IBNR provision						546,288	546,288
Others	33,846	517	31,285	2,482	10	1,561,502	1,629,642
	<u>\$ 5,545,341</u>	<u>\$ 998,353</u>	<u>\$ 377,224</u>	<u>\$ 295,604</u>	<u>\$ 267,646</u>	<u>\$ 21,971,682</u>	<u>\$ 29,455,850</u>

MIGRANT HEALTH CENTER WESTERN REGION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED FEBRUARY 28, 2014 AND 2013

14. FUNCTIONAL EXPENSES (CONTINUED)

Year ended February 28, 2013

	Federal Funds						Non-Federal Funds Program	Total
	Capital Improvement Increased Demand Service to Health Centers	Out Patient Earlier Intervention (Respect to HIV Disease)	Substance Abuse and Mental Health Service	HIV Prevention Activities For Community Based Organizations	HIV Prevention Activities Non Governmental Organization Based	Health Reform and Private Patients		
Salaries and wages	\$ 2,457,809	\$ 519,752	\$ 63,935	\$ 204,180	\$ 109,313	\$ 3,733,374	\$ 7,088,363	
Fringe benefits	705,182	50,965	8,138	40,591	33,339	1,056,322	1,894,537	
Consultant and contractual	127,768	75,506	-	-	1,247	960,155	1,164,676	
Drugs and medicines	1,222,131	498,019	-	-	-	221,345	1,941,495	
Health reform	-	-	-	-	-	8,073,399	8,073,399	
Supplies	355,821	124,444	14,943	22,087	20,902	359,494	897,691	
Depreciation and amortization	67,228	-	-	3,576	-	537,529	696,280	
Utilities	85,916	4,500	-	9,322	13,565	418,326	531,629	
Repairs and maintenance	28,757	-	-	240	-	100,792	129,789	
Rent	2,000	8,400	-	8,850	8,400	12,000	39,650	
Insurance	53,365	-	-	-	-	27,153	80,518	
Travel	4,016	15,954	39	18,882	10,044	15,307	64,242	
Interest and bank charges	-	-	-	1,421	-	10,547	11,968	
IBNR provision	-	-	-	-	-	140,627	140,627	
Others	71,789	1,744	38,716	1,208	10	2,187,845	2,301,312	
	<u>\$ 5,181,782</u>	<u>\$ 1,299,284</u>	<u>\$ 125,771</u>	<u>\$ 310,357</u>	<u>\$ 196,820</u>	<u>\$ 17,854,215</u>	<u>\$ 25,056,176</u>	

MIGRANT HEALTH CENTER WESTERN REGION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED FEBRUARY 28, 2014

<u>Federal Grantor</u>	<u>Federal Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
US Department of Health and Human Services - Cluster	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers) and Affordable Care Act, Grants for new and expanded Services under The Health Center Program.	93.224/93.527	\$ 5,545,341
US Department of Health and Human Services	Grants to Provide Outpatient Early Intervention Services with Respect	93.918	998,353
US Department of Health and Human Services	HIV Prevention Activities Non-Governmental Organization Based	93.939	563,250
US Department of Health and Human Services	Substance Abuse and Mental Services Administration	93.243	<u>377,224</u>
			<u>\$ 7,484,168</u>

See notes to schedule of expenditures of federal awards.

MIGRANT HEALTH CENTER WESTERN REGION, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED FEBRUARY 28, 2014

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the expenditures for the year ended February 28, 2014, of all the federally assisted programs of Migrant Health Center Western Region, Inc.

2. ACCOUNTING BASIS

The schedule was prepared following the accrual basis of accounting, which is further explained in note 1 to the accompanying financial statements of Migrant Health Center Western Region, Inc. for the fiscal year ended February 28, 2014. The amounts in the schedule agree with the amounts reflected in those financial statements.

3. CONSOLIDATED HEALTH CENTERS CLUSTER COMPOSITION

The composition of the Cluster as it follows:

	<u>Award Number</u>	<u>Former Grant Number</u>
Community Health Centers	H80CS00620C0	2 H80CS00620-09-00 H80CS00620
Migrant Health Centers	H80CS00620C0	2 H80CS00620-09-00 H80CS00620
Health Care for the Homeless	H80CS00620C0	2 H80CS00620-09-00 H80CS00620



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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**

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 Migrant Health Center Western Region, Inc. (the Center) (a nonprofit organization), which comprise the statement of financial position as of February 28, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center'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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center'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.

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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 (CONTINUED)**

Internal Control Over Financial Reporting (continued)

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September 19, 2014
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San Juan, Puerto Rico

Kreston TLSR, LLC

Stamp number E143069 was affixed
to the original of this report.



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited the Migrant Health Center Western Region, Inc. (the Center) 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 Center's major federal programs for the year ended February 28, 2014. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

Auditors' Responsibility (continued)

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 Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Center 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 February 28, 2014.

Report on Internal Control Over Compliance

Management of the Center 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 Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center'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



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

Report on Internal Control Over Compliance (continued)

a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kreston TLSR, LLC

September 19, 2014
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Stamp number E143070 was affixed
to the original of this report.

MIGRANT HEALTH CENTER WESTERN REGION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED FEBRUARY 28, 2014

Section 1 - Summary of Auditor's Results:

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- | | |
|--|----|
| 1. Material weakness identified? | No |
| 2. Significant deficiency (is) identified that are not considered to be material weaknesses? | No |
| 3. Noncompliance material to financial statements noted? | No |

Federal awards:

Internal control over major programs:

- | | |
|--|----|
| 1. Material weaknesses identified? | No |
| 2. Significant deficiencies that are not considered to be material weaknesses? | No |

Type of auditor's report issued on compliance for major program? Unqualified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.224/93.527	Cluster - Consolidated Health Centers Cluster (Migrant Health Centers, Community Health Centers, and Health Centers for the Homeless) and Affordable Care Act Grants for new and expanded services under The Health Center Program
93.918	Grants to Provide Outpatient Early Intervention Service with respect to HIV disease
93.939	HIV Prevention Activities Non-Governmental Organization Based
93.243	Substance Abuse and Mental Services Administration

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

Auditee qualified as a low-risk auditee? Yes

MIGRANT HEALTH CENTER WESTERN REGION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED FEBRUARY 28, 2014

Section 2 - Financial Statements Findings:

No audit findings came to our attention that was required to be reported.

MIGRANT HEALTH CENTER WESTERN REGION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED FEBRUARY 28, 2014

Section 3 - Federal Awards Findings:

No audit findings came to our attention that was required to be reported.

MIGRANT HEALTH CENTER WESTERN REGION, INC.

**INDEPENDENT AUDITORS' CONCLUSION ON THE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

YEAR ENDED FEBRUARY 28, 2014

As part of the Center's single audit, we are required to follow up on prior year audit findings and performed procedures to assess the reasonableness of the Summary Schedule of Prior Audit Findings.

No prior year audit findings to follow up.