



NEOMED CENTER, INC.

**FINANCIAL STATEMENTS AND
SINGLE AUDIT REPORT**

AS OF JUNE 30, 2014

NEOMED CENTER, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
NeoMed Center, Inc.
Gurabo, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of NeoMed Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion-

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NeoMed Center, Inc. as of June 30, 2014 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2015, on our consideration of NeoMed Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NeoMed Center, Inc.'s internal control over financial reporting and compliance.

San Juan, Puerto Rico
March 25, 2015

The stamp number 2782479
was affixed to the original of this report.


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NEOMED CENTER, INC.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2014

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 355,691
Certificates of Deposits	4,076,341
Accounts Receivable, Net	2,212,641
Grants and Contracts Receivable	9,856,011
Other Receivable - Humana	1,149,539
Inventory	595,230
Prepaid Expenses	151,570
Total Current Assets	18,397,023
Property, Plant and Equipment - Net	4,337,329
Total Assets	\$ 22,734,352

LIABILITIES AND NET ASSETS

Current Liabilities:

Unearned Revenue	\$ 9,329,247
Accounts Payable and Others	455,646
Accrued Expenses and Withholdings	500,810
IBNR Payable	253,091
Notes Payable	200,000
Current Portion of Long-Term Debt	46,800
Total Current Liabilities	10,785,594

Long-Term Liabilities:

Long-Term Notes Payable	614,200
Total Liabilities	614,200
Total Liabilities	\$ 11,399,794

Net Assets:

Unrestricted	11,334,558
Total of Net Assets	11,334,558
Total Liabilities and Net Assets	\$ 22,734,352

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

NEOMED CENTER, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
AS OF JUNE 30, 2014

SUPPORT AND REVENUES:

Support:

Federal Grant - Section 330	\$	5,049,269
Federal Grant - Passed-Through		165,367
State Grants		<u>1,466</u>
 Total Support		 <u>5,216,102</u>

Program Income:

Revenue - Health Reform		4,780,220
Patient Service Fees		6,264,324
Pharmacy		4,763,561
Donated-in-Kind - Ryan White Part B ADAP		1,614,729
Other Income		<u>84,999</u>
 Total Program Income		 <u>17,507,833</u>

TOTAL SUPPORT AND REVENUES **22,723,935**

EXPENSES:

Program Services:

Medical Services		4,181,701
Pharmacy		3,669,877
Donated-in-Kind - Ryan White Part B ADAP		1,614,729
Laboratory		786,099
Radiology		416,522
Emergency Room		1,224,404
Other		<u>1,278,550</u>
 Total Program Services		 <u>13,171,882</u>

Income before General and Administrative Expenses 9,552,053

Support Services:

General and Administrative Expenses		<u>5,846,668</u>
 Total Support Services		 <u>5,846,668</u>

TOTAL EXPENSES **19,018,550**

Changes in Net Assets 3,705,385

Net Assets at Beginning of Year 7,629,173

Net Assets at End of Year **\$ 11,334,558**

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

NEOMED CENTER, INC.
STATEMENT OF CASH FLOWS
AS OF JUNE 30, 2014

Cash Flow from Operating Activities:

Change in Net Assets	\$ 3,705,385
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation Expense	249,076
Decrease (Increase) in Assets:	
Accounts Receivable	(451,992)
Grants and Contracts Receivable	(807,072)
Accounts Receivable - Humana	(714,134)
Inventory	472,610
Prepaid Expenses	(24,476)
Increase (Decrease) in Liabilities:	
Accounts Payable	144,842
Accrued Expenses and Withholdings	(8,393)
IBNR	253,091
Unearned Revenue	683,682
Net Cash Provided by Operating Activities	<u>3,502,619</u>

Cash Flow From Investing Activities:

Investment In Certificates of Deposits	(3,000,000)
Investment In Property and Equipment	<u>(1,504,878)</u>
Net Cash Used in Investing Activities	<u>(4,504,878)</u>

Cash Flow From Financing Activities:

Net Increase in Long-Term Debt	<u>661,000</u>
Net Cash Provided in Financing Activities	<u>661,000</u>

Net Decrease in Cash (341,259)

Cash at Beginning of Year 696,950

Cash at End of Year **\$ 355,691**

Additional Disclosures:

Interest Paid \$ 32,698

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

NEOMED CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2014

NOTE A - GENERAL ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NeoMed Center, Inc. (the Center) was incorporated under the laws of the Commonwealth of Puerto Rico on June 8, 1992 to operate as a non-profit organization. The Center operates under Section 330 of the Public Health Services Act, Department of Health and Human Services (DHHS), whose purpose is to provide primary ambulatory, supplemental and environmental health services to the medically underserved residents in the municipalities of Gurabo, San Lorenzo, Trujillo Alto, and Aguas Buenas, Puerto Rico. The main source of income comes from Puerto Rico Health Reform and federal and state grants programs. The Management determined that the Center is considered a not-for-profit organization and does not qualify under definition of Voluntary Health and Welfare Organizations under FASB ASC 958.

Summary of Significant Accounting Policies

Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the statement of activities. It is related to the timing of the measurements made, regardless of the measurements focus applied.

The accrual basis of accounting is followed by unrestricted net assets. Under this basis revenues are recorded when earned, independently of when they are collected and expenses are recorded when incurred, independently of when they are paid.

Recognition of Donor Restrictions

The Center reports cash and other assets as 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 to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unearned Revenues

The Center reports unearned revenue on its balance sheet, when potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (unavailable revenue). Unearned revenue also arises when the Center receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Center has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

NEOMED CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2014

Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Financial Instruments

The Center financial instruments consist of accounts receivable, accounts payable, and certificates of deposit. It is management's opinion that the center is not exposed to significant interest rate or credit risks arising from these instruments. Unless otherwise noted, the fair values of these instruments approximate their carrying values.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Center considers all highly liquid investments with a maturity of ninety days or less to be cash equivalents.

Accounts Receivables

Receivables are comprised of amounts owed to the Center from plan sponsor, pharmaceutical manufactures for rebates and amounts due from certain third-party payers, as well as co-payments from patients. The Center continuously monitors the expected realization of its billings and estimates contractual adjustments (reductions in receivables) to provide for differences, as well as providing for allowances for doubtful accounts.

Supplies Inventory

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

NEOMED CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2014

Summary of Significant Accounting Policies (Continued)

Property, Equipment, and Depreciation

The Center reports gift of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Donations of property, plant and equipment are recorded as support at their estimated fair value. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Center reports expiration of donor restrictions when the donated or acquired assets are placed in service to unrestricted net assets. Property and equipment are recorded at cost and depreciated using the straight-line method.

Vacations and Sick Leave

Employees of the Center are entitled to paid vacation depending on length of services and other factors. Sick leave is not accrued because it does not vest; employees are not paid for any sick leave balance at termination of employment or at any other time. At June 30, 2014 the accrued vacations of \$465,276 were included as accrued expenses and withholdings in the statement of financial position.

Tax Status

The Center has been determined to be a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code and Section 1101 of the Puerto Rico Income Tax Law, accordingly, the financial statements do not reflect a provision for income taxes. The Center follows the provision of FASB ASC 740-10 (formerly FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes) which clarifies the accounting for uncertainty income taxes recognized in an Organization's financial statements in accordance with FASB ASC 740. Under the provision for this Interpretation, the Center is required to evaluate its income tax position each year to determine whether the Center's tax provision is more likely-than-not to be sustained if examined by the applicable taxing authority. Management of the Center has evaluated its tax position and has concluded that this requirement had no effect on the Institution's financial position or charges in its net assets.

Health Care Services Cost Recognition

The Center records estimates of claims incurred but not reported (IBNR) for its obligations under risk sharing agreement. Claims incurred but not reported are estimated using historical claims patterns, current enrollment trends, member utilization patterns, timeliness of claims submissions, and other factors. These estimates are periodically reviewed and any adjustments are reflected prospectively in operations.

NEOMED CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2014

Summary of Significant Accounting Policies (Continued)

Temporarily Restricted Net Assets

The temporarily restricted net assets represent the accumulative difference between the revenues and expenditures at the statement date. This balance is temporarily restricted because, according with the grant, these funds can be used as permitted under the Health Center Consolidation Act of 1996 and may be used for such other purpose as are not specifically prohibited under the law if such use furthers the objective of the project. The temporarily restriction finish when the funds are used in accordance with the grant provisions. At June 30, 2014 the amount of net assets was classified as unrestricted net assets.

NOTE B - ACCOUNTS RECEIVABLE

The balance of accounts receivable as of June 30, 2014 consist of:

Medical Plan and Direct Pay	\$ 3,547,915
Allowance for Doubtful Accounts	<u>(1,335,274)</u>
Total of Accounts Receivable, net	<u><u>\$ 2,212,641</u></u>

NOTE C – MEDICAID MANAGED CARE CONTRACT

Claims incurred but not reported are estimated using historical claims patterns, current enrollment trends, member utilization patterns, timeliness of claims submissions, and other factors. These estimates are periodically reviewed and any adjustments are reflected prospectively in operations.

NeoMed Center, Inc. records estimates of claims incurred but not reported (IBNR) from Humana Health Plan of Puerto Rico, Inc., for its obligations under risk sharing agreements through September 30, 2013. As a result of this agreement, the IBNR was zero, and an account receivable was recognized for the amount of \$1,149,539 as of September 30, 2013.

The Center enter into an agreement with Triple-S Salud of Puerto Rico (TSS) for a 12-month period started in July 1, 2013. Under the terms, Triple-S is a third party administrator responsible for the provision of administrative services to Government Health Plan (GHP) enrollees in west, north, metro north, San Juan, northeast and “virtual” regions and, after the completion of the transition period from Humana in October 1, 2013, the southwest, southeast and east regions. The so-called “virtual” region covers services provided throughout Puerto Rico to children in foster care and certain victims of domestic violence. The amount payable for claims incurred but no reported as of June 30, 2014 under this agreement is \$253,091.

NEOMED CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2014

NOTE D - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable as of June 30, 2014 consist of:

Community Health Centers Program Grant under the Section 330 (E), Public Health Service Act, as amended, granted by the Bureau of Primary Health Care, Department of Health and Human Services.	\$ 4,973,922
Patient Protection and Affordable Care Act Grant	4,874,301
Ryan White Title I - HIV Emergency Relief Project Grant.	<u>7,788</u>
Total of Grants and Contracts Receivable	<u><u>\$ 9,856,011</u></u>

NOTE E - INVENTORY

The balance of inventory as of June 30, 2014 consists of:

Drugs and Medicines	\$ 471,604
Medical Supplies	85,133
Groceries in Store and Supplies	<u>38,493</u>
Total of Inventory	<u><u>\$ 595,230</u></u>

NEOMED CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2014

NOTE F - PROPERTY AND EQUIPMENT

The property, plant and equipment as of June 30, 2014 consist of the following:

Depreciable Assets:

Building	\$ 3,022,336
Building Improvements	410,565
Medical Equipment	269,558
Office Furniture and Other Equipment	775,370
Computer Equipment	960,130
Motor Vehicles	402,366
Total	5,840,325
Accumulated Depreciation	(2,610,482)
Total Depreciable Assets, Net	3,229,843

Non-Depreciable Assets:

Land	1,107,486
Total Non-Depreciable Assets	1,107,486

Total Property, Plant and Equipment **\$ 4,337,329**

NOTE G – ACCRUED EXPENSES AND WITHHOLDINGS

The balance of accrued expenses and withholdings as of June 30, 2014 consist of:

Accrued Vacations	\$ 465,276
Accrued Expenses and Withholdings	35,534
Total Accounts Payable and Accrued Expenses	\$ 500,810

NOTE H – NOTES PAYABLE

The notes payable consists of two revolving line of credit with the Banco Popular of Puerto Rico in the amount of \$475,000 with an interest rate of 2.15% plus a prime rate of 1.10% and a line of \$3,000,000 with no balance as of June 30, 2014. This lines of credits are collateralized by certificates of deposits and interests are payable monthly on outstanding balances. The note payable balance as of June 30, 2014 amounted to \$200,000.

NEOMED CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2014

NOTE I – LONG TERM DEBT

The long term debt as of June 30, 2014 consist of a loan payable to Banco Popular of Puerto Rico. The loan is secured by a building in San Lorenzo, Puerto Rico. The note is payable in monthly installments of \$3,900 including interest at 1.75% plus the prime rate per annum due on August 2028. The amount of interest cost incurred and charged to expense during the period amounted to \$25,802. The long-term debt is detailed as follow:

Loan payable to Banco Popular of Puerto Rico, in monthly installments of \$3,900 plus interest at 1.75% plus the prime rate, collateralized by a building, due on August 2028.	\$ 661,000
Total Long Term Debt	661,000
Less Current Portion	46,800
Long Term Portion	\$ 614,200

The future annual payments for the long term debt are detailed as follow:

2016	\$ 46,800
2017	46,800
2018	46,800
2019	46,800
2020 and Thereafter	427,000
Total	\$ 614,200

NOTE J – CONTRIBUTED SERVICES AND IN-KIND CONTRIBUTIONS

In-kind donations consist of supplies to be used for programs or for day to day operations. When supplies are received, revenue and expenses should be recognized at fair market value. These are items that the institution would typically purchase themselves for operations had the item not been donated. Contributed services received are recognized as in-kind revenues if the services provided (a) create or enhance nonfinancial assets or (b) required specialized skills which would need to be purchased if they were not donated. For the year ended June 30, 2014 the amount for contributed services and in-kind contributions amounted to \$1,614,729, approximately.

NOTE K - CONTINGENCIES

The Center participated in various federally-assisted grant programs. These grants are subject to audits or on behalf of the grantors to assure compliance with grants provisions. Accordingly, the amount of expenditures which may be disallowed by the granting agencies, if any, will be established at some future date. However, the Center’s Management expects such amounts, if any, to be immaterial.

The Center have a legal action against the Department of Health of the Government of Puerto Rico, alleging that certain funds received by them are not reimbursed to the Center when required. Several Health Centers in Puerto Rico are together in that legal action. The Department of Health started to reimburse these funds to some of the Centers. For the years ended on June 30, 2014 and

NEOMED CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2014

2013 the amount received by the Center was \$3,934,956 and \$953,887, respectively. The Management has estimated that, an amount exceeding \$10,000,000 will be received by the Center. The amount resulting from this legal action are recognized as other income in the period each amount is received.

NOTE L - FINANCIAL INSTRUMENTS WITH CONCENTRATION OF CREDIT RISK

The Center maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances exceed federal and state insured limits. At June 30, 2014 the Center exceeded the insured limit by approximately \$3,967,932.

NOTE M – SUBSEQUENT EVENT

Management of the Center has evaluated subsequent events through March 25, 2015, the date which the financial statements were available to be issued. The events that occurred after June 30, 2014 that required accruals or disclosures in the financial statements are presented as follows.

Beginning on April 1, 2015, the Center will enter in three new contracts with MMM Multi Health, Inc., Molina Healthcare and First Medical Health Plan, Inc. to manage the regions covered by Government Health Plan (GHP), formerly “Mi Salud Health Insurance Program”. The northeast (Trujillo Alto center) and east (Gurabo, San Lorenzo and Aguas Buenas) region are covered by MMM Multi Health, Inc. and Molina Healthcare, respectively. The contract with First Medical Health Plan, Inc. would manage the virtual region that is comprised of children who are in the custody of ADFAN (Administración de Familias y Niños by its Spanish acronym), as well as certain survivors of domestic violence referred by the Office of the Women’s Advocate, who enroll in the GHP Program. The Virtual Region encompasses services for these Enrollees throughout Puerto Rico.

NOTE N - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards includes the federal grant activity of NeoMed Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 (Audits of States, Local Governments, and Non-Profit Organizations).

NEOMED CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AS OF JUNE 30, 2014

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Health and Human Services</u>		
Consolidated Health Centers	93.224	\$ 4,417,500
Grants To Provide Outpatient Early Intervention Services With Respect To HIV Disease (Ryan White HIV/Aids Program Part C)	93.918	802,024
Patient Protection and Affordable Care Act of 2010	93.526	13,542
Pass-through from: PR Municipality of San Juan HIV Emergency Relief Project Grants (Ryan White HIV/AIDS Program Part A)	93.914	<u>65,647</u>
Total Expenditures of Federal Awards		<u>\$ 5,298,713</u>

See note L for the Schedule of Expenditure of Federal Awards.

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

To the Board of Directors
NeoMed Center, Inc.
Gurabo, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of NeoMed Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2015.

Internal Control over Financial Reporting

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

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

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

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NeoMed Center, Inc’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 organization’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico
March 25, 2015


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The stamp number 2782480
was affixed to the original of this report.



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

To the Board of Directors
NeoMed Center, Inc.
Gurabo, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited NeoMed Center, Inc.'s 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 NeoMed Center, Inc.'s major federal programs for the year ended June 30, 2014. NeoMed Center, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of NeoMed Center, Inc.'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 NeoMed Center, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAMS AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB A-133 (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 NeoMed Center, Inc.’s compliance.

Opinion on Each Major Federal Program

In our opinion, NeoMed Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of NeoMed Center, Inc. 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 NeoMed Center, Inc.’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 NeoMed Center, Inc.’s internal control over compliance.

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

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

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

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

San Juan, Puerto Rico
March 25, 2015


GONZALEZ TORRES & CO., CPA, PSC
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The stamp number 2782481
was affixed to the original of this report.



NEOMED CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
AS OF JUNE 30, 2014

Section I. Summary of Auditors' Results:

Part I Financial Statements

1. Type of audit report:
 Unmodified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion

2. Reportable conditions reported
 Yes No

3. Reportable condition reported as a major weakness and/or significant deficiency:
 Yes No

4. Material noncompliance disclosed:
 Yes No

Part II Federal Awards

1. Type of report: on compliance for major programs:
 Unmodified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion

2. Reportable condition reported as a major weakness and/or significant deficiency:
 Yes No

3. Material noncompliance disclosed:
 Yes No

NEOMED CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
AS OF JUNE 30, 2014

Section I. Summary of Auditors' Results (continued):

Part II Federal Awards (continued):

4. Audit findings required to be reported under Section 510 (a) of Circular A-133:

Yes No

5. Major Programs:

CFDA Number (s)	Federal Program Grantor and Program Name
93.224	Us Department of Health and Human Services – Consolidated Health Centers

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

7. Low-risk auditee

Yes No

8. Waive risk criteria under 520 (i) of Circular A -133

Yes No

Section II – Financial Statements Findings

NONE

Section III – Federal Award Findings and Questioned Costs

NONE

**NEOMED CENTER, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
AS OF JUNE 30, 2014**

NONE

SCHEDULE A

SCHEDULE OF FUNCTIONAL EXPENSES

AS OF JUNE 30, 2014

NEOMED CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
AS OF JUNE 30, 2014

	<u>Medical</u>	<u>Laboratory</u>	<u>Radiology</u>	<u>Pharmacy and ADAP</u>	<u>Other Medical Services</u>	<u>Emergency Room</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries and Fringe Benefits:									
Salaries	\$ 2,300,101	\$ 120,582	\$ 35,348	\$ 482,797	\$ 716,467	\$ -	\$ 3,655,295	\$ 2,147,052	\$ 5,802,347
Payroll Taxes	222,544	10,692	3,687	46,459	69,721	-	353,103	211,350	564,453
Uniforms and Other Benefits	-	-	-	-	-	-	-	36,493	36,493
Bonuses	32,673	1,200	1,200	10,200	15,807	-	61,080	54,055	115,135
Vacations	226,343	6,300	4,366	50,310	71,584	-	358,903	209,649	568,552
Workers Compensation	60,101	2,663	923	12,148	17,285	-	93,120	67,684	160,804
Total Personnel	2,841,762	141,437	45,524	601,914	890,864	-	4,521,501	2,726,283	7,247,784
Other Operating Expenses									
Activities	-	-	-	-	-	-	-	-	-
Advertising	-	-	-	-	8,886	-	8,886	69,194	78,080
Bank Charges	-	-	-	-	-	-	-	24,309	24,309
Communication	-	-	-	15,737	3,278	-	19,015	135,167	154,182
Disability Insurance	207	-	11	72	310	-	600	3,499	4,099
Drugs and Medicines	-	-	-	4,539,455	61,349	-	4,600,804	-	4,600,804
External Pharmacy Services	-	-	-	-	-	-	-	-	-
Health Insurance	59,518	3,715	3,715	21,628	24,581	-	113,157	85,591	198,748
Interests	-	-	-	-	-	-	-	32,698	32,698
Insurance	1,787	-	-	-	-	-	1,787	25,654	27,441
Licenses & Membership	4,271	7,749	150	1,813	-	200	14,183	38,201	52,384
Nutritional Supplements	-	-	-	12,524	-	-	12,524	-	12,524
MC 21 Expenses	-	-	-	8,813	-	-	8,813	-	8,813
Medical Supplies and Equipment	224,528	147,977	35,648	-	7,704	-	415,857	2,965	418,822
Miscellaneous and Vending Mach	2,725	320	-	51,129	-	-	54,174	19,100	73,274
Office Supplies	1,574	426	480	4,776	1,576	-	8,832	94,684	103,516
Patient Transportation	20,118	-	-	-	-	-	20,118	-	20,118
Perdiem	-	-	-	17,181	-	-	17,181	20,821	38,002
Postage	2,715	1,843	-	-	2,692	-	7,250	14,286	21,536
Professional Services	892,204	461,498	315,295	5,288	271,168	1,223,196	3,168,649	1,536,229	4,704,878
Rent	-	-	-	-	-	-	-	123,097	123,097
Rent of Equipment	17,036	12,207	2,498	949	3,800	-	36,490	183,254	219,744
Repairs and Maintenance	131	3,447	4,534	926	971	1,007	11,016	116,562	127,578
Retirement Benefits	-	-	-	-	-	-	-	-	-
Training	5,675	-	-	-	935	-	6,610	52,025	58,635
Travel	585	-	-	2,342	-	-	2,927	62,023	64,950
Vehicles	-	-	-	-	16	-	16	13,142	13,158
Waste Disposal	42,186	-	-	-	-	-	42,186	10,663	52,849
Utilities	-	-	-	-	-	-	-	270,033	270,033
Other	-	-	-	60	-	-	60	17,038	17,098
Total Other Operating Expense:	1,275,260	639,182	362,331	4,682,693	387,266	1,224,403	8,571,135	2,950,235	11,521,370
Total Expenses before Depreciation	4,117,022	780,619	407,855	5,284,607	1,278,130	1,224,403	13,092,636	5,676,518	18,769,154
Depreciation	64,678	5,480	8,667	-	420	-	79,245	170,151	249,396
Total Expenses	\$ 4,181,700	\$ 786,099	\$ 416,522	\$ 5,284,607	\$ 1,278,550	\$ 1,224,403	\$ 13,171,881	\$ 5,846,669	\$ 19,018,550