

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS WITH  
ADDITIONAL REPORTS REQUIRED  
UNDER THE OMB CIRCULAR A-133

**CENTRO DE SALUD FAMILIAR  
DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

JUNE 30, 2012

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

Financial Statements

June 30, 2012

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DÍAZ & CANDELARIA, P.S.C.

Certified Public Accountants and Consultants

**INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS**

To the Governing Board of  
**Centro de Salud Familiar  
Dr. Julio Palmieri, Ferri, Inc**  
Arroyo, Puerto Rico

We have audited the accompanying statement of financial position of **Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc.** ("the Institution") (a nonprofit corporation) as of June 30, 2012 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audit 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 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 **Centro de Salud Familiar Dr. Julio Palmieri Ferri, 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 U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 09, 2013, on our consideration of **Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc.**'s internal control over financial reporting and 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 controls over financial reporting and compliance and the result of that testing and not to provide an opinion on the internal control over the financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

**INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS**  
**(CONTINUED)**

Our audit was performed for the purpose of forming an opinion on the basic financial statements of **Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc.** taken 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 Government and Non-Profit Organizations*". This schedule is not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

January 09, 2013,  
San Juan, Puerto Rico

*Diaz & Candelaria, PSC*



License No. 34, Expires December 1, 2013  
The C.P.A. Stamp No. 2660251, of the P.R.  
State Society of Certified Public Accountants  
was affixed to the record copy of this report.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Statement of Financial Position

June 30, 2012

**ASSETS**

**Current assets**

Cash	\$ 1,838,183
Certificate of deposit	424,191
Accounts receivable- net of uncollectible accounts of \$83,668	690,588
Inventories	141,005
Prepaid expenses	<u>22,644</u>

Total current assets

3,116,611

Land, property, plant and equipment- net

1,960,733

**TOTAL ASSETS**

**\$ 5,077,344**

**LIABILITIES AND NET ASSETS**

**Current liabilities**

Accounts payable	\$ 214,618
Accrued expenses	72,613
Payroll and payroll taxes payable	75,986
IBNR reserves	417,799
Deferred revenue	75,416
Current portion of long term debt	<u>21,582</u>

Total current liabilities

878,014

Long term-debt, net of current portion

357,745

Total liabilities

1,235,759

Commitments and contingencies

-

**Net assets**

Temporarily restricted	603,144
Unrestricted	<u>3,238,441</u>

Total net assets

3,841,585

**TOTAL LIABILITIES AND NET ASSETS**

**\$ 5,077,344**

See accompanying notes to financial statements.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Statement of Activities

For the year ended June 30, 2012

	<b>Unrestricted Funds</b>	<b>Temporarily Restricted Funds</b>	<b>Total</b>
<b>REVENUES</b>			
Federal grants and contracts	\$ -	\$ 1,945,450	\$ 1,945,450
Premium revenue - PR Health Reform	2,670,967		2,670,967
Net patient service revenue	2,650,245		2,650,245
Wraparound payments	122,783		122,783
Other revenues	29,194		29,194
Net assets released from restrictions	1,931,992	(1,931,992)	-
Total revenues	7,405,181	13,458	7,418,639
<b>EXPENSES</b>			
Program services	4,622,064		4,622,064
General and administrative	1,576,524		1,576,524
Total expenses	6,198,588		6,198,588
<b>CHANGE IN NET ASSETS</b>	1,206,593	13,458	1,220,051
<b>NET ASSETS, BEGINNING, AS PREVIOUSLY REPORTED</b>	1,602,858	589,686	2,192,544
<b>PRIOR PERIOD ADJUSTMENTS</b>	428,990	-	428,990
<b>NET ASSETS, BEGINNING OF YEAR, AS RESTATED</b>	2,031,848	589,686	2,621,534
<b>NET ASSETS, ENDING OF YEAR</b>	\$ 3,238,441	\$ 603,144	\$ 3,841,585

See accompanying notes to financial statements.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Statement of Functional Expenses

For the year ended June 30, 2012

<b>EXPENSES</b>	<b>Program Services</b>	<b>General and Administrative</b>	<b>Total</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Personnel services	\$ 919,371	\$ 455,332	\$ 1,374,703
Fringe benefits	147,523	70,534	218,057
Professional services	671,514	480,382	1,151,896
Claims paid and IBNR retention	2,008,351		2,008,351
Consumable supplies	777,079	26,305	803,384
Rental and utilities	24,861	208,144	233,005
Travel	854	29,455	30,309
Repairs and maintenance	48,200	4,310	52,510
Insurance		28,365	28,365
Depreciation		114,425	114,425
Interest		25,653	25,653
Bad debt		83,668	83,668
Other	24,311	49,951	74,262
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total expenses	<u>\$ 4,622,064</u>	<u>\$ 1,576,524</u>	<u>\$ 6,198,588</u>

See accompanying notes to financial statements.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Statement of Cash Flows

For the year ended June 30, 2012

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	<u>\$ 1,220,051</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	114,425
Bad debt	83,668
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(549,754)
Inventories	(53,487)
Prepaid expenses	(686)
Increase (decrease) in:	
IBNR reserves	1,601
Accounts payable	(185,817)
Payroll and payroll taxes payable	2,330
Deferred revenue	3,222
Accrued expenditures	(34,683)
Total adjustments	<u>(619,181)</u>
Net cash provided by operating activities	<u>600,870</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of properties and equipments	(477,322)
Cash receipts from certificate of deposit	<u>5,462</u>
Net cash used in investing activities	<u>(471,860)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Payments of long term debt	<u>(21,579)</u>
<b>NET INCREASE IN CASH</b>	107,431
<b>CASH, BEGINNING OF YEAR</b>	<u>1,730,752</u>
<b>CASH, ENDING OF YEAR</b>	<u><u>\$ 1,838,183</u></u>

See accompanying notes to financial statements.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2012

**1. ORGANIZATION**

Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc. ("**the Institution**") is a nonprofit institution organized under the laws of the Commonwealth of Puerto Rico on June 25, 1993, and is a comprehensive primary care program which provides primary health services to the low income individuals in the Municipality of Arroyo, Puerto Rico.

The **Institution** is a Federally Qualified Health Center supported by the contributions made by the Department of Health and Human Services, Public Health Service Act of the United States of America (DHHS), PRHD Health Reform System and from program-generated income. The HHS principal contribution consists of federal funds under Section 330, which received by the Program who monitors and performs the payment function. The PRHD Health Reform contribution consists of capitation revenues based on amount and classification of eligible individuals that select **the Institution** as their primary care center.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Basis of presentation - Financial statements presentation follows the recommendations of Financial Accounting Standards Board and its Accounting Standard Code (ASC 958-205 (formerly Statement of Financial Accounting Standards (SFAS) No. 117), Financial Statements of Non-for-Profit Organizations. Under FASB ASC 958-205, **the Institution** is required to report information regarding its financial position and activities according to three classes of net assets, as follows:

Permanently restricted - Net assets subject to donor-imposed stipulations that should be maintained permanently by **the Institution**. Generally, the donors of such assets permit **the Institution** to use all or part of the income earned on the assets.

Temporarily restricted - Net assets subject to donor-imposed stipulations that may be fulfilled by actions of **the Institution** pursuant to those stipulations or that expire by the passage of time.

Unrestricted - Net assets that are not subject to donor-imposed stipulations.

Revenues from sources other than contribution are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2012

**2. 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - For purposes of the statement of cash flows, **the Institution** considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Allowance for uncollectible accounts- The allowance for uncollectible accounts is an amount that management believes is adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of collectability of the receivables and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

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

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

**The Institution's** capitalization policy considers as property and equipment tangible nonexpendable property, an acquisition cost over \$500. Repair and maintenance are expensed as incurred. Expenses that increase the value or productive capacity of assets are also capitalized.

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

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2012

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

In accordance with the provisions of FASB ASC 360-10-35 (formerly Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment of Long-Lived Assets") **the Institution** reviews for the impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Vacations and Sick Leave - Employees of **the Institution** are entitled to 15 days of vacation and 12 days of sick leave annually. Sick leave is not accrued because it does not vest; employees are not paid for any sick leave balance at termination of employment or any other time. As of June 30, 2012 the accrued vacations of \$66,842 were included as accrued expenses in the statement of financial position.

Federal grants and contracts - **The Institution** receives its grants and contracts support and revenues primarily from the U.S. Department of Health and Human Services and other federal and state agencies.

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

Net patient service revenue - **The Institution** has agreements with third-party payers that provide for payments to **the Institution** at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers for services rendered and are recognized in the period in which **the Institution** is obligated to provide services to its patients.

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

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2012

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

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

Wraparound payments are recognized as income in the period that **the Institution** is entitled receive those payments. The amount reported in the 2012 statement of activities includes wraparound payments for the period between July 1, 2011 and June 30, 2012. At present, **the Institution** is plaintiff against the Puerto Rico Department of Health at the Federal Court for wraparound payments for the periods between July 1, 2006 and June 30, 2009. The Institution is also plaintiff at the State Court for wraparound payments for the periods between January 1, 2001 and June 30, 2006.

Donations and in-kind contributions - **The Institution** recognizes all donated services and materials at their fair market value at the time of donation.

Health care services cost recognition - The cost of health care services provided or contracted for, is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not reported to **the Institution**. This IBNR (cost incurred but not recorded) reserve amounting to \$417,799 as of June 30, 2012

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2012

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Income taxes - **The Institution** is a non-profit organization that is exempt from federal and state income tax under Section 501 (c)(3) of the Internal Revenue Code and Section 1101(8) of the Puerto Rico Tax Code.

**3. ACCOUNTS RECEIVABLE - NET**

Accounts receivable - net as of June 30, 2012, consists of the following:

Patients and third party payors	\$ 351,327
Capitation fees	388,210
Wraparound payments	33,685
Other	<u>1,034</u>
Total	774,256
Less: Allowance for doubtful accounts	<u>(83,668)</u>
Net accounts receivable	<u><u>\$ 690,588</u></u>

**4. INVENTORIES**

Inventories are comprised of the following:

Drug and Medicines	\$ 101,606
Medical supplies	10,353
Laboratories supplies	2,391
Dental supplies	2,815
X-Rays supplies	902
Office Supplies	2,471
Pharmacy	19,992
Other	<u>475</u>
Total	<u><u>\$ 141,005</u></u>

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2012

**5. LAND, PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment as of June 30, 2012, consist of the following:

Building	\$ 664,138
Building improvements	963,060
Furniture and fixtures	625,138
Equipment	340,510
Information technology	<u>60,436</u>
	2,653,282
Less: accumulated depreciation	<u>(842,549)</u>
Property, plant and equipment - net	1,810,733
Land	<u>150,000</u>
	<u>\$ 1,960,733</u>

**6. LONG TERM DEBTS**

Mortgage note payable of \$431,633 at 2.5% over prevailing prime rate, but not less 6.25%, due in fifty nine (59) principal monthly installments of \$1,798, plus interest, and a final balloon payment for the outstanding principal balance. The loan is secured by mortgage note over real estate property.

The current maturities for long-term debt for the following years are as follows:

<b>Year ending June 30,</b>	
2013	\$ 21,582
2014	21,582
2015	21,582
2016	21,582
2017	<u>292,999</u>
	379,327
Less: current portion	<u>(21,582)</u>
Long-term debt	<u>\$ 357,745</u>

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2012

**7. COMMITMENTS AND CONTINGENCIES**

Puerto Rico Health Reform Contract – Arroyo Health Center

**The Institution** entered into MCO Service Agreement (“the Agreement”) with Humana Health Plans of Puerto Rico, Inc. (“Humana”) to provide health services to the designated beneficiaries of the health insurance plan of the Government of the Commonwealth of Puerto Rico in Arroyo. The Agreement is effective from October 1, 2010 to September 30, 2011. However, the Agreement had been renewed automatically by Humana for additional terms of one year ending each one in September 30. Pursuant to the Agreement, among other things, **the Institution** agrees and commits itself to provide all covered health services to the designated beneficiaries, as defined and restricted under the dispositions of the health insurance plan of the Government of the Commonwealth of Puerto Rico, which are specified in the Agreement. In consideration to the covered services rendered by **the Institution**, Humana will pay it a capitation amount per beneficiary per month, as defined in the Contract. The capitation amount will be subject to retention of money to be used for the payment of the IBNR claims and for the Medical Services Reserve. **The Institution** is financially responsible for the covered services included in the Physicians Fund, such as, primary care physician, gynecology, specialist referrals, laboratory referrals and x-ray referrals. The parties agree to waive their rights to pay and/or collect any surplus’ or deficits which were incurred prior to November 1, 2011 including but not limited to compensation discrepancies, credits or claim adjustments for the period of October 1, 2010 through October 31, 2011. (See Note 10)

Federal grants and contracts

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

Legal claims

**The Institution** is a party to litigation and other claims in the ordinary course of business. In the opinion of management, appropriate provision has been made for such claims and the ultimate resolution of these matters will not have a significant effect on financial statements of **the Institution**

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2012

**8. NET ASSETS**

Temporarily restricted net assets - Temporarily restricted net assets in the statement of financial position consist of the following:

<u>Program</u>	<u>Activity</u>	<u>Balance</u>
Section 330 Cluster funds	Available for primary and preventive health services to medically underserved populations.	\$ 2,561
ARRA funds	Available to enable health centers to increase services at existing sites and to address spikes in demand to serve uninsured persons (increase demand for services) and to carry out alteration, repair and renovation of health facilities (capital improvement).	607,038
Ryan White Part C	Available for early interventions services and comprehensive medical services for HIV patients. are available to improve the availability, accessibility and organization of ambulatory health services to persons infected with HIV	( 6,455)
Total temporarily restricted net assets		<u>\$ 603,144</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other specified by donors. During the year ended June 30, 2012 the aggregated amount of net assets released from restrictions was \$1,931,992. Such net assets were contributed to the Institution through conditional government program in the form of grants and award, which are recorded as temporarily restricted revenues until specified conditions are met.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

For the year ended June 30, 2012

**9. CONCENTRATION OF CREDIT RISK**

**The Institution** maintains its cash balances in various financial institutions. The Federal Deposit Insurance Corporation (FDIC) insured the account balances up to \$250,000 as of June 30 2012, per financial institution. At June 30, 2012, **the Institution** uninsured cash balances amounted to \$1,791,390. Also, **the Institution** grants credit without collateral to its patients, most of who are local residents and are insured under third-party payors agreements. The mix of receivables from patients and third-party payors at June 30, 2012 as follows:

Patients and third-party payors	45%
Capitation fees	50%
Wraparouns payments	4%
Other	1%
	100%

**10. RESTATED OF 2011 AND FINANCIAL STATEMENTS**

As discussed on Note 7, **The Institution** entered into an agreement with Humana Health Plans of Puerto Rico, Inc. (“Humana”) to waive their rights to pay and/or collect any surplus’ or deficits which were incurred prior to November 1, 2011 including but not limited to compensation discrepancies, credits or claim adjustments for the period of October 1, 2010 through October 31, 2011. As a result of the final analysis of this transaction, the Institution noted that the liabilities in connection with IBNR Reserve was overstated as of June 30, 2011, and accordingly, the net assets at June 30, 2011, as previously reported in the 2011 financial statements, has been increased by \$428,990.

As summary of the effects on the restatement in the 2011 financial statements are as follows:

	<b>Temporary Restricted Funds</b>	<b>Unrestricted Funds</b>	<b>Total</b>
Net assets, beginning, as previously reported	\$ 589,686	\$ 1,602,858	\$ 2,192,544
Prior period adjustment:			
Overstatement estimated IBNR Reserve	-	428,990	428,990
Net assets, beginning, as restated	\$ 589,686	\$ 2,031,848	\$ 2,621,534

**11. SUBSEQUENT EVENTS**

Management of **the Institution** has evaluated subsequent event through January 09, 2013, the date which the financial statements were available to be issued.

**SUPPLEMENTAL INFORMATION**

**CENTRO DE SALUD FAMILIAR  
DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2012

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2012

<b>Federal Grantor/ Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA No.</b>	<b>Federal Expenditures</b>
<b><u>U.S. Department of Health and Human Services:</u></b>		
<u>Direct programs:</u>		
Consolidated Health Center Cluster:		
* Consolidated Health Center (Community Health Center, Healthy School)	93.224	\$ 1,317,281
* ARRA - Health Center Integrated Services Development Initiative- (Increase Services to Health Center)	93.703	38,221
* Grants to Provide Outpatient Early Intervention Services with respect to HIV Disease (Ryan White Part C)	93.918	<u>589,101</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,944,603</u></u>

\* Denote Major Programs

See accompanying notes to financial statements.

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Schedule of Expenditures of Federal Awards

For the year ended June 30, 2012

**NOTE A - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal activity of Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc. 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 Office of Management and Budget (OMB) Circular A-133, *Audit of States Local Government and Nonprofit Organizations*. Because the schedule presents only a selected portion of the operations of the Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C - FEDERAL CFDA NUMBER**

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

**NOTE D - RELATIONSHIP TO FINANCIAL STATEMENTS**

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

Expenses in the financial statements	\$ 6,198,588
Add: Capital expenses	43,155
Less: Depreciation expenses, in connection with temporarily restricted net assets	(30,544)
Less: Non-federal expenses	<u>(4,266,596)</u>
Total Federal Expenditures	<u>\$ 1,944,603</u>



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

To the Governing Board of  
**Centro de Salud Familiar  
Dr. Julio Palmieri Ferri, Inc.**  
Arroyo, Puerto Rico

We have audited the financial statements of Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc. (a nonprofit corporation) (“**the Institution**”) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 9, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of **the Institution** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered **the Institution’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 the **the Institution’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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
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 **the Institution's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of **the Institution** in a separate letter dated January 9, 2013.

This report is intended solely for the information and use of the governing board, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 9, 2013,  
San Juan, Puerto Rico

*Diaz & Candalaria, PSC*

License No. 34, Expires December 1, 2013  
The C.P.A. Stamp No. 2660252, of the P.R.  
State Society of Certified Public Accountants  
was affixed to the record copy of this report.





**INDEPENDENT AUDITOR'S 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 Governing Board of  
**Centro de Salud Familiar  
Dr. Julio Palmieri Ferri, Inc.**  
Arroyo, Puerto Rico

**Compliance**

We have audited the compliance of **Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc.** (a nonprofit corporation) (“**the Institution**”) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of **the Institution’s** major federal programs for the year ended June 30, 2012.

**The Institution’s** major federal programs are identified in the summary of auditor’s 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 Institution’s** management. Our responsibility is to express an opinion on **the Institution’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, 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 Institution’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 Institution’s compliance with those requirements.

In our opinion, **Centro de Salud Familiar Dr. Julio Palmieri Ferri, Inc.** 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.

**INDEPENDENT AUDITOR'S 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**  
(CONTINUED)

**Internal Control Over Compliance**

The management of the Institution 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 Institution's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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 **the Institution'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 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.

**INDEPENDENT AUDITOR'S 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  
(CONTINUED)**

This report is intended solely for the information and use of the governing board, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 9, 2013,  
San Juan, Puerto Rico

*Diaz & Candelaria, PSC*

License No. 34, Expires December 1, 2013  
The C.P.A. Stamp No. 2660253, of the P.R.  
State Society of Certified Public Accountants  
was affixed to the record copy of this report.



**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.**  
**(A NONPROFIT CORPORATION)**

**Schedule of Findings and Questioned Costs**

For The Year Ended June 30, 2012

**Section I - Summary of Auditors' Results**

**Financial Statements:**

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

**Federal Awards:**

Internal control over major programs:	
➤ Material Weakness(es) identified?	No
➤ Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	Yes

**Mayor Program**

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
93.224	<b>U.S. Department of Health and Human Services</b> Community Health Center (Cluster)
93.703	ARRA – Health Center Integrated Services Development Initiative (Health Center Cluster) Capital Improvement Program
93.918	Outpatient Early Intervention Services to HIV disease (Ryan White Part C)

Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	Yes

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

**Schedule of Findings and Questioned Costs**

For The Year Ended June 30, 2012

**Section II - Financial Statements Findings**

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

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

**Schedule of Findings and Questioned Costs**

For The Year Ended June 30, 2012

**Section III - Findings and Questioned Costs for Federal Awards**

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

**CENTRO DE SALUD FAMILIAR DR. JULIO PALMIERI FERRI, INC.  
(A NONPROFIT CORPORATION)**

**Summary Schedule of Prior Year Findings**

For The Year Ended June 30, 2012

<u>Program</u>	<u>Findings / Non-Compliance</u>	<u>Questioned Costs</u>
Consolidated Health Centers (Community Health Centers, School CFDA NO. 93.224	<p><u>Condition:</u> Some of The Institution's accounting records and the general ledger trial balances for the year ended June 30, 2011, were available on January 2012 for audit purposes.</p> <p><u>Recommendation:</u> The accounting record should be maintained current and accurate in order to have available, reliable financial information, to be used in the managerial decisions process.</p> <p><u>Current Status:</u> Condition corrected</p>	N/A