

MIGRANT HEALTH CENTER WESTERN REGION, INC.

FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITORS' REPORT

AND SCHEDULES AND REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND THE UNIFORM GUIDANCE

FEBRUARY 28, 2019 AND 2018



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PART I

**INDEPENDENT AUDITORS' REPORT, FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Migrant Health Center Western Region, Inc.

Report on the Financial Statements

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, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years 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.

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 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.

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, 2019 and 2018, 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.

Emphasis of Matter

As described in **Note A (19)** to the financial statements, in 2018 **the Center** adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of support, revenues, expenses and changes in net assets is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 were derived from and relate 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 November 18, 2019 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. 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.

Mayagüez, Puerto Rico
November 18, 2019

Rodriguez, Rivera + Toro, PSC
License number 243, which expires on
December 1, 2019.

The stamp number E398233 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



Migrant Health Center Western Region, Inc.
(A non-profit corporation)

STATEMENTS OF FINANCIAL POSITON

February 28,

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 16,574,700	\$ 13,356,559
Certificates of deposits	589,945	588,552
Accounts receivable, net	4,470,165	3,230,924
Inventories	739,930	617,524
Prepaid expenses	80,502	87,817
Total current assets	<u>22,455,242</u>	<u>17,881,376</u>
Noncurrent assets:		
Investments	8,004,283	7,861,766
Long term certificates of deposits	2,000,000	2,000,000
Property and equipment, net	15,471,289	13,697,893
Other assets	577,374	213,774
Total noncurrent assets	<u>26,052,946</u>	<u>23,773,433</u>
TOTAL	<u><u>\$ 48,508,188</u></u>	<u><u>\$ 41,654,809</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 1,150,988	\$ 1,156,883
Accrued liabilities	2,135,233	2,122,681
Deferred revenues	204,579	-
Total current liabilities	<u>3,490,800</u>	<u>3,279,564</u>
Noncurrent Liabilities:		
Capitation contracts liability	-	4,544,793
Deferred compensation plan obligation	36,000	24,000
Total noncurrent liabilities	<u>36,000</u>	<u>4,568,793</u>
Total liabilities	<u>3,526,800</u>	<u>7,848,357</u>
Net assets:		
Without donor restrictions	44,981,388	33,806,452
With donor restrictions	-	-
Total net assets	<u>44,981,388</u>	<u>33,806,452</u>
TOTAL	<u><u>\$ 48,508,188</u></u>	<u><u>\$ 41,654,809</u></u>

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

Migrant Health Center Western Region, Inc.
(A non-profit corporation)

STATEMENTS OF ACTIVITIES

Year ended February 28, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support			
Net patient service revenue	\$ 15,667,823	\$ -	\$ 15,667,823
Provision for bad debts	-	-	-
Net patient service revenue less provision for bad debts	15,667,823	-	15,667,823
Federal and state grants and contracts	-	12,472,687	12,472,687
Premium revenue	37,402,569	-	37,402,569
Wraparound payments	2,593,104	-	2,593,104
Other	5,650,152	-	5,650,152
Net assets released from restrictions:			
Satisfaction of program restrictions	11,485,484	(11,485,484)	-
Satisfaction of property and equipment acquisition restrictions	987,203	(987,203)	-
Total net assets released from restrictions	12,472,687	(12,472,687)	-
Total revenues and support	73,786,335	-	73,786,335
Expenses			
Salaries and wages	15,200,303	-	15,200,303
Fringe benefits	2,637,792	-	2,637,792
Consultant and contractual	2,345,046	-	2,345,046
Drugs and medicines	2,940,818	-	2,940,818
Claims paid and IBNR reserve	32,468,432	-	32,468,432
Supplies	2,229,206	-	2,229,206
Depreciation and amortization	1,054,307	-	1,054,307
Utilities	605,037	-	605,037
Repairs and maintenance	1,213,268	-	1,213,268
Rent	58,698	-	58,698
Insurance	179,381	-	179,381
Travel	315,868	-	315,868
Interest and bank charges	37,032	-	37,032
Others	1,326,211	-	1,326,211
Total expenses	62,611,399	-	62,611,399
Change in net assets	11,174,936	-	11,174,936
Net assets, beginning of year	33,806,452	-	33,806,452
Net assets, end of year	<u>\$ 44,981,388</u>	<u>\$ -</u>	<u>\$ 44,981,388</u>

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

Migrant Health Center Western Region, Inc.
(A non-profit corporation)

STATEMENTS OF ACTIVITIES

Year ended February 28, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support			
Net patient service revenue	\$ 13,468,414	\$ -	\$ 13,468,414
Provision for bad debts	-	-	-
Net patient service revenue less			
provision for bad debts	13,468,414	-	13,468,414
Federal grants and contracts	-	9,815,750	9,815,750
Premium revenue	31,044,606	-	31,044,606
Wraparound payments	2,452,376	-	2,452,376
Other	706,531	-	706,531
Net assets released from restrictions:			
Satisfaction of program restrictions	9,720,827	(9,720,827)	-
Satisfaction of property and equipment			
acquisition restrictions	94,923	(94,923)	-
Total net assets released from restrictions	9,815,750	(9,815,750)	-
Total revenues and support	57,487,677	-	57,487,677
Expenses			
Salaries and wages	14,519,450	-	14,519,450
Fringe benefits	2,722,836	-	2,722,836
Consultant and contractual	1,810,999	-	1,810,999
Drugs and medicines	2,570,690	-	2,570,690
Claims paid and IBNR reserve	26,948,364	-	26,948,364
Supplies	1,680,694	-	1,680,694
Depreciation and amortization	1,050,887	-	1,050,887
Utilities	664,576	-	664,576
Repairs and maintenance	660,129	-	660,129
Rent	49,388	-	49,388
Insurance	146,812	-	146,812
Travel	219,157	-	219,157
Interest and bank charges	31,429	-	31,429
Others	689,020	-	689,020
Total expenses	53,764,431	-	53,764,431
Change in net assets	3,723,246	-	3,723,246
Net assets, beginning of year	30,083,206	-	30,083,206
Net assets, end of year	\$ 33,806,452	\$ -	\$ 33,806,452

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

Migrant Health Center Western Region, Inc.
(A nonprofit corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

Years ended February 28,

	2019			2018		
	Program services	Management and general	Total	Program services	Management and general	Total
Salaries and wages	\$ 12,704,330	\$ 2,495,973	\$ 15,200,303	\$11,883,456	\$ 2,635,994	\$ 14,519,450
Fringe benefits	2,194,623	443,169	2,637,792	2,208,865	513,971	2,722,836
Consultant and contractual	1,222,375	1,122,671	2,345,046	1,166,073	644,926	1,810,999
Drugs and medicines	2,940,818	-	2,940,818	2,570,690	-	2,570,690
Claims paid and IBNR reserve	32,468,432	-	32,468,432	26,948,364	-	26,948,364
Supplies	1,230,904	998,302	2,229,206	868,849	811,845	1,680,694
Depreciation and amortization	876,103	178,204	1,054,307	735,141	315,746	1,050,887
Utilities	518,404	86,633	605,037	536,980	127,596	664,576
Repairs and maintenance	362,799	850,469	1,213,268	342,850	317,279	660,129
Rent	51,598	7,100	58,698	48,188	1,200	49,388
Insurance	134,536	44,845	179,381	110,109	36,703	146,812
Travel	35,461	280,407	315,868	63,717	155,440	219,157
Interest and bank charges	-	37,032	37,032	-	31,429	31,429
Others	848,474	477,737	1,326,211	487,688	201,332	689,020
	<u>\$ 55,588,857</u>	<u>\$ 7,022,542</u>	<u>\$ 62,611,399</u>	<u>\$47,970,970</u>	<u>\$ 5,793,461</u>	<u>\$ 53,764,431</u>

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

Migrant Health Center Western Region, Inc.
(A non-profit corporation)

STATEMENTS OF CASH FLOWS

Year ended February 28,

	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 11,174,936	\$ 3,723,246
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Loss on disposal of assets	2,756	-
Depreciation and amortization	1,054,307	1,050,887
Changes in assets and liabilities:		
(Increase) in accounts receivable	(1,239,241)	(1,244,042)
(Increase) inventories	(122,406)	(5,476)
Decrease (increase) in prepaid expenses	7,315	(29,567)
Decrease in other assets	5,492	-
(Decrease) in accounts payable	(5,895)	(576,317)
Increase in accrued liabilities	12,552	223,802
Increase (decrease) in deferred revenues	204,579	(430,116)
(Decrease) in capitation contracts liability	(4,544,793)	(197,830)
Increase in deferred compensation plan obligation	12,000	24,000
	6,561,602	2,538,587
Net cash provided by operating activities		
Cash flows from investing activities:		
(Increase) in certificates of deposits	(1,393)	(1,154)
(Increase) in investments	(142,517)	(127,593)
Acquisitions of property and equipment	(2,969,038)	(1,207,760)
Advances for acquisitions of property and equipment	(218,513)	(138,950)
Advances for deferred compensation plan	(12,000)	(24,000)
	(3,343,461)	(1,499,457)
Net cash used in investing activities		
Net increase in cash and cash equivalents	3,218,141	1,039,130
Cash and cash equivalents, beginning of year	13,356,559	12,317,429
Cash and cash equivalents, end of year	\$ 16,574,700	\$ 13,356,559
<u>Cash paid during the year for:</u>		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -

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

Migrant Health Center Western Region, Inc.
(A nonprofit organization)

NOTES TO FINANCIAL STATEMENTS

February 28, 2019 and 2018

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Nature of the Organization

Migrant Health Center Western Region, Inc. (“the Center”), is a not-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 and others) in the western region of Puerto Rico. Services are provided through eleven (11) delivery sites including eight (8) health clinics located in the municipalities of Mayagüez, San Sebastián, Guánica, Lajas, Maricao, Las Marias, Isabela and Yauco, three office-based satellites in the municipality of Mayagüez and two (2) mobile units.

2. Basis of Accounting

The financial statements of **the Center** have been prepared on an accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

3. Basis of Presentation

Financial statements presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 Not-for Profit Entities. Under the provisions of the FASB ASC 958, **the Center** is required to report information regarding its financial position and activities according to two (2) classes of net assets:

<i>Net Assets without donor restrictions:</i>	Net assets not subject to donor-imposed restrictions. These net assets may be used at the discretion of the Center’s management and the board of directors.
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<i>Net Assets with donor restrictions:</i>	Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Center and/or the passage of time. When the donor-imposed restrictions expire, net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as revenue without donor restrictions.
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4. 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.
(A nonprofit organization)

NOTES TO FINANCIAL STATEMENTS

February 28, 2019 and 2018

**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued**

5. Cash and Cash Equivalents

For purposes of the statements of cash flows, **the Center** considers cash on deposits, cash on hand, certificates of deposits and highly liquid investments without donor restrictions with original maturities of three (3) months or less to be cash and cash equivalents.

6. Certificates of Deposits

Certificates of deposits are recorded at cost in the accompanying statements of financial position. Those certificates with an initial maturity of over three (3) months but less than one (1) year are reported as short-term and those with an initial maturity of over one (1) year as long-term.

7. Accounts receivable and Allowance for Doubtful Accounts

The Center records third party payor's receivables at the time the service is rendered according to fees developed from cost data of this and similar organizations. These amounts are often reduced due to the patient's inability to pay service billed or by disallowance and contractual adjustments. The estimated probable collectability of accounts receivable method is followed for computing the provision for bad debts.

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. In evaluating the collectability of accounts receivable, **the Center** analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, **the Center** analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (patients without insurance and patients with deductible and copayment balances debts for which third-party coverage exists for part of the bill), **the Center** records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected (after all reasonable collection efforts have been exhausted) is charged off against the allowance for doubtful accounts.

Migrant Health Center Western Region, Inc.
(A nonprofit organization)

NOTES TO FINANCIAL STATEMENTS

February 28, 2019 and 2018

**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued**

8. Inventories

The Center inventories consist of drugs and medicines; medical, dental, laboratory and other supplies. Inventories are stated at the lower of cost or net realizable value. Cost is determined on the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

9. Investments and Fair Value Measurements

Investments are valued at fair value in the accompanying financial statements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. FASB ASC 820-10, *Fair Value Measurements and Disclosures* establish the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active market that the plan has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liabilities;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimized the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at February 28, 2019 and 2018:

Migrant Health Center Western Region, Inc.
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NOTES TO FINANCIAL STATEMENTS

February 28, 2019 and 2018

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fixed annuity contracts - amount reported as investment consists of fixed annuity contracts with an insurance company. Fixed annuity contracts are reported at contract value, which consists of the original cost, plus capitalized interest, less withdrawals, if any. Contract value approximates fair market value.

10. 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	10 to 30 years
Medical and dental equipment	5 to 15 years
Office furniture and equipment	5 to 15 years
Equipment and motor vehicle under capital leases	5 to 15 years
Vehicles	5-10 years

The Center capitalizes the property and equipment with an acquisition cost per unit of \$5,000 or more and useful lives of more than one year. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations and property acquired are reported as support without donor restrictions unless the donor or grantor has restricted the asset to a specific purpose. Assets donated or acquired with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. **The Center** reports expirations of restrictions when the acquired or donated long-lived assets are placed in service. At that time **the Center** reclassifies net assets with donor restrictions to net assets without donor restrictions. Repair and maintenance are expensed as incurred. Expenditures that increase the value or productive capacity of assets are also capitalized.

In accordance with the provisions of FASB ASC 360-10-50-2 "*Impairment or Disposal of Long-Lived Assets*" **the Center** 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 flow 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.

Migrant Health Center Western Region, Inc.
(A nonprofit organization)

NOTES TO FINANCIAL STATEMENTS

February 28, 2019 and 2018

**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued**

11. Net Patient Service Revenues

The Center provides health care services without regard the patient's ability to pay. **The Center** has agreements with third-party payors that provide for payments to **the Center** at amounts different from its established rates. Payment arrangements include predetermined discounted charges or agreed fees schedule and per diem payments. For uninsured or underinsured patients, **the Center** recognizes revenues on the basis of its standard rates or price schedule, less patient discounts, when applicable. Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for services rendered and is recognized in the period in which **the Center** is obligated to provide services to its patients.

12. Federal and state grants and contracts

The Center receives grants and contracts support (contributions) and revenues primarily from the U.S. Department of Health and Human Services and other federal and state agencies. Grants and contracts contributions are reported as increase in net assets with donor restrictions depending on the nature of the grantor imposed-restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions in the statements of activities. All other grantor-restricted contributions that are restricted by the grantor are reported as increase in net assets without donor restrictions if the restrictions expire in the fiscal year in which the grants and contracts are recognized. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

13. Premium Revenues

The Center has agreements with various Manage Care Organizations ("MCO") to provide primary health care services to enrolled members. Under these agreements, **the Center** 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. In addition, the MCOs make fee-for services payments to **the Center** for certain covered services based upon discounted fees schedules. **The Center's** health care premiums are reported as revenues in the month that enrolled members are entitled to health care benefits.

14. 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 Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA). Based on these requirements, commencing in January 1, 2001 the Commonwealth shall reimburse to the FQHC/RHC the Medicaid covered services under the new prospective payment system rate per visit. Due to the fact that (1) the Commonwealth administers its Medicaid System throughout the "Health Reform" and makes arrangements with Manage Care Organizations (MCO) and, (2) pay providers for Medicaid covered services based on a capitation model, the Commonwealth shall provide for wraparound or supplementary

Migrant Health Center Western Region, Inc.
(A nonprofit organization)

NOTES TO FINANCIAL STATEMENTS

February 28, 2019 and 2018

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

payment when capitation payments are less than the amount that the FQHC/RHC would have received under the PPS. Wraparound payments are recognized as income in the period **the Center** is entitled to receive those payments. At present, **the Center** is a plaintiff against the Puerto Rico Department of Health at the Federal Court for the determination of a final rate per visits and the reconciliation of wraparound payments for the period beginning on January 1, 2017 to present or up to the date the parties involved determine is more convenient.

15. Expense Recognition and functional allocation

Expenses are recognized when the related liability is incurred. The cost of providing various programs and other activities have been detailed on a functional basis in the statements of functional expenses. Program service expenses are the costs related to providing **the Center's** programs and services and which mainly consist of primary and preventive health services, or the costs of the activities for which purpose **the Center** exists. Management and general expenses relate to the overall direction of **the Center**. Most of the expenses are allocated functionally on a direct basis. Expenses that benefit more than one activity or function are allocated using the most appropriate base to the particular cost being allocated.

16. Health Care Services Cost Recognition

The cost of health care services provided to, 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 Center**. Medical claims which has been incurred but not reported by providers (IBNR) are estimated based on historical data, trends and other financial information.

During the year ended in February 28, 2019 and 2018, Manage Care Organizations have retained \$2,471,520 and \$536,680, respectively, to cover medical claims incurred but not reported which have been reported as expense in the accompanying statements of activities.

17. Income taxes

The Center is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 1101 of the 2011 Puerto Rico Internal Revenue Code. Accordingly, the financial statements do not reflect a provision for income taxes.

Accounting principles generally accepted in the United States of America requires **the Center's** management to evaluate its income tax position each year to determine whether its tax position is more-likely-than-not to be sustained if examined by applicable taxing authorities. **The Center's** management has analyzed the tax positions taken and has concluded that as of February 28, 2019 and 2018 there are no other uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. **The Center** is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. **The Center's** management believes it is no longer subject to income tax examinations for years prior to 2015.

Migrant Health Center Western Region, Inc.
(A nonprofit organization)

NOTES TO FINANCIAL STATEMENTS

February 28, 2019 and 2018

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

18. Risk Management

The Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice claims and judgments. Commercial insurance coverage is purchased for claims arising from such matters including premiums on vehicle insurance, commercial multi-peril coverage and officers and directors.

19. Adoption of New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities (“ASU-2016-14”, “the ASU”). The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Accordingly, **the Center** has adjusted the financial statement’s presentation as of and for the year ended February 28, 2019. The ASU has been applied retrospectively to all periods presented, but the implementation did not result in any reclassifications of net assets.

20. Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statements presentation. Such reclassifications had no effect on net income as previously reported.

NOTE B - CONCENTRATION OF CREDIT RISK

The Center maintains its cash accounts and certificates of deposits in commercial banks and local credit unions. Accounts in banks and local credit unions are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and COSSEC (the Puerto Rico Public Corporation for Supervision and Insurance of Local Credit Unions), respectively. At February 28, 2019 and 2018, the significant concentration of credit risk for the uninsured cash amounted to \$18,322,808 and \$15,373,993, respectively.

NOTE C - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table discloses **the Center’s** financial assets as of February 28, 2019 and 2018, which are available within one year to meet its cash needs:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 16,574,700	\$ 13,356,559
Certificates of deposits	589,945	588,552
Accounts receivable, net	4,470,165	3,230,924
	<u>\$ 21,634,810</u>	<u>\$ 17,176,035</u>

Migrant Health Center Western Region, Inc.
(A nonprofit organization)

NOTES TO FINANCIAL STATEMENTS

February 28, 2019 and 2018

NOTE C - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS - Continued

None of the financial assets are subject to donor or other contractual restrictions, as well as designations from the board of directors, that make them unavailable for general expenditures within one year of the statements of financial position date. **The Center** has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, **the Center** invests cash in excess of daily requirements in short and long-term certificates of deposits and in fixed-annuity contracts.

NOTE D - ACCOUNTS RECEIVABLE, NET

Accounts receivable as of February 28, 2019 and 2018, respectively, consists of the following:

	2019	2018
Federal grants and contracts	\$ 774,668	\$ 1,428,883
Third party payors	1,878,078	1,028,790
Wraparound payments	514,590	414,646
Capitation	1,296,761	343,257
Others	6,068	15,348
	4,470,165	3,230,924
Less: Allowance for doubtful accounts	-	-
	\$ 4,470,165	\$ 3,230,924

NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Amount reported as investment consists of two five-years term fixed annuity contracts with Universal Life Insurance Company at 1.75% and 1.85% interest rates, which mature between September 2019 and December 2020. Annuity contracts are not guaranteed by the FDIC or any other federal agency but are guaranteed by the ability to pay of the insurer. Withdrawals are allowed free of charge up to 15% of the annuity value. Withdrawals in excess of this 15% are subject to a tiered penalty that goes from 3% to 6% according to the anniversary of the annuity contract. Investment return of \$142,517 and \$127,593 for the years ended February 28, 2019 and 2018, respectively, consists of interest income which is reinvested.

The following tables sets forth by level, within the fair value hierarchy, **the Center's** assets at fair value as of February 28, 2019 and 2018:

	Assets at Fair Value as of February 28, 2019			
	Level 1	Level 2	Level 3	Total
Fixed annuity contracts	\$ -	\$ -	\$ 8,004,283	\$ 8,004,283
Total investment	\$ -	\$ -	\$ 8,004,283	\$ 8,004,283

Migrant Health Center Western Region, Inc.
(A nonprofit organization)

NOTES TO FINANCIAL STATEMENTS

February 28, 2019 and 2018

NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

	Assets at Fair Value as of February 28, 2018			
	Level 1	Level 2	Level 3	Total
Fixed annuity contracts	\$ -	\$ -	\$ 7,861,766	\$ 7,861,766
Total investment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,861,766</u>	<u>\$ 7,861,766</u>

The following tables present a summary of **the Center's** activity for the years ended February 28, 2019 and 2018 for the investment classified in Level 3:

	2019	2018
Fair value, at beginning of the year	\$ 7,861,766	\$ 7,734,173
Additions	-	-
Retirements	-	-
Interest earned	142,517	127,593
Transfers to (from) Level 3	-	-
Fair value, at the end of the year	<u>\$ 8,004,283</u>	<u>\$ 7,861,766</u>

NOTE F - PROPERTY AND EQUIPMENT

A summary of property and equipment at February 28, 2019 and 2018 follows:

	2019	2018
Building and buildings improvements	\$ 13,565,417	\$ 13,472,113
Furniture, equipment and software	4,717,540	3,696,822
Vehicles	1,745,881	1,489,263
Land improvements	83,648	83,648
	<u>20,112,486</u>	<u>18,741,846</u>
Less: accumulated depreciation and amortization	(8,942,626)	(7,913,122)
	<u>11,169,860</u>	<u>10,828,724</u>
Land	2,740,229	2,139,426
Construction in progress	1,561,200	729,743
	<u>\$ 15,471,289</u>	<u>\$ 13,697,893</u>

NOTE G - NET PATIENT SERVICE REVENUE

Patient revenues, net of contractual allowances and discounts, is reduced by the provision for bad debts, and net patient accounts receivable are reduced by an allowance for uncollectible accounts. These amounts are based primarily on management's assessment of historical and expected write-offs and net collections along with the aging status for each mayor payor source. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant portion for bad debt related to uninsured patients in the period services are provided.

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NOTES TO FINANCIAL STATEMENTS

February 28, 2019 and 2018

NOTE G - NET PATIENT SERVICE REVENUE - Continued

As of February 28, 2019 and 2018, patient service revenue, net of contractual allowances and discounts, but before the provision for bad debts by primary payor source was as follows:

	<u>2019</u>	<u>2018</u>
Patient self-pay	\$ 1,062,120	\$ 925,797
Pharmacy benefit managers	10,355,605	8,805,657
Other third-party payors	4,250,098	3,736,960
	<u>\$ 15,667,823</u>	<u>\$ 13,468,414</u>

NOTE H - PENSION PLAN

The Center provides its employees with a 401(K)-defined contribution plan. It covers all full-time employees of the Center (the Plan Sponsor) who are 21 years or older and have one year of service. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Participants may contribute pretax annual compensation as follows: (a) until 50 years old, up to a maximum of \$15,000, and (b) over 50 years old, up to a maximum of \$16,500, as defined in the Plan for the calendar year 2018. For the year calendar 2018, **the Center** contributed \$40 per month per employee plus a match of 1% of an employee's monthly base compensation for participants that contributed to the Plan. Each participant's account is credited with the participant's contributions and **the Center's** matching contributions, as well as allocation of Plan's earnings. Participant accounts are charged with an allocation of administrative expenses that are paid by the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Pension expense during the years ended February 28, 2019 and 2018, amounted to \$405,462 and \$422,641, respectively.

NOTE I - DEFERRED COMPENSATION PLAN

Effective September 1, 2017, **the Center** established, as Plan Sponsor, the Migrant Health Center Western Region, Inc. Tax Deferred Compensation Plan ("the TDC Plan"), a nonqualified deferred compensation plan covering a select group of management or highly compensated employees (actually only the Center's Executive Director), as defined in the Plan Adoption Agreement ("the Agreement"). The TDC Plan adopted the Oriental Bank Master Deferred Compensation Plan and Trust established by Oriental Bank, ("the Trustee"), to carry out the purposes of the TDC Plan. The TDC Plan is designed and operates in accordance with regulations under the Puerto Rico Internal Revenue Code of 2011, as amended, and is not subject to the full provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The TDC Plan and Trust constitutes an unfunded agreement by which any amounts held by the Trust for payments of the deferred compensation due to the participant will be subject to the claims of the Employer's general creditors.

Pursuant to the Agreement, the Employer contributes \$12,000 per year, invested in fixed annuity insurance contract issued by Lincoln Life Insurance Company. This compensation will be included as taxable gross income by the participant or its beneficiaries in the year actually paid. The deferred

Migrant Health Center Western Region, Inc.
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NOTES TO FINANCIAL STATEMENTS

February 28, 2019 and 2018

NOTE I - DEFERRED COMPENSATION PLAN - Continued

compensation payment will depend on the investment performance of the assets held in the participant account.

The TDC Plan may be terminated by **the Center's** board of directors upon cancelation of employment due to breach of contract or fraud against **the Center**. In this case the deferred compensation amount will be reverted to **the Center**.

In order to fund the deferred compensation obligation, **the Center** remits the cash deferrals to the Trust, which are reported as Other Assets and the corresponding liability as long term – Deferred Compensation Obligation. Total deferrals as of February 28, 2019 amounted to \$36,000.

NOTE J - COMMITMENTS - PUERTO RICO HEALTH REFORM CONTRACTS

The Commonwealth of Puerto Rico established a Governmental Public Health Insurance Plan (“*the Plan*”), to provide health services to eligible beneficiaries. The Puerto Rico Health Insurance Administration (“PRHIA”) is the governmental agency empowered in law to administer these services. PRHIA has contracted, among others, with Triple S Salud (“TSS”) and Molina Health Care of P.R., Inc. (“Molina”) as the administrators of *the Plan* in the western and southwest areas of Puerto Rico, zones in which **the Center** operates.

On April 1, 2015 and October 1, 2016, **the Center** entered into administrative service agreements (“the contracts”) with these managed care organizations to provide health services to the designated beneficiaries of *the Plan*. Pursuant to the contracts, among other things, **the Center** agrees and commits itself to provide all covered health services to the designated beneficiaries as defined and limited under the dispositions of *the Plan*, which are specified in the contracts. In consideration to the covered services rendered by **the Center**, MCOs commit to pay an amount per beneficiary per month (known as capitation), as defined in the contracts. As agreed, a portion of the budgets allocated to **the Center** will be used to pay incurred medical claims, the retention of incurred but not reported (“IBNR”) claims, and the monthly capitation payments. These contracts will remain in force and effect for at least one full year or until the expiration of any extension negotiated between the MCOs and PRHIA contracts and any extension negotiated between the MCOs and **the Center**. These agreements may also terminate in the event the PRHIA contract with any MCO is terminated.

On February, 2018 the Health Insurance Administration (ASES) published a Request for Proposal (RFP) for a new model called “*Salud Vital*”. The new model presents changes to the way services are currently provided, to continue efforts to improve services related to needs in health care of chronic conditions, and cost reduction in the Government of Puerto Rico.

The key elements in the new program include:

- Coordinated Care Organizations (MCO's) must provide covered services throughout the Island.
- MCOs can subcontract certain elements of the service provision model with local MCOs or entities run by suppliers.
- Bidders can form alliances with other MCOs to demonstrate the ability to cover the entire Island.
- Bidders are expected to present models to address populations with certain chronic and high-cost health conditions and / or needs.

Migrant Health Center Western Region, Inc.
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NOTES TO FINANCIAL STATEMENTS

February 28, 2019 and 2018

NOTE J - COMMITMENTS - PUERTO RICO HEALTH REFORM CONTRACTS - Continued

ASES has already awarded the number of insured persons assigned to each of the five companies selected to administer the new model *Salud Vital*, which began in November 1, 2018. The five selected companies are Triple-S, MMM, Molina Healthcare, First Medical and Mennonite Health Plan. Under *Salud Vital*, the Reform have only one region. Although the insured were assigned to a company, the government has initially granted three months for the interested parties to change to another.

On November 1, 2018, **the Center** entered in new service agreements with four of the above mentioned MCOs to continue provide health services to the designated beneficiaries of the Plan Salud Vital, therefore the previous contracts have ended on October 31, 2018.

On January 11, 2016 a federal judge of the U.S. District Court of Puerto Rico adopted in its entirety the report and recommendation of a special master on a legal case filed by certain Section 330 Centers against the commonwealth government, requiring the Commonwealth to hold the Section 330 Centers harmless against any debts accruing to any managed care organizations under these manage care contracts. As communicated by **the Center's** legal counsel to management, this decision mean that the amounts of accrued deficits allegedly owed by the Section 330 Centers to the managed care organizations are not enforceable against the Centers. Based on these facts and the communication by the legal counsel, the management of **the Center** has decided to write-off any accrued deficit under the Plan Mi Salud as of February 28, 2018. Prior years written-off accrued deficits in the amount of \$4,544,793 has been reported by management as other income in the accompanying 2019 statement of activities. Current year deficits or the excess of services provided over the operating budget for the year ended in February 28, 2019 in the amount of \$276,571 has been recorded against the claims paid and IBNR reserves in the accompanying statement of activities.

NOTE K - CONTINGENCIES

1. Federal Grants

Programs supported by Federal grants are subject to program compliance audits by the grantor agencies in order to determine compliance with requirements and conditions of such grants. If expenditures are disallowed as a result of a non-compliance with such requirements, funds may be required to be reimbursed to the applicable grantor agencies. Nevertheless, it is the Management's opinion that no material liabilities from disallowed costs will arise from audits previously performed or to be performed.

2. Legal Claims

With regard to medical claims, the Center's health service personnel are considered Federal employees and therefore are covered by the provisions of the Federal Tort Claims Act (FTCA). This act provides that the U.S. Government will be liable for the negligence of its employees. All claims alleging medical malpractice by eligible health care providers are processed under this Act. There are no minimum or maximum mandatory limits under this Act. Federally supported health centers are not charged for FTCA coverage.

The Center is, at present, a defendant in a number of legal matters that arise in the ordinary course of business activities. However, it is the opinion of management and the legal counsel that based on their experience, the ultimate resolution of such matters will not have a significant impact on the Center's financial position.

Migrant Health Center Western Region, Inc.
(A nonprofit organization)

NOTES TO FINANCIAL STATEMENTS

February 28, 2019 and 2018

NOTE L - SUBSEQUENT EVENTS

Management of the Center has evaluated subsequent events through November 18, 2019, which is the date the financial statements were available to be issued. Management is not aware of any subsequent event that requires adjustment or disclosure in the Center's financial statements or its related notes.

SUPPLEMENTARY INFORMATION

Migrant Health Center Western Region, Inc.
(A nonprofit corporation)

SCHEDULE OF SUPPORT, REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended February 28, 2019

	With Donor Restriction Funds					Without Donor	Total
	Health Center Program (cluster)	Outpatient Early Intervention Svcs with Respect to HIV Disease	HIV Prevention Activities for the PR and US Virgin Islands	Substance Abuse and Mental Service Administration	Other Federal and Privates	Restriction Fund Program Income and Other	
Revenues and support							
Net patient service revenues less provision from bad debts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,667,823	\$ 15,667,823
Grants and contracts	10,865,749	887,909	308,872	56,193	353,964	-	12,472,687
Premium revenue	-	-	-	-	-	37,402,569	37,402,569
Wraparound payments	-	-	-	-	-	2,593,104	2,593,104
Other	-	-	-	-	-	5,650,152	5,650,152
Long live assets released from restrictions	(987,203)	-	-	-	-	987,203	-
Total revenues and support	9,878,546	887,909	308,872	56,193	353,964	62,300,851	73,786,335
Expenses							
Salaries and wages	7,172,928	467,739	196,298	29,509	170,060	7,163,769	15,200,303
Fringe benefits	1,073,476	81,275	36,930	2,694	12,753	1,430,664	2,637,792
Consultant and contractual	289,086	62,334	16,936	-	5,350	1,971,340	2,345,046
Drugs and medicines	1,210,446	217,148	-	-	1,125	1,512,099	2,940,818
Claims paid and IBNR reserve	-	-	-	-	-	32,468,432	32,468,432
Supplies	19,122	9,615	27,359	15,516	48,363	2,109,231	2,229,206
Depreciation and amortization	-	-	-	-	-	1,054,307	1,054,307
Utilities	19,026	-	14,689	333	5,501	565,488	605,037
Repairs and maintenance	-	-	-	-	-	1,213,268	1,213,268
Rent	-	49,798	-	-	-	8,900	58,698
Insurance	-	-	-	-	-	179,381	179,381
Travel	52,327	-	16,214	3,375	369	243,583	315,868
Interest and bank charges	-	-	-	-	-	37,032	37,032
Others	42,135	-	446	4,766	110,443	1,168,421	1,326,211
Total expenses	9,878,546	887,909	308,872	56,193	353,964	51,125,915	62,611,399
Excess (deficiency) of revenues and support over expenses	-	-	-	-	-	11,174,936	11,174,936
Net assets at beginning of year	-	-	-	-	-	33,806,452	33,806,452
Net asset at end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,981,388	\$ 44,981,388

Migrant Health Center Western Region, Inc.
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended February 28, 2019

Federal Grantor	Program or Cluster Title	Federal CFDA Number	Pass-through grantor		Expenditures			Pass-through to Subrecipients
			Name	Number	From Direct Awards	From Pass- through Awards	Total	
<u>U.S. Department of Health and Human Services:</u>								
	Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care); Grants for New and Expanded Services under the Health Center Program (Health Center Program Cluster)	93.224 / 93.527	N/A	N/A	\$ 10,865,749	\$ -	\$ 10,865,749	\$ -
	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	N/A	887,909	-	887,909	-
	HIV Prevention Activities_Non-Governmental Organization Based	93.939	N/A	N/A	308,872	-	308,872	-
	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	N/A	N/A	56,193	-	56,193	-
	HIV Prevention Activities Health Department Based	93.940	Puerto Rico Department of Health	2019-DS0246	-	263,584	263,584	-
Total Expenditures of Federal Awards					\$ 12,118,723	\$ 263,584	\$ 12,382,307	\$ -

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Migrant Health Center Western Region, Inc.
(A nonprofit corporation)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended February 28, 2019

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the schedule) includes the federal grant activity of **the Center** under programs of the federal government for the year ended February 28, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulation* (CFR Part 200), *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the schedule presents only a selected portion of the operation of **the Center**, it is not intended to and does not present the financial position, changes in net assets or cash flow of **the Center**.

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. Pass-through entity identifying numbers are presented where available. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

The Center has a federally negotiated indirect cost rate.

NOTE D - RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENSES PRESENTED IN THE FINANCIAL STATEMENTS

<u>Description</u>	<u>Amount</u>
Total expenditures per SEFA	\$ 12,382,307
Add: Program income and other unrestricted expenses	51,125,915
Add: Red Cross (non-federal) restricted expenses	90,380
Less: Expenditures for capital assets	<u>(987,203)</u>
Total expenses per financial statements	<u><u>\$ 62,611,399</u></u>

PART II
REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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
Migrant Health Center Western Region, Inc.

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, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2019.

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 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.

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 entity'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.

Mayagüez, Puerto Rico
November 18, 2019

Rodriguez, Rivera + Toso, PSC
License number 243, which expires on
December 1, 2019.

The stamp number E398234 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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

To the Governing Board of
Migrant Health Center Western Region, Inc.

Report on Compliance for Each Major Federal Program

We have audited **Migrant Health Center Western Region, Inc.**'s ("**the Center**") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of **the Center's** major federal programs for the year ended February 28, 2019. **The Center'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 federal statutes, regulations, and terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **the Center'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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of **the Center's** compliance.

Opinion on Each Major Federal Programs

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, 2019.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **the 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 a 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.

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

Mayagüez, Puerto Rico
November 18, 2019

Rodriguez, Rivera + Toas, PSC

License number 243, which expires on
December 1, 2019.

The stamp number E398235 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

PART II
AUDIT FINDINGS AND QUESTIONED COSTS

Migrant Health Center Western Region, Inc.
(A nonprofit corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended February 28, 2019

I. Summary of audit results:

Part I - Financial Statements

- | | | |
|---|--|---|
| 1. Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: | <input checked="" type="checkbox"/> Unmodified opinion | <input type="checkbox"/> Qualified opinion |
| | <input type="checkbox"/> Adverse opinion | <input type="checkbox"/> Disclaimer of opinion |
| 2. Internal control over financial reporting: | | |
| a) Material weakness(es) identified? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| b) Significant deficiency(ies) identified? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> None reported |
| 3. Noncompliance material to financial statements noted? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Part II - Federal Awards

- | | | |
|--|---|---|
| 1. Internal control over major federal programs: | | |
| a) Material weakness(es) identified? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| b) Significant deficiency(ies) identified? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> None reported |
| 2. Type of auditor's report issued on compliance for major federal programs: | <input checked="" type="checkbox"/> Unmodified opinion: | <input type="checkbox"/> Qualified opinion: |
| | <input type="checkbox"/> Adverse opinion | <input type="checkbox"/> Disclaimer of opinion |
| 3. Any audit findings disclosed that are required to be reported in accordance 2 CFR 200.516(a)? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

4. Identification of major federal programs:	<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	93.224 / 93.527	Consolidated Health Centers Cluster: (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care); Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program
	93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

- | | | |
|---|---|--|
| 5. Dollar threshold used to distinguish Type A and Type B programs: | <input checked="" type="checkbox"/> \$750,000 | |
| 6. Low-risk auditee | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Migrant Health Center Western Region, Inc.
(A nonprofit corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended February 28, 2019

II. Findings related to financial statements reported in accordance with GAGAS:

None reported

Migrant Health Center Western Region, Inc.
(A nonprofit corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended February 28, 2019

III. Findings and Questioned Costs for Federal Awards – continued:

None reported

Migrant Health Center Western Region, Inc.
(A nonprofit corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended February 28, 2019

<u>Finding No.</u>	<u>Area\Program</u>	<u>Summary of Condition</u>	<u>Status and Auditee's Comments</u>	<u>Related Current Year Finding</u>
2018-001, 2018-002	Accounting records and reports\ Financial management – Accounting Records - CFDA No. 93.224/93.527 and 93.918	<p>During our audit, we noted that certain general ledger accounts were not properly reconciled with applicable subsidiaries and/or, management do not maintain adequate supporting documentation to evidence balances at year-end. Management is currently in process of implementation of corrective measures with respect to the prior year reported internal control deficiencies. Nevertheless, controls over accounting records and reports on certain areas should still need to be addressed including:</p> <ul style="list-style-type: none"> ▪ investments in certificates of deposits (supporting documentation), ▪ accounts receivable-medical plans (valuation of aging and determination and recording of bad debts), ▪ property, plant and equipment (subsidiary ledger), ▪ accounts payable (subsidiary ledger), ▪ capitation revenues (cash records). 	<p>Areas addressed in Findings 2018-001 and 2018-002 and corrective status:</p> <ul style="list-style-type: none"> ▪ investments in certificates of deposits (supporting documentation) - <u>corrected</u> ▪ accounts receivable-medical plans (valuation of aging and determination and recording of bad debts) – <u>corrected</u> ▪ property, plant and equipment (subsidiary ledger) - <u>corrected</u> ▪ accounts payable (subsidiary ledger) - <u>corrected</u> ▪ capitation revenues (cash records) - <u>corrected</u> <p>A summary of management's corrective actions to address matters reported in the audit findings follows:</p> <p>I. Review of Finance Department Structure:</p> <p>1. The Center recruited a new Finance Director with experience in Section 330 health centers, which has been working to accelerate the workplan that was delayed for unanticipated staff's turnover. Additional accounting staff has been hired and other staff members were re-assigned to the finance department.</p>	Not Applicable

Migrant Health Center Western Region, Inc.
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

Year ended February 28, 2019

<u>Finding No.</u>	<u>Area\Program</u>	<u>Summary of Condition</u>	<u>Status and Auditee's Comments</u>	<u>Related Current Year Finding</u>
2018-001, 2018-002 - continued	Accounting records and reports\ Financial management – Accounting Records - CFDA No. 93.224/93.527 and 93.918		<p>2. In addition, the Center contract an external consultant with experience in Section 330 health centers to act as the Center's comptroller to organize the accounting department functions and provide financial and operating support to the organization. An initial assessment was made and a work plan was developed, that included training sessions to finance department staff and key management staff. Initial and follow up meetings have been held on a monthly basis with the finance department staff and current finance director, to discuss and implement a detailed action plan to reconcile and analyze each general ledger account, with special emphasis on areas previously identified by the external auditors.</p> <p>II. Review of internal controls and analysis of general ledger accounts:</p> <p>1. An initial assessment was made and a work plan was developed, that included training sessions to finance department staff and key management staff. Special emphasis has been provided on financial reporting to the board of directors on a monthly basis, which includes financial statements on fiscal year and individualized budget to actual comparison by each federal grant / program to provide management and governing board of directors with updated information for business decision making and evaluate progress in achieving fiscal and programmatic goals.</p>	

Migrant Health Center Western Region, Inc.
(A nonprofit corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

Year ended February 28, 2019

<u>Finding No.</u>	<u>Area\Program</u>	<u>Summary of Condition</u>	<u>Status and Auditee's Comments</u>	<u>Related Current Year Finding</u>
2018-001, 2018-002 - continued	Accounting records and reports\ Financial management – Accounting Records - CFDA No. 93.224/93.527 and 93.918		<p>2. Initial and follow up meetings have been held with the finance department staff, including current finance director, to discuss and implement a detailed action plan to reconcile and analyze each general ledger account, with special emphasis on areas previously identified by auditor. A detailed finance work plan by specific task, responsible person and due dates was finalized in May 2019 and updated on each staff meeting, with most recent version updated on June 19, 2019 and shared with Executive Director and other key staff members.</p> <p>3. A comprehensive validation of expenses by funding source compared with drawdowns was performed, as well as accounts receivable by each funding source or contracts from the special projects. These are areas from the work plan that have been completed and/or maintained up to date for financial statements presentation: bank reconciliations reconciled with trial balance cash accounts, investments (certificates of deposits and investments), staff designation by federal program, inventories (pharmacy, supplies, optometry, etc.), net service revenue (in collaboration with billing and collections department), accounts receivable as of 2/28/19, and accounts payable with subsidiaries.</p>	

Migrant Health Center Western Region, Inc.
(A nonprofit corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

Year ended February 28, 2019

<u>Finding No.</u>	<u>Area\Program</u>	<u>Summary of Condition</u>	<u>Status and Auditee's Comments</u>	<u>Related Current Year Finding</u>
2018-001, 2018-002 - continued	Accounting records and reports\ Financial management – Accounting Records - CFDA No. 93.224/93.527 and 93.918		<p>4. Internal processes and controls have been evaluated and changes have been made to ease the financial reporting according to budgets and federal reporting requirements. Each general ledger account has been reviewed, analyzed, and worked on accordingly based on established priorities. Additional checks and balances were established for revenue reporting with same day reconciliation for medical plans remittance advices and a detailed classification by type of revenue and/or the payor source.</p> <p>5. A revision to the Financial and Accounting Policies and Procedures Manual was completed in March 2019 and a latter revision in June 2019 with board approvals. This process was important to review established internal controls and workflows, and to identify areas where additional documentation was needed and clarification on month end processes were included.</p> <p>6. A process was initiated to evaluate alternatives for changing the accounting software to facilitate fund accounting for multiple budget periods. A series of meetings were held with possible vendors and initial estimates were received.</p>	

Migrant Health Center Western Region, Inc.
(A nonprofit corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

Year ended February 28, 2019

<u>Finding No.</u>	<u>Area\Program</u>	<u>Summary of Condition</u>	<u>Status and Auditee's Comments</u>	<u>Related Current Year Finding</u>
2018-001, 2018-002 - continued	Accounting records and reports\ Financial management – Accounting Records - CFDA No. 93.224/93.527 and 93.918		7. All prior year findings were corrected and supporting documentation is maintained to evidence balances and reconciliations. Additional corrective procedures are being implemented with the support from the practice management system/ electronic health record vendor for accounts receivable of medical plans. Additional configuration for the system is in process to auto-adjust contractual allowances for contracted amounts for fee-for-service plans and capitated plans, to reduce the burden on billing and collection staff, and to maximize the electronic submission of claims with auto-adjustments and recording of accounts receivable at net realizable value, and related aging reports by health plan. III. Trainings of finance department staff in their new tasks or functions: 1. A number of in-house trainings have been provided since February 2019 to key management staff, finance department, human resources department, billing and collections staff and others to strengthen communication among the different departments, establish coordinated and streamlined processes, document key internal controls and validations, and to emphasize on compliance issues and timeliness of financial information. Some of the training sessions were also used to address UDS report for CY2018 and	

Migrant Health Center Western Region, Inc.
(A nonprofit corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

Year ended February 28, 2019

<u>Finding No.</u>	<u>Area\Program</u>	<u>Summary of Condition</u>	<u>Status and Auditee's Comments</u>	<u>Related Current Year Finding</u>
2018-001, 2018-002 - continued	Accounting records and reports\ Financial management – Accounting Records - CFDA No. 93.224/93.527 and 93.918		to validate compliance with Ryan White Program Requirements for Site Visit during April 8-9, 2019. 2. In-house trainings have been organized to present a comprehensive approach to re-design of the finance department and other related functions, with a general overview of the following topics: <ul style="list-style-type: none"> ▪ HRSA Program Requirements for each individual grant ▪ Budget Development ▪ Financial Performance Measures ▪ Uniform Data System (UDS) ▪ Cash management and PMS requirements and reporting ▪ Program Income ▪ Financial Reporting to regulatory agencies, management and board of directors ▪ Other federal regulations. 	