Cardiovascular Center Corporation of Puerto Rico and the Caribbean

Financial Statements

June 30, 2022

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Galíndez LLC

INDEPENDENT AUDITORS' REPORT

Board of Directors of
Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Opinion

We have audited the financial statement of the business-type activities of the Cardiovascular Center Corporation of Puerto Rico and the Caribbean (the Corporation), a component unit of the Puerto Rico Department of Health (the Department), as of and for the year ended June 30, 2022, and the related notes to the financial statement, which collectively comprise the Corporation's basic financial statement as listed in the table of contents.

In our opinion, the accompanying financial statement referred to above present fairly, in all material respects, the financial position of the business-type activities of the Corporation, as of June 30, 2022, and the respective change in net position (deficit), and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

New Accounting Standard

As discussed in Notes 1 and 10 to the financial statements, in 2022 the Corporation adopted Governmental Accounting Standards Board Statement No. 87, *Leases.*

Puerto Rico Department of Health

As discussed in Note 1 to the financial statements, the accompanying financial statements present only the financial position and transactions attributable to the Corporation. They do not intent to present, and do not present, the financial position and transactions of the Puerto Rico Department of Health.

Restatement

As discussed in Note 2 to the financial statements, the Corporation restated the beginning balance of the patients accounts receivable, net, accounts payable, accrued payroll and other expenses, reserve for claim losses and net position (deficit), to correct certain errors of prior years detected by management during the year ended on June 30, 2022.

Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of the Corporation's proportionate share of collective total pension liability and proportionate share of the collective total other postemployment benefits (OPEB) liability, as listed on the table of contents, be presented to supplement the basic financial statements.

Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Galíndez LLC

San Juan, Puerto Rico
October 31, 2023
License No. LLC-322
Expires December 1, 2023

Our discussion and analysis of Cardiovascular Center Corporation of Puerto Rico and the Caribbean's (the Corporation) financial performance provides an overview of the Corporation's financial activities for the fiscal years ended June 30, 2022 and 2021. Please read it along with the Corporation's financial statements, which begin on page 10.

Using this Annual Report

The Corporation's financial statements consist of three statements: Statement of Net Position (Deficit) (page 10), Statement of Revenues, Expenses and Changes in Net Position (Deficit) (page 11), and a Statement of Cash Flows (pages 12 and 13). These financial statements and related notes (pages 14 to 54) provide information about the activities of the Corporation, including resources held by the Corporation but restricted for specific purposes by enabling legislation.

The Statement of Net Position (Deficit) and the Statement of Revenues, Expenses and Changes in Net Position (Deficit)

The statement of net position (deficit) and the statement of revenues, expenses, and changes in net position (deficit) report information about the Corporation's resources and its activities in a way that helps to understand if the finances improved or worsen off as a result of the year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Corporation's net position (deficit) and changes thereto. You can think of the Corporation's net position (deficit), which is the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources, as one way to measure the Corporation's financial health, or financial position. Over time, increases or decreases in the Corporation's net position (deficit) are indicators of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Corporation's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall financial health of the Corporation.

Statement of Cash Flow

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and capital and non-capital related financing activities. This statement presents the sources and uses of cash in four categories: (a) operating activities; (b) non-capital financing activities; (c) capital and related financing activities, and (d) investing activities.

Condensed Financial Information

At June 30, 2022 and 2021, and for the years then ended, the Corporation's financial information is summarized as follows:

	2022	(As Restated) 2021	Variance	%
Current assets	$ 66,896,878	$ 55,379,800	$ 11,517,078	21%
Non-current assets:				
Lease receivable	3,564,196	-	3,564,196	100%
Right-of-use assets, net	131,339	-	131,339	100%
Capital assets, net	20,128,360	19,501,781	626,579	3%
Total assets	90,720,773	74,881,581	15,839,192	21%
Deferred outflows of resources	7,536,676	7,119,958	416,718	6%
Current liabilities	61,165,600	86,045,454	(24,879,854)	-29%
Other non-current liabilities	30,504,582	24,033,615	6,470,967	27%
Total liabilities	91,670,182	110,079,069	(18,408,887)	-17%
Deferred inflows of resources	5,621,871	1,198,284	4,423,587	369%
Net position (deficiency)				
Net investment in capital assets	20,128,360	19,501,781	626,579	3%
Net deficiency	(19,162,964)	(48,777,595)	29,614,631	-61%
Total net position (deficiency)	$ 965,396	$ (29,275,814)	$ 30,241,210	-103%
Operating revenues, net	$ 78,012,589	81,843,932	$ (3,831,343)	-5%
Operating expenses	78,391,554	76,449,440	1,942,114	3%
Operating (loss) income	(378,965)	5,394,492	(5,773,457)	-107%
Non-operating income	6,791,445	13,049,751	(6,258,306)	-48%
Extraordinary item	23,828,730	-	23,828,730	100%
Net change in net position (deficit)	30,241,210	18,444,243	11,796,967	64%
Net position (deficit)	$ 965,396	$ (29,275,814)	$ 30,241,210	-103%

Analysis of Net Position (Deficit) and Results of Operations

Net Position (Deficit)

As indicated in the condensed financial information, the net position (deficit) of the Corporation changed as follows:

Total assets increased by approximately $15.8 million or 21% in comparison to fiscal year 2021. The reason for such increase relates principally to increases on cash and cash equivalents and the recognition of lease receivable and right-of-use lease assets per GASB 87, leases implementation of approximately $3.6 million and $130 thousand, respectively, and an increase in net capital assets of approximately $600 thousand.

The increase on cash and cash equivalents is mostly the result of the receipts of conditional contributions for capital expenditures from the Commonwealth of Puerto Rico of $8.5 million and other federal grants and incentives of $6.3 million received during the year ended on June 30, 2022.

Total liabilities decreased by approximately $18.4 million or 17% in comparison to fiscal year 2021. The decrease in current liabilities is mostly related to the decrease of the forgiveness of the amount owed to the Puerto Rico Public Building Authority (PBA) for approximately $23.8 million, a decrease in accounts payable of $3.8 million, and an increase in unearned revenues of advances from medical plans and unearned revenues of federal grants and other assistance programs of approximately $2 million and $8.7 million, respectively.

Following is the summary of the Corporation's pension related items in the financial statements:

	2022	2021	Variance	%
Deferred outflows of resources - pension related	$ 7,479,876	$ 7,064,758	$ 415,118	6%
Deferred inflows of resources - pension related	$ 1,302,172	$ 1,198,284	$ 103,888	9%
Total pension liability (current and non-current)	$ 31,295,686	$ 30,201,269	$ 1,094,417	4%

Results of Operations

The Corporation generates all of its operating revenues from activities related to patient services either directly or ancillary, which are typical of a hospital unit, such as cafeteria facility rent, physicians facility rent, parking facility rent, etc. In addition, the expenses incurred in those activities are accounted for as general operating expenses and are segregated between healthcare services and general and administrative. During the years ended June 30, 2022 and 2021, the Corporation reflected operating loss and income of approximately ($379) thousand and $5.4 million, respectively.

Analysis of Net Position (Deficit) and Results of Operations – (continued)

Results of Operations – (continued)

The following table presents comparative information of the patient services:

Indicator Description	June 30, 2022	June 30, 2021	Variance	% of Change
Admissions	3,193	2,456	737	30%
Discharges	2,814	2,481	333	13%
Patient days	24,498	22,067	2,431	11%
Occupancy percentage	43%	37%	6%	16%
Surgery procedures	1,398	1,575	-177	-11%
Invasive laboratory procedures	9,205	9,121	84	1%

For the fiscal year ended June 30, 2022, total operating expenses of the Corporation reflected an increase of approximately $1.9 million or 3%, when compared to those of the fiscal year 2021. The most relevant change in operating expenses for the fiscal year ended June 30, 2022, compared to those of fiscal year ended June 30, 2021 are related to increases in professional fees and contracted services of $1.4 million, supplies, food and drugs of $1.2 million and depreciation expense of $379 thousand.

In addition, for the fiscal year ended on June 30, 2022, non-operating income and extraordinary item of the Corporation reflected an increase of approximately $17.6 million, when compared to fiscal year 2021. The main reason for such an increase is the gain on extinguishment of the rent balance due to the Puerto Rico Public Building Authority by approximately $23.8 million in fiscal year 2022. Also, during the year ended June 30, 2022, the Corporation recognized as non-operating income contributions from the Commonwealth of Puerto Rico for the amount of $598,595, representing a deduction of approximately $3 million compared to 2021. In addition, the Corporation recognized as non-operating income from federal grants the amount of approximately $6 million, representing a reduction of approximately $1.8 million compared to 2021, and also, to an other miscellaneous gain amounting to approximately $146 thousand.

Analysis of Net Position (Deficit) and Results of Operations – (continued)

Results of Operations – (continued)

Factors Affecting the Change in Net Position (Deficit) and the Availability of Funds

Changes in the Corporation's cash flows are consistent with changes in operating income and non-operating revenues and expenses and capital contributions, as discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2022 and 2021, the Corporation had approximately $20.1 million and $19.5 million, respectively, in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. During fiscal years 2022 and 2021, the Corporation made cash outlays for capital assets of approximately $2 million and $7.2 million, respectively. Furthermore, during the years ended June 30, 2022 and June 30, 2021, the Corporation received conditional contributions from the Commonwealth of Puerto Rico amounting to $8.5 million and $2.8 million, respectively, which are conditioned to expenses of capital projects and equipment. Unexpended funds are included as part of restricted cash and unearned revenue - federal grants and other assistance programs in the accompanying statement of net position (deficit) as of June 30, 2022. Also, during the year ended June 30, 2022, the Corporation implemented the GASB Statement No. 87 "*Leases*", which resulted in the recognition of right-of-use assets of approximately $131 thousand, net of its amortization.

Contacting the Corporation's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Corporation's Finance Director Office at P.O. Box 366528, San Juan Puerto Rico 00936-6528, phone no. (787) 754-8500 extension 3006.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statement of Net Position (Deficit)

Year Ended June 30, 2022

Assets	
Current assets:	
Unrestricted cash and cash equivalents	$ 38,189,285
Restricted cash	12,617,319
Patients accounts receivable, net	10,998,487
Estimated third-party payor - Medicare	756,708
Other accounts receivable, net	566,688
Lease receivable	845,922
Inventory of supplies	1,121,207
Prepaid expenses and other current assets	1,801,262
Total current assets	66,896,878
Noncurrent assets:	
Lease receivable	3,564,196
Right-of-use assets, net	131,339
Capital assets, net of depreciation and amortization	20,128,360
Total noncurrent assets	23,823,895
Total assets	90,720,773
Deferred outflows of resources:	
Pension related	7,479,876
Other postemployment benefit related	56,800
Total deferred outflows of resources	7,536,676
Liabilities and Net Position	
Current liabilities:	
Accounts payable	15,135,937
Accrued payroll and other expenses	8,417,676
Due to related parties	13,863,610
Unearned revenues of advances from medical plans	8,342,024
Medicare accelerated and advance payments programs	1,343,678
Unearned revenues - federal grants and other assitance programs	12,281,424
Lease liability	47,665
Reserve for claim losses	65,000
Total other postemployment benefit liability	56,800
Total pension liability	1,611,786
Total current liabilities	61,165,600
Noncurrent liabilities:	
Reserve for claim losses	35,000
Total other postemployment benefit liability	613,008
Total pension liability	29,683,900
Lease liability	83,674
Due to Medicare	89,000
Total noncurrent liabilities	30,504,582
Total liabilities	91,670,182
Deferred inflows of resources:	
Pension related	1,302,172
Leases related	4,319,699
Total deferred inflows of resources	5,621,871
Net position (deficit):	
Net investment in capital assets	20,128,360
(Deficit)	(19,162,964)
Total net position	$ 965,396

See notes to financial statements

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statement of Revenues, Expenses and Changes in Net Position (Deficit)

Year Ended June 30, 2022

Operating revenues	
Patient service revenue, net of contractual adjustments	$ 75,733,311
Less: provision for bad debts	13,242
Net patient service revenue	75,720,069
Other revenue	2,292,520
Total operating revenues	78,012,589
Operating expenses	
Salaries and wages	20,913,684
Employee benefits	5,261,746
Professional fees and contracted services	7,915,324
Supplies, food and drugs	28,706,303
Repairs and maintenance	2,875,068
Utilities	4,417,027
Depreciation and amortization	1,362,564
Insurance	351,310
Rent and other	4,563,324
Pension expense	2,025,204
Total operating expenses	78,391,554
Operating loss	(378,965)
Non-operating income	
Other miscellaneous gain	145,691
Federal grants revenues	6,047,159
Contributions from the Commonwealth of Puerto Rico	598,595
Total non-operating income, net	6,791,445
Extraordinary item	
Gain on debt extinghishment - PBA	23,828,730
Net change in net position	30,241,210
Net position (deficit), at beginning of year, as previously reported	(45,457,532)
Restatement adjustment	16,181,718
Net position (deficit), at beginning of year, as restated	(29,275,814)
Net position, at end of year	$ 965,396

See notes to financial statements

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statement of Cash Flows

Year Ended June 30, 2022

Cash flows from operating activities:	
Receipts from patient services	$ 74,156,680
Advances from medical plans	2,035,963
Other receipts	2,224,283
Payments to suppliers	(54,514,535)
Payments to employees and employee benefits	(26,249,176)
Payments on malpractice claims	(18,000)
Net cash used in operating activities	(2,364,785)
Cash flows from capital and related financing activities:	
Cash outlays for capital assets	(1,989,143)
Contributions from the Commonwealth of Puerto Rico for capital assets	8,529,369
Net cash provided by capital and related financing activities	6,540,226
Net cash provided by non capital financing activities—	
Contributions from federal grants	6,866,096
Net change in cash, cash equivalents and restricted cash	11,041,537
Cash, cash equivalents and restricted cash, at beginning of year	39,765,067
Cash, cash equivalents and restricted cash, at end of year	$ 50,806,604
Reconciliation of cash, cash equivalents, restricted and unrestricted cash to the statement of net position:	
Unrestricted cash and cash equivalents	$ 38,189,285
Restricted cash	12,617,319
Total cash, cash equivalents, restricted and unrestricted cash	$ 50,806,604

(Continues)

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statement of Cash Flows – (Continued)

Year Ended June 30, 2022

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (378,965)
Adjustments to reconcile operating (loss) to net cash used in operating activities	
Depreciation and amortization	1,362,564
Provision for bad debts - patients accounts receivable	13,242
Changes in assets and liabilities	
(Increase) decrease in:	
Patient accounts receivable	164,756
Estimated third-party payor - Medicare	(11,325)
Other accounts receivable, net	22,182
Inventory of supplies	774,440
Prepaid expenses and other current assets	(592,914)
Lease receivable	(4,410,118)
Deferred outflows of resources	(416,718)
Increase (decrease) in:	
Due to related parties	(2,116,307)
Accounts payable	(3,751,398)
Accrued payroll and other expenses	1,263,367
Unearned revenues of advances from medical plans	2,035,963
Medicare Accelerated and Advance Payments Program	(1,730,062)
Reserve for claim losses	(18,000)
Total other postemployment benefits liability	(93,496)
Total pension liability	1,094,417
Deferred inflows of resources	4,423,587
Total adjustments	(1,985,820)
Net cash used in operating activities	$ (2,364,785)

Supplemental disclosure of cash flows information

Related party adjustment due to:	
Other miscellaneous gain	$ 145,691
Non-operating gain on debt extinghishment - PBA	$ 23,828,730

See notes to financial statements

Note 1 - Description of reporting entity and summary of significant accounting policies

Reporting entity

Cardiovascular Center Corporation of Puerto Rico and the Caribbean (the Corporation) is a public corporation created by Act No. 51 (the Act) of June 30, 1986, adhered to the Puerto Rico Department of Health (the Department), to provide treatment for cardiovascular diseases in Puerto Rico and the Caribbean. The Corporation operates a hospital facility with 202 certified beds.

The accompanying financial statements present only the financial position and transactions attributable to the Corporation. They do not intent to present, and do not present, the financial position and transactions of the Puerto Rico Department of Health.

Summary of significant policies

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The following is a description of the most significant accounting policies:

Basis of presentation

The Corporation's financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 (GASB No. 34), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* GASB 34, as amended, establishes standards for external financial reporting for all state and local government entities, which includes a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. It requires the classification of net position into three components: net invested in capital assets, restricted, and unrestricted.

These classifications are defined as follows:

- Net Investment in capital assets – This component of net assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any bonds, mortgage notes, or other borrowings that are attributable to and spent in the acquisition, construction, or improvement of those assets.

  If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net invested in capital assets; rather, that portion of the debt is included in the same net assets component as the unspent proceeds. As of June 30, 2022, net assets invested in capital assets, net of related debt, consisted of the balance of capital assets and right-of-use assets, net of the related lease liability.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Basis of presentation – (continued)

- Restricted – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributions, or laws or regulations of other governments of constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted– This component of net position consists of net assets that do not meet the definition of "restricted" or "net invested in capital assets".

Measurement focus and basis of accounting

The financial statements of the Corporation are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental units. Under this basis, revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid.

Use of estimates

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

Cash and cash equivalents

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

Restricted cash

Funds set aside are federal grants and state contributions for the payment of certain expenses in relation to the COVID–19 pandemic, improvements to medical facilities and purchase of equipment.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Valuation of accounts receivable

The Corporation makes judgments as to the collectability of accounts receivable based on historical trends and future expectations. Management estimates an allowance for doubtful accounts, which represents the collectability of patient service accounts receivable. This allowance adjusts gross patient service accounts receivable downward to their estimated net realizable value. To determine the allowance for doubtful accounts, management reviews specific customer risk for accounts over 365 days using the Corporation's accounts receivable aging.

Inventory of supplies

Inventory of supplies consisting of drugs, medicines, food and other supplies is stated at the lower of cost or net realizable value on the first-in, first-out basis.

Capital assets

The Corporation's capital assets are reported at historical cost. Depreciation is provided over the estimated useful life of each class of depreciable asset, ranging from 3 to 30 years, and is computed using the straight-line method. The Corporation capitalizes those capital assets with an individual cost in excess of $300. At the time capital assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the Corporation's books and the resulting gain or loss, if any, is credited or charged to operations.

Accounting for the impairment of capital assets

The Corporation accounts for assets impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its services utility has declined significantly and unexpectedly. This statement also establishes accounting requirements for insurance recoveries.

A capital asset generally should be considered impaired if both, (a) the decline in service utility of the capital asset is large in magnitude, and (b) the event of change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. As of June 30, 2022 no capital assets were considered impaired by the Corporation.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Leases

The Corporation accounts for leases in accordance with GASB Statement No. 87, *Leases*. A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease, or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease.

Compensated absences

The Corporation's employees were entitled to 2.5 days per month, up to a maximum of 60 days, for vacations, and 1.5 days per month, up to a maximum of 90 days for sick leave annually. Vacation time was fully vested to the employees from the first day of work. However, as per Law No. 26 of April 29, 2017, Fiscal Plan Compliance Law, the accumulation is reduced to fifteen (15) days of vacation and eighteen (18) days of sick leave annually. Also, for any employee hired after February 4, 2017, the accumulation is reduced to fifteen (15) days of vacation and twelve (12) days of sick leave annually.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Compensated absences – (continued)

Under the collective bargain agreement, employees were entitled to the payment of the excess of sixty (60) days of vacation at a rate equal to double of their hourly rate. On the other hand, employees not covered under the collective bargain agreement were entitled to the payment of the excess of sixty (60) days of vacation at their hourly rate. However, as per Law No. 26 of April 29, 2017, payment of the excess of sixty (60) days of vacation cannot be completed and the excess of sixty (60) days of vacation would be eliminated at the end of each calendar year.

Under the collective bargain agreement and the Corporation policies, all employees were entitled to the payment of the excess of fifteen (15) days in accumulated sick leave, up to a maximum of eighteen (18) days. However, as per Law No. 26 of April 29, 2017, the payment previously mentioned cannot be completed and the excess of ninety (90) days of sick leave would be eliminated at the end of each calendar year.

Pension benefits

The Corporation is a participant in the Commonwealth of Puerto Rico Employees Retirement System (the Pension Plan), a multiemployer retirement plan. The Corporation accounts for its participation in the Pension Plan in accordance with the provisions of GASB No. 73.

Pursuant to the provisions of GASB No. 73, the Corporation recognizes a pension liability for its proportionate share of the collective pension liability under the Pension Plan, as well as its proportionate share of the collective deferred outflows of resources, collective deferred inflows of resources, and collective pension expense. The Corporation’s allocation percentage is based on the ratio of the Corporation’s benefit payments to total benefit payments under the Pension Plan. Changes in the total pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in the total pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees, in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they arose.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Postemployment benefits other than pensions (OPEB)

The Corporation also participates in the Commonwealth's postemployment benefits other than pensions plan (the OPEB Plan). The Corporation accounts for other postemployment benefits in accordance with the provisions of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

Operating revenues and expenses

The Corporation's statement of revenues, expenses and changes in net position (deficit) distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Corporation's principal activity. Operating expenses are all the expenses incurred to provide health care services, other than financing costs. Revenues and expenses are accounted for under the accrual basis of accounting where revenues are recognized when earned, even if not collected and expenses are recognized when incurred, even if not paid.

Non-exchange transactions

GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, establishes accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (for example, grants, and contributions). In a non-exchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal value. Under the provisions of GASB No. 33, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied. Non-exchange revenues include federal stimulus - pandemic relief funds and contributions received from the Commonwealth of Puerto Rico for capital assets acquisition, which are reported as non-operating revenues when all eligibility requirements are satisfied.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Net patient service revenue

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

The Corporation follows the requirements of the Financial Accounting Standard Board (FASB) *Accounting Standards Update* No. 2011-07 *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Healthcare Entities.*

The standard update requires healthcare entities that recognize a significant amount of patient service revenue at the time the services are rendered, even though they do not assess the patient's ability to pay at that moment, to present as separate line items on the face of the statement of revenues, expenses and changes in net position (deficit), the provision for bad debts, related to patient service revenue, as a deduction from patient revenue (net of contractual allowances and discounts).

The standard update also requires disclosing by major payor source of revenue; the Corporation's policy for assessing collectability in determining the timing and amount of patient service revenue to be recognized, and qualitative and quantitative information about significant changes in the allowance for doubtful accounts related to patient accounts receivable.

Related parties (other governmental entities)

Related parties to the Corporation consist of governmental agencies, public corporations, and other instrumentalities of the Commonwealth of Puerto Rico.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Risk management

The Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption, errors and omissions, and natural disasters, among others. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial insurance coverage since various preceding years. The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Since August 23, 2005, the Corporation is insured by the Commonwealth of Puerto Rico.

Tax exemption

The Corporation is exempt from all income, municipal and excise taxes, including license fees, imposed by the Commonwealth of Puerto Rico (the Commonwealth) or any of its subdivisions, which includes all operations, fixed and movable property, capital, revenue and surplus. The Corporation has elected the reimbursement method for purposes of state unemployment taxes.

Deposits and investment risks

The Corporation follows GASB Statement No. 40, *Deposit and Investment Risk Disclosure* – an amendment of GASB Statement No. 3. The statement addresses common deposit and investment risks related to credit, concentration, interest rate and foreign currency. Among other disclosures, the statement requires certain disclosures applicable to deposits or investments having fair values that are highly sensitive to changes in interest rates.

Deferred outflows and inflows of resources

In addition to assets, the statement of net position (deficit) will sometimes report a separate section of deferred outflows of resources, which represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

Also, in addition to liabilities, the statement of net position will sometimes report a separate section of deferred inflows of resources, which represent an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Deferred outflows and inflows of resources – (continued)

As of June 30, 2022, deferred outflows of resources are pension and other postemployment benefits related, and deferred inflows of resources of the Corporation are pension related items and leases related to GASB No. 87.

New accounting standards

The provisions of the following Governmental Accounting Standards Board (GASB) Statements were effective during the year ended June 30, 2022:

GASB No. 87, *Leases*. Effective on July 1, 2022, the Corporation adopted the provisions of the GASB No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease assets, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Refer to Note 10.

GASB No. 92, *Omnibus 2020*. This statement addresses a variety of topics and includes specific provisions about the following, the effective date of GASB 87 and Implementation Guide No. 2019-3, *Leases*, for interim financial reports; Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPES) plan; The applicability of GASB No. 73 and GASB No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, to reporting assets accumulated for postemployment benefits. The applicability of certain requirements of GASB No. 84 to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to AROs in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

New accounting standards – (continued)

The portion of this statement that relates to the effective date of GASB No. 87 and its associated implementation guidance are effective upon issuance. Provisions related to intra-entity transfers of assets and applicability of GASB No. 73 and No. 74 were effective for fiscal years beginning after June 15, 2020. The remaining requirements related to asset retirement obligations are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021, as amended by GASB No. 95.

GASB No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate cost associated with the reporting of certain defined contribution pension plans other than pension plans or OPEB plans (other employee benefits plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this statement that are related to the accounting and financial reporting for Sections 457 plans were effective for fiscal years beginning after June 15, 2021.

GASB No. 98, *The Annual Comprehensive Financial Report.* This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of com prehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement were effective for fiscal years ending after December 15, 2021.

The adoption of the GASB statements No. 92, 97 and 98 did not have a material effect on the basic financial statements of the Corporation.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting pronouncements issued but not yet effective

The following new accounting standards have been issued but are not yet effective:

GASB No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (i) commitments extended by issuers, (ii) arrangements associated with conduit debt obligations, and (iii) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. GASB No. 91 is effective for fiscal years beginning after December 15, 2021.

GASB No. 94, *Public-Private and Public-Public Partnerships and Availability Payments Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange like transaction. This statement requires that PPPs that meet the definition of a lease apply the guidance in GASB No. 87, Leases, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a service concession arrangement (SCA).

This statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of GASB No. 87, as amended (as clarified in this statement). This statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. This statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting pronouncements issued but not yet effective – (continued)

GASB No. 96, *Subscription Based Information Technology Arrangements*. The primary objective of this statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right- to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in GASB No. 87, Leases, as amended. The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB No. 99, *Omnibus 2022*. This statement establishes or amends accounting and financial reporting requirements for specific issues related to financial guarantees, derivative instruments, leases, public-public and public-private partnerships, SBITA arrangements, the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program, nonmonetary transactions, pledges of future revenues, the focus of government-wide financial statements, and terminology. The requirements of this statement apply to the financial statements of all state and local governments. This statement supersedes certain provisions of GASB No. 24 and GASB No. 62. In addition, GASB No. 99 amends specific provisions of GASB No. 10, 24, 30, 33, 34, 53, 62, 72, 87, 93 and 96, and certain implementation guides. Certain requirements of GASB No. 99 are effective upon issuance, while others are effective for fiscal years beginning after June 15, 2022 and June 15, 2023.

GASB No. 100, *Accounting Changes and Error Corrections* – An Amendment of GASB Statement No. 62. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That

Note 1 - <u>Description of reporting entity and summary of significant accounting policies – (continued)</u>

<u>Summary of significant policies – (continued)</u>

<u>Accounting pronouncements issued but not yet effective – (continued)</u>

preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This statement also addresses corrections of errors in previously issued financial statements.

This statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles. The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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Note 1 - <u>Description of reporting entity and summary of significant accounting policies – (continued)</u>

<u>Summary of significant policies – (continued)</u>

<u>Accounting pronouncements issued but not yet effective – (continued)</u>

GASB No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting pronouncements issued but not yet effective – (continued)

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Management is evaluating the impact that these statements may have on the Corporation's financial statements upon adoption.

Note 2 - Restatement

The Corporation restated the beginning balance of the patients accounts receivable, net, accounts payable, accrued payroll and other expenses, reserve for claim losses and net position (deficit), to correct certain unintentional errors of prior years detected by management during the year ended on June 30, 2022. The following table summarizes the changes to net deficit at the beginning of the year, as previously reported:

Net positon (deficit) - at beginning of year 2022, as previously reported	$ (45,457,532)
Correction of errors:	
Patients accounts receivable, net	6,158,724
Accounts payable	3,942,164
Accrued payroll and other expenses	134,937
Reserve for claim losses	5,945,893
Net position (deficit) - at beginning of year 2022, as restated	$ (29,275,814)

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Note 3 - Net patient service revenue

The Corporation has agreements with medical insurance companies, governmental entities of the Commonwealth of Puerto Rico and the Medicare program for payments to the Corporation, at amounts different from its established rates. A summary of the most significant agreements with these entities is as follows:

Medicare - Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient capital costs are paid based on the fully prospective method. Medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Corporation is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Corporation and audits thereof by the Medicare fiscal intermediary. The Corporation's Medicare cost reports have been audited by the Medicare fiscal intermediary through 2019. The cost reports from 2020 through 2022 are subject to the Medicare fiscal intermediary examination. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Also, the Corporation is subject to periodic audits by the U.S. Office of the Inspector General (OIG). At June 30, 2022, the Corporation provided for a reserve in the amount of $89,000, in relation to the expected recovered amounts by the Medicare Program through the Recovery Audit Contractor Program or RAC. These amounts are recorded as Due to Medicare in the accompanying statement of net position.

Others - The Corporation has entered into payment agreements with some commercial insurance carriers and other healthcare organizations. The basis for payment to the Corporation under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

In addition, the Corporation has entered a population management concept for which part of the services are paid on a capitation basis. Capitation agreements provide for periodic corridor calculations as safeguards against utilization significantly above or below the expected utilization. If the actual utilization is above or below the corridor range, an additional payment or recovery may apply, as provided by the agreements. If the actual utilization is within the corridor range, no retrospective adjustment is made. At the end of the contract year, a final cumulative corridor calculation is made.

Note 3 - Net patient service revenue – (continued)

A summary of patient service revenue, net of contractual allowances and discounts, for the year ended June 30, 2022 follows:

Third-party payors	$ 75,135,275
Self-pay patients	598,036
Patient service revenue (net of contractual allowances and discounts)	$ 75,733,311

Note 4 - Patients accounts receivable

Patients accounts receivable at June 30, 2022 consist of:

Patient and third-party payors	$ 60,178,358
Less: allowance for doubtfull accounts	49,179,871
Patient and third-party payors, net	$ 10,998,487

Changes in allowance for doubtful accounts on patients accounts receivable for the year ended June 30, 2022, were as follows:

Balance, beginning of year	$ 22,198,758
Provision for bad debts	13,242
Reclassification from reserve for contractual allowance	28,158,138
Small balance write-offs	(1,190,267)
Balance, end of year	$ 49,179,871

Net patient service revenue from third-party payors and uninsured patients is recorded when the health care services are provided. The Corporation records provision for bad debts related to receivables from third-party payors and uninsured patients as a deduction of net patient service revenue in the accompanying statement of revenues, expenses and changes in net position (deficit), for accounts with balances over 365 days, for which collection efforts have been followed in accordance with the Corporation's policies.

On June 30, 2022, 100% of the amounts reserved as uncollectible are related to third-party payors.

Note 5 - Cash and cash equivalents – custodial credit risk deposits

The Corporation is authorized to deposit funds only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico. Such deposits should be kept in separate accounts in the name of the Corporation. During the year ended June 30, 2022, the Corporation invested its funds in interest bearing bank accounts. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth's name. Based on these provisions, deposits are not considered to be subject to custodial credit risk, which is the risk that in the event of a bank's failure, the Corporation's deposits may not be returned.

The Corporation had the following depository accounts in commercial banks. All deposits are carried at cost plus accrued interest.

Depository Accounts	Bank Balance at June 30, 2022
Insured	$ 250,000
Collateralized:	
Collateral held in the Corporation's name	51,901,131
Total deposits	$ 52,151,131

The current amounts of deposits at June 30, 2022, shown above are included in the Corporation's statement of net position under unrestricted cash and cash equivalents, amounting to $38,189,285, and restricted cash amounting to $12,617,319, respectively.

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Note 6 - Capital assets

Capital assets, additions, retirements and balances for the year ended June 30, 2022, were as follows:

	2021	Additions	Retirements	Transfers	2022
Capital assets not being depreciated:					
Licenses in process of installation	$ 1,406,050	$ -	$ -	$ (1,322,338)	$ 83,712
Equipment in process of installation	274,671	-	-	(26,713)	247,958
Construction in progress	2,100,223	-	-	(232,288)	1,867,935
Land	94,123	-	-	-	94,123
	$ 3,875,067	$ -	$ -	$ (1,581,339)	$ 2,293,728
Capital assets being depreciated:					
Improvements to leased property	10,141,289	927,613	-	270,493	11,339,395
Fixed equipment	775,981	6,175	-	-	782,156
Movable equipment	35,077,213	1,055,355	(2,681,801)	1,310,846	34,761,613
Library	14,736	-	-	-	14,736
Vehicles	67,290	-	-	-	67,290
Works of art	8,849	-	-	-	8,849
	46,085,358	1,989,143	(2,681,801)	1,581,339	46,974,039
Total cost	49,960,425	1,989,143	(2,681,801)	-	49,267,767
Less accumulated depreciation and amortization for:					
Improvements to leased property	4,454,829	316,333	-	-	4,771,162
Fixed equipment	775,981	-	-	-	775,981
Movable equipment	25,154,035	1,046,231	(2,681,801)	-	23,518,465
Library	6,509	-	-	-	6,509
Vehicles	67,290	-	-	-	67,290
Total accumulated depreciation and amortization	30,458,644	1,362,564	(2,681,801)	-	29,139,407
Capital assets, net	$ 19,501,781	$ 626,579	$ -	$ -	$ 20,128,360

Note 7 - Compensated absences

Compensated absences correspond to accrued vacations at June 30, 2022 and are as follow:

	Beginning Balance	Additions	Deductions	Ending Balance
Compensated absences	$2,129,515	$1,047,485	$1,490,845	$1,686,155

Compensated absences amounts are included in accrued payroll and other expenses in the accompanying statement of net position.

Note 8 - Reserve for claim losses

A summary of the reserve for claim losses at June 30, 2022 are as follows:

	Beginning Balance (As Restated)	Additions	Payments	Ending Balance
Reserve for claim losses	$ 118,000	$ -	$ 18,000	$ 100,000

Note 9 - Related party transactions

For the purpose of these financial statements, all Commonwealth of Puerto Rico's agencies, instrumentalities and public corporations are considered related parties of the Corporation.

The accounts receivable of the Corporation include the following amounts due from other governmental entities considered related parties as of June 30, 2022:

Patients accounts receivable	$ 1,182,413
Other accounts receivable	2,556,150
Less: reserve for uncollectible accounts	2,257,217
Other accounts receivable, net	298,933
Total amounts due from related parties, net	$ 1,481,346

The balance due to related parties as of June 30, 2022 consists of the following:

Puerto Rico Electric Power Authority (PREPA)	$ 3,856,812
Puerto Rico Aqueduct and Sewer Authority (PRASA)	2,290
P.R. Public Building Authority (PBA)	9,714,725
Accounts payable to other governmental entities	289,783
Total	$ 13,863,610

Note 9 - Related party transactions – (continued)

Due to PREPA and PRASA.

The balance due to PREPA and PRASA as of June 30, 2022 corresponds to electricity and water services, respectively. During the year ended June 30, 2022, the Corporation incurred approximately $3,939,000 for electricity services and $379,000 for water services.

Due to the Puerto Rico Public Building Authority

Since 1992, the Corporation maintained an agreement with the Puerto Rico Public Building Authority (PBA) regarding the operating lease for the building and parking facilities in which the Corporation operates. On April 27, 2022, the PBA notified to the Corporation that, as part of the certified Fiscal Plan, the amounts payable to the PBA that are related to the bonds and notes debt service of the PBA are to be excluded from the balance that the Corporation owes to the PBA. Thus, the balance due to the PBA decreased for approximately $23.8 million, which was presented as a non-operating income, gain on debt extinguishment, in the accompanying statement of revenues, expenses and changes in net position (deficit). After the decrease related to the gain on debt extinguishment, the amount due to the PBA amounts to approximately $9.7 million as of June 30, 2022. Furthermore, on October 31, 2022, the House of Representatives approved the Joint Resolution No. 324, which requires that the Corporation and the PBA reconcile the amount due from the Corporation to the PBA and that certain credits for improvements made to the building and parking facilities, certain repairs and maintenance costs and other costs related to the facilities paid by the Corporation, be applied to the amount payable to the PBA. As of the date these financial statements are available to be issued, the Corporation has not completed the reconciliation process with the PBA. Rent expense charged by PBA for the year ended June 30, 2022 amounted to $695,005. At the date that the accompanying financial statements were available to be issued, this agreement has not been renewed or extended, accordingly no right-of-use asset of lease liability has been accounted for.

Note 10 - Leases

The Corporation as lessee

The Corporation is lessee in noncancellable leases of equipment, for which the Corporation recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the statement of net position.

At the commencement of a lease, the Corporation measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial

Note 10 - Leases – (continued)

The Corporation as lessee – (continued)

amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgement related to leases include how the Corporation determines the discount rate it uses to discount the expected lease payments to present value, the lease term and the lease payments. The Corporation uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Corporation uses its estimated incremental borrowing rate as the discount rates for leases. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and any termination fees, residual value guarantees and/or purchase option price that the Corporation is reasonably certain to exercise.

The Corporation monitors changes in circumstances that would require a remeasurement of a lease liability. When certain changes occur that are expected to significantly affect the amount of the lease, the liability is remeasured, and a corresponding adjustment is made to the lease asset.

The Corporation is lessee under noncancellable long-term leases of equipment. The lease terms range from three (3) through five (5) years, ending on October 2026, and requiring monthly payments.

As of June 30, 2022, the total amount of lease assets, and the related accumulated amortization and changes therein for the year then ended, is as follows:

	Balance July 1,2021	Additions	Deductions	Balance June 30,2022
Right-of-use assets	$ -	$ 160,992	$ -	$ 160,992
Right-of-use assets accumulated amortization	-	(29,653)	-	(29,653)
Total right-of-use assets, net	$ -	$ 131,339	$ -	$ 131,339

A lease liability amounting to $160,992 was recorded as of July 1, 2021. The Corporation made principal payments of $29,653 during the year ended on June 30, 2022, which reduced the leases liability included in the statement of net position. Right of use amortization expenses of $29,653 and interest expenses of $1,153 for the year ended on June 30, 2022, are included in rent and other expenses on the accompanying statement of revenues, expenses and changes in net position (deficit).

Note 10 - Leases – (continued)

The Corporation as lessee – (continued)

As of June 30, 2022, the principal and interest requirements to maturity for the lease liability is as follows:

Years ending June 30,	Principal	Interest	Total
2023	$ 47,665	$ 1,598	$ 49,263
2024	48,238	777	49,015
2025	28,718	276	28,994
2026	5,729	68	5,797
2027	1,049	5	1,054
	$ 131,399	$ 2,724	$ 134,123

The Corporation as lessor

The Corporation subleases various spaces and facilities to others under non-cancellable lease agreements with average terms from three (3) to five (5) years. For leases with a maximum possible term of 12 months or less at commencement, the Corporation recognizes income based on the provision of the lease contracts. For all other leases, those that are not short-term, the Corporation recognizes a lease receivable and a deferred inflow of resources.

At the commencement of a lease, the Corporation initially measures the lease receivable at the present value of payments expected to be received during the lease term and the lease receivable is reduced by the principal portion of lease payments when received. The deferred inflow of resources is initially measured at the initial amount of the lease receivable and is recognized as revenue over the life of the lease term. The Corporation recognizes interest income on the lease receivables, and lease revenue from deferred inflows of resources in systematic and rational manner over the term of the lease.

The key estimates and judgements related to leases include how the Corporation determines the discount rate used to discount the expected lease receipts to present value, lease term, and lease payments to be received. The Corporation uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease and lease receipts included in the measurement of the lease receivable are comprised of fixed payments from the lease. The Corporation monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Note 10 - Leases – (continued)

The Corporation as lessor – (continued)

As discussed above, the Corporation is a lessor of various noncancellable long-term leases of various spaces and facilities. These leases have terms between three (3) to five (5) years, with payments required monthly. The discount rate used for the calculation of the lease receivable ranges from 1.15% to 1.95%, depending on the duration of the lease contract, among other factors.

The Corporation recognized a lease receivable and deferred inflow of resources of $5,147,239 as of July 1, 2021. Lease income from noncancellable long-term leases amounted to approximately $1,118,000 for the year ended June 30, 2022. Interest income from noncancellable long-term leases amounted to approximately $64,000 for the year ended June 30, 2022. Lease income and interest income is included in other revenue on the statement of revenues, expenses and changes in net position (deficit). The Corporation did not recognize revenue with residual value guarantees and termination penalties. Deferred inflows of resources related to leases amounted to approximately $4,320,000 as of June 30, 2022.

At June 30, 2022, the Corporation had minimum principal and interest lease receivable payment requirements in its lessor activity as follows:

Year ending June 30,	Principal	Interest	Total
2023	$ 845,922	$ 63,178	$ 909,100
2024	686,341	53,993	740,334
2025	574,647	45,759	620,406
2026	395,375	39,220	434,595
2027	45,322	36,800	82,122
2028 - 2032	262,707	169,502	432,209
2033 - 2037	286,182	141,197	427,379
2038 - 2042	220,890	118,057	338,947
2043 - 2047	300,084	92,849	392,933
2048 - 2052	396,394	59,123	455,517
2053 - 2057	396,254	16,139	412,393
	$4,410,118	$ 835,817	$5,245,935

Note 11 - Commitments and contingencies

Malpractice and legal claims

The Corporation's medical malpractice insurance coverage expired in February 2002; thus, the Corporation is self-insured for claims received for the period through February 2002 that were not reported to its insurance carrier and for claims for the period from March 2002 through August 22, 2005. Since August 23, 2005, the Corporation is insured by the Commonwealth of Puerto Rico.

There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

The Corporation is also involved in other legal and administrative proceedings arising out of the normal operation of its business. Based on a review of current facts and circumstances management has provided for what it is believed to be a reasonable estimate of the exposure to loss associated to litigation.

The Corporation has established an accrual reserve for claim losses in the amount of $100,000 at June 30, 2022.

Regulatory issues

The healthcare industry is subject to numerous laws and regulations which include, among other things, matters such as government healthcare participation requirements, various license and accreditations, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be excluded from participating in government healthcare programs, subjected to fines or penalties, or required to repay amounts received from the government for previously billed patient services. While management of the Corporation believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Corporation will not be subject to governmental inquiries or actions.

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act (HIPAA) was enacted in August 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Organizations are

Note 11 - Commitments and contingencies – (continued)

Health Insurance Portability and Accountability Act – (continued)

required to be in compliance with HIPAA provisions. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. The Corporation's management believes that they are in compliance.

Implementation requirements of an Electronic Health Record System

The Health Information Technology for Economic and Clinical Health Act set meaningful use of interoperable Electronic Health Record (EHR) adoption in the health system as a critical national goal and incentivize the EHR adoption. Its goal is not adoption alone but meaningful use of EHRs, that is, their use by providers to achieve significant improvements in care. The Centers for Medicare and Medicaid Services (CMS) manages and has implemented an incentive program for those hospitals that implement EHR and that also, comply with certain specific requirements. CMS EHR Incentive Programs provide incentive payments to eligible hospitals as they adopt, implement, upgrade or demonstrate meaningful use, as defined by CMS, of certified EHR technology. As of June 30, 2022, the Corporation is under the implementation of its EHR system.

Pursuant to the Consolidated Act of 2016, Puerto Rico hospitals become eligible under the Medicare EHR Incentive Program. This enables the hospitals to not only receive the incentive payments but also be subject to the Medicare negative payment adjustments. The Puerto Rico hospitals could earn up to four consecutive years of Medicare EHR Incentive Program payments.

Pharmacy management services

On December 1, 2018, the Corporation entered into an agreement with Cardinal Health Puerto Rico (Cardinal Health), whereby they agreed that Cardinal Health will manage, direct, and operate the pharmacy area and inventory of the Corporation. The agreement includes a monthly department charge, plus the drugs utilization cost, based on a pre-determined cost. The total monthly expense for the department charge related to this agreement amounted to approximately $1,600 for the year ended June 30, 2022. Also, the drugs utilization fees amounted to approximately $5,157,000 for the year ended June 30, 2022.

Note 12 - Retirement plan

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) was created pursuant to Act No. 447 on May 15, 1951, as amended to provide pension and other benefits to retired employees of the Commonwealth, its public corporation and municipalities.

Note 12 - <u>Retirement plan – (continued)</u>

However, on September 30, 2016, ERS was designated by the Oversight Board as a Covered Territorial Instrumentality under PROMESA. On May 21, 2017, the Oversight Board filed a petition for relief under Title III of PROMESA for ERS in the United States District Court of the District of Puerto Rico, commencing a Title III case for ERS. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III cases.

On August 23, 2017, the Governor signed into a law the Act No. 106 of 2017, known as the *Act of Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants* (Act 106-2017), which provides the legal framework for the Commonwealth to implement the PayGo system effective as of July 1, 2017. Under the PayGo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payment by the applicable participant employers, including the Corporation. The Commonwealth allocation percentages are based on the ratio of each participating entity's actual benefit payments relative to the total aggregate benefit payments made by all participating entities for the year ending on the measurement date.

Act 106-2017, among other things, amended Act No. 447 with respect to ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act 106-2017, the ERS's Board of Trustees was eliminated, and a new retirement board was created (the Retirement Board), which is currently responsible for governing all Commonwealth Retirement Systems.

Act 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017 and created a new defined contribution plan (the New Defined Contribution Plan) for existing active members and new employees hired on or after July 1, 2017. Under the New Defined Contribution Plan, members of the prior programs and new government employees hired on or after July 1, 2017, will be enrolled in the New Defined Contributions Program.

Act 106-207 also ordered a suspension of the ERS's loan programs and ordered a merger of the administrative structures of the Commonwealth's retirement systems. At the Retirement Board's discretion, the administration of benefits under the New Defined Contribution Plan may be managed by a third-party service provider. In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating incentives, opportunities, and retraining program for public workers.

Note 12 - Retirement plan – (continued)

Plan Description Prior to July 1, 2017

This summary of ERS' pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. It should be noted that all eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable law and regulations, and these benefits were not changed or amended with the enactment of Act 106-2017.

For employees who became ERS members prior to July 1, 2013, ERS operated under the following three benefit structures:

- Act No. 447 of May 15, 1951 (Act No. 447), effective on January I, 1952 for members hired up to March 31, 1990;

- Act No. 1 of February 16, 1990 (Act No. I), for members hired on or after April I, 1990, and ending on or before December 31, 1999;

- Act No. 305 of September 24, 1999, (Act No. 305), which amended Act No. 447 and Act No. 1, for members hired from January 1, 2000, up to June 3, 2013.

Employees under Act No. 447 and Act No. 1 were participants in a cost-sharing multiple employers defined benefit plan (the Defined Benefit Program). Act No. 305 members were participants under a pension program known as the System 2000 Program, a hybrid defined contribution plan. Under the System 2000 Program, benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance in the participant's account.

Thereafter, under Act No. 3 of 2013, effective July 1, 2013, the Commonwealth created a hybrid plan where the employee no longer accrued employee benefits, and upon retirement would receive an annuity from the accumulated defined benefits until that date, plus the employee contributions made thereafter, adjusted by investment yields and market fluctuations. Other charges were also made to the Plan. Upon the enactment of Act. No. 3, the Commonwealth discontinued contributing a proportionate share on behalf of the employee, instead employer contributions were redirected to pay accrued pensions. Act No. 3 of 2013 (Act No. 3) amended the provisions of the different benefits structures under the ERS. Act No. 3 moved all participants (employees) under the Defined Benefit Program and System 2000 Program to a new defined contribution hybrid plan (the Contributory Hybrid Program). All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. Act No. 3 benefits were terminated with the enactment of Act. No. 106-2017.

Note 12 - Retirement plan – (continued)

Total pension liability and actuarial information

The total pension liability recorded by the Corporation as of June 30, 2022 (measurement date June 30, 2021) amounted to $31,295,686, representing its proportionate share of the total pension liability of the pension plan as of such date. The total pension liability as of June 30, 2022 (measurement date June 30, 2021) was determined by actuarial valuations as of July 1, 2020, that were rolled forward to June 30, 2021 (measurement date).

The Corporation's proportion of the total pension liability was actuarially determined based on the ratio of the Corporation's benefit payments to the total benefit payments made by all participating employers under the pension plan for the year ending on the measurement date. At June 30, 2021 (measurement date), the Corporation's proportion was 0.11512%.

Total pension liability and actuarial information

(a) Actuarial methods and assumptions

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement period.

Discount rate

The discount rate for June 30, 2021 (measurement date) was 2.16%. This represents the municipal bond return rate as selected by the Commonwealth. The source is the Bond Buyer General Obligation 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2021 (measurement date) actuarial valuation were as follows:

- Pre-Retirement Mortality - For general employees not covered under Act No. 127-1958, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

Note 12 - Retirement plan – (continued)

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127 of 1958.

- Post-Retirement Retiree Mortality - Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disable retiree rates, adjusted by 100% for males and 110% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Post-Retirement Disabled Mortality – Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disable retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Post-Retirement Beneficiary Mortality - Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after retiree's death, the PUB-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other assumptions as of June 30, 2021

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3 of 2017, four-year extension Act No. 66 of 2014 and the current general economy.

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Note 12 - Retirement plan – (continued)

(a) Sensitivity of the total pension liability to changes in the discount rate

The following presents the Corporation's proportionate share of the total pension liability as of June 30, 2022 (measurement date June 30, 2021) for ERS, calculated using the discount rate of 2.16%, as well as what the Corporation's proportionate share of the total pension liability would be if it was calculated using a discount rate of 1% point lower (1.16%) or 1% point higher (3.16%) than the current rate:

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
Corporation's proportionate share of total pension liability	$ 35,756,579	$ 31,295,686	$ 27,680,876

Deferred outflows of resources and deferred inflows of resources from pension activities

Deferred outflows and deferred inflows of resources from pension activities reported in the Corporation's statement of net position (deficit) as of June 30, 2022 are as follows:

	Deferred outflows of resources
Difference between expected and actual experience	$ 49,991
Changes in assumptions	3,203,671
Changes in proportion	2,614,428
Pension benefits paid subsequent to the measurement date	1,611,786
	$ 7,479,876

	Deferred inflows of resources
Difference between actual and expected experience	$ 932,365
Changes in assumptions	369,807
	$ 1,302,172

Note 12 - Retirement plan – (continued)

Deferred outflows of resources and deferred inflows of resources from pension activities – (continued)

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2022 will be recognized in the pension expense in the Corporation's financial statements as follows:

Years ending June 30,	Amounts
2023	$ 1,141,480
2024	1,141,480
2025	1,141,480
2026	1,141,478
	$ 4,565,918

Additional information

Additional information on the Pension Plan is provided on the stand-alone financial statements of ERS, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan, P.R. 00940-2004.

Note 13 - Total other postemployment benefit liability

The Corporation participates in the other postemployment benefit plan (the OPEB plan) of the Commonwealth of Puerto Rico for retired participants of the Employee's Retirement System, which is unfunded, multi-employer defined benefit other postemployment healthcare benefit plan. The OPEB plan is administered on a pay-as-you-go basis. Accordingly, there are no assets accumulated in a qualifying trust for the OPEB plan that meet the criteria in paragraph 4 of GASB 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions*.

OPEB plan description

The OPEB plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provide that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The OPEB plan is financed by the Commonwealth through legislative appropriations. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age. Act. No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

Note 13 - Total other postemployment benefit liability – (continued)

OPEB plan description – (continued)

GASB 75 requires participating employers to recognize their proportionate share of the collective total OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources and collective OPEB expense.

Total OPEB liability and actuarial information

The total OPEB liability recorded by the Corporation as of June 30, 2022 (measurement date June 30, 2021) amounted to $669,808, representing its proportionate share of the total OPEB liability of the OPEB plan as of such dates. The total OPEB liability as of June 30, 2022 (measurement date June 30, 2021) was determined by actuarial valuation as of July 1, 2020 that was rolled forward to June 30, 2021 (measurement date).

The Corporation's proportion of the OPEB plan liability was actuarially determined based on the ratio of the Corporation's benefit payments to the total benefit payments made by all participating employers under the OPEB plan for the year ending on the measurement date. At June 30, 2022, the Corporation's proportion of the OPEB plan liability was 0.08392%.

Actuarial methods and assumptions

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement period.

Discount rate

The discount rate for June 30, 2021 (measurement date) was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

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Note 13 - Total other postemployment benefit liability – (continued)

Actuarial methods and assumptions – (continued)

Mortality

The mortality tables used in the June 30, 2021 (measurement date) actuarial valuation were as follows:

- Pre-Retirement Mortality - For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

  100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

- Post-Retirement Beneficiary Mortality - Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after retiree's death, the PUB-2010(B) contingent survivor rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Post-Retirement Disabled Mortality - Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disable retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Note 13 - Total other postemployment benefit liability – (continued)

Sensitivity of total OPEB liability to changes in the discount rate

The following table presents the Corporation's proportionate share of the OPEB liability at June 30, 2022 (measurement date June 30, 2021) calculated using the discount rate of 2.16%, as well as what the Corporation's proportionate share of the OPEB liability would be if it were calculated using a discount rate of 1% point lower (1.16%) or 1% point higher (3.16%) than the current rate:

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
Corporation's proportionate share of OPEB liability	$ 735,232	$ 669,808	$ 614,097

Deferred outflows of resources and deferred inflows of resources

Because all participants are inactive, there are no deferred inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. Deferred outflows of resources for other postemployment benefits paid subsequent to the measurement date amounted to $56,800 as of June 30, 2022.

Note 14 - Concentration of credit risk – patients' accounts receivable

The Corporation grants credit without collateral to its patients, most of whom are residents of Puerto Rico and are insured under third-party payor agreements.

The mix of receivables from patients and third-party payors at June 30, 2022 is as follows:

Triple S	12%
MMM Helathcare	10%
Medical Card System	5%
Mediacre	4%
Self Pay (mostly deductibles, non-covered charges and private patient accounts)	30%
Other third-party payors	39%
	100%

Note 15 - Functional expenses

The Corporation provides general health care services to patients with cardiovascular conditions. Operating expenses related to providing these services for the year ended June 30, 2022 are as follow:

Health care services	$	67,565,104
General and administrative		10,826,450
	$	78,391,554

Note 16 - Federal grants revenues and other assistance programs

In March 2020, the World Health Organization declared the coronavirus disease COVID-19 a global pandemic. This highly contagious disease spread across the world including Puerto Rico and resulted in local government enforced business lockdowns and curfews on non-essential services, as well as other restrictions on social, government and business activities involving large numbers of individuals and/or participants.

On March 27, 2020, the President of the United States of America signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide emergency assistance to individuals, families, and businesses, including healthcare providers, affected by the COVID-19 pandemic. As part of the CARES Act, the Department of Health and Human Services and the Commonwealth of Puerto Rico provided financial assistance to healthcare providers, including the Corporation, in support of the national response to the COVID-19 pandemic under the Provider Relief Fund program.

These funds were to be used to support healthcare related expenses or lost revenue attributable to COVID-19 and to ensure uninsured patients can get treatment for COVID-19. These were payments, not loans, to healthcare providers.

Also, the Corporation received federal financial assistance through the Commonwealth of Puerto Rico as part of the Coronavirus Relief Fund program under the CARES Act. Payments received under the Coronavirus Relief Fund program must be used for incremental expenditures incurred due to the public health emergency with respect to COVID–19 during a specified period of time.

Such funds may only be used for eligible expenditures, including qualifying medical equipment, COVID-19 testing supplies, medical worker wages, public safety, public health communications, among other, as well as second-order effects, such as providing economic support to those suffering from employment or business interruptions due to COVID-19 related business closures.

Note 16 - Federal grants revenues and other assistance programs – (continued)

In connection with other assistance programs under the CARES Act, the Corporation requested and received certain accelerated and advance payments from CMS and the Commonwealth of Puerto Rico corresponding to future Medicare and Medicaid services, and Plan Vital patient services, respectively.

During the year ended June 30, 2022, the Corporation received conditional contribution grants from the U.S. Treasury Department, the U.S. Department of Health and Human Services (HHS), and through the local government. Contributions were received for the purpose of providing financial support to the Corporation, rather than for the direct benefit of the grantor, therefore, such grants were considered as nonexchange contributions. The grantors have restricted the use of these funds as conditional contributions. The Corporation accounts for conditional contributions received before the specified condition has been substantially met as a refundable advance liability (unearned revenues). Upon complying with the applicable restrictions, the refundable advances are recognized as revenue or gain in the statements of revenues, expenses and changes in net position (deficit).

Federal grants revenues for the year ended June 30, 2022 are as follows:

Provider Relief Fund	$	387,934
Coronovirus Relief Fund		2,601,044
FEMA		593,782
Coronavirus State and Local Fiscal Recovery Fund		2,464,399
	$	6,047,159

As of June 30, 2022, the Corporation has recognized unearned revenues for unexpended federal grants and other programs as follows:

Provider Relief Fund	$	1,527,509
Coronavirus Relief Fund		48,601
Coronavirus State and Local Fiscal Recovery Fund		431,000
Local Government Contributions		10,274,314
	$	12,281,424

The Corporation believes that the compliance with the grant's requirements will be achieved within the timeframe prescribed by the grant, however, there is no assurance that compliance will be attained.

Note 16 - Federal grants revenues and other assistance programs – (continued)

Funds received from federal funded programs are subject to financial and compliance audits in accordance with the provisions of Title 2 of the U.S. Code of Federal Regulation, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (the Uniform Guidance) or to compliance audits by the corresponding federal agencies and pass-through entities, as applicable. The Uniform Guidance requires compliance audits for entities expending federal financial assistance in excess of $750,000 in the aggregate in a single year. Related compliance reports are required to be submitted to the corresponding federal agencies. Since the Corporation received and expended federal financial assistance in excess of $750,000, it is subject to compliance audits under the Uniform Guidance for the fiscal year ended on June 30, 2022.

Federal agencies have the authority to recoup, as well as to limit, suspend, or terminate the federal financial assistance programs. If any unallowed costs are detected as a result of such compliance audits, the Corporation may be required to reimburse such amounts to the corresponding federal agencies from its own non-federal resources.

Moreover, the Corporation applied for and received $3,435,000 through the Medicare Accelerated and Advance Payment Program under the CARES Act during the year ended June 30, 2020. The purpose of the program is to assist in providing needed liquidity to care delivery providers. In October 2020, the Centers for Medicare and Medicaid Services (CMS) released updated payment guidance to extend the repayment period beginning one year from the date the accelerated or advance payment was issued. After that first year, Medicare has automatically recouped 25 percent of Medicare payments otherwise owed to the provider for eleven months. At the end of the eleven-month period, recoupment increased to 50 percent for another six months. If the provider or supplier is unable to repay the total amount of the accelerated or advance payment during this time-period (a total of 29 months), CMS will issue demand letters requiring repayment of any outstanding balance, subject to an interest rate of four percent consistent with the Continuing Appropriations Act, 2021. The Corporation's required repayment period started in April 2021. As of June 30, 2022, the Corporation had a liability for Medicare Accelerated and Advance Payments Program amounting to $1,343,678. Finally, on December 13, 2022, the Corporation received a communication from CMS confirming that the whole balance was recouped as of such date.

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Note 17 - Contributions from the Commonwealth of Puerto Rico

Governmental contributions, included in non-operating income in the statement of revenues, expenses and changes in net position (deficit) for the year ended June 30, 2022, consist of the following:

Description	
Funds received from the Puerto Rico Treasury Department for capital and medical equipment expenditures.	$ 598,595

During the year ended June 30 2022, the Corporation received conditional contributions from the Commonwealth of Puerto Rico amounting to $8,529,369, for capital and medical equipment expenditures and for surgery house staff. As of June 30, 2022, $10,274,314, have not been used yet for the designated purpose and thus, are included as part of restricted cash and unearned revenue - federal grants and other assistance programs in the accompanying statement of net position (deficit) for the year then ended.

Note 18 - Subsequent events

The Corporation evaluated subsequent events through October 31, 2023, which is the date the financial statements were available to be issued. Except as described below, no other events have occurred subsequent to the statement of net position (deficit) date that would require additional adjustment to, or disclosure in the financial statements.

Hospital building and parking facilities

Pursuant to the Joint Resolution No. 324 of the House of Representatives, which was converted to law on October 31, 2022 by the Governor of the Commonwealth of Puerto Rico, the PBA must transfer the main building of the hospital and the parking lot to the Corporation. Therefore, once the transaction is completed, the Corporation will not be able to sell, dispose of, or give in usufruct or privatize the transferred real estate. Mortgage liens will only be allowed on any of the transferred assets; as long as said assessment is executed to carry out permanent improvements required for the best functioning of the Corporation.

Tenant's debt write off

The Corporation maintained an agreement with the "Recinto de Ciencias Médicas de la Universidad de Puerto Rico y las Clínicas de Cardiología de Adultos y Pediátrico" (RCM) regarding the lease for the building facilities in which the RCM operates. On February 17, 2023, pursuant to the Board of Directors (BOD) Resolution Series 2022-2023 No. 17, the Corporation's BOD decided and

Note 18 - Subsequent events – (continued)

Tenant's debt write off – (continued)

unanimously agreed to write off outstanding debts starting from the fiscal year 2000 through the date of the resolution. Also, the BOD decided to prepare a prospective agreement between the Corporation and RCM, in which there will not be rent fees related to facilities but will include fees for utilities such as: electricity, water and sewer and communications. Fees will be based on actual expenses and increases, if any, will be established as a percentage on each year of the agreement.

As of June 30, 2022, RCM owed to the Corporation approximately $2.3 million, which was fully reserved as uncollectable.

Medicare Accelerated and Advance Payments Program

As disclosed in Note 16, as of June 30, 2022, the Corporation had a liability for Medicare Accelerated and Advance Payments Program amounting to $1,343,678. Finally, on December 13, 2022, the Corporation received a communication from CMS confirming that the whole balance was recouped as of such date.

EHR system and ERP cloud service

During the fiscal year 2022, the Corporation was assigned $6.2 million to implement an updated EHR system. The EHR project kicked-off during August 2022 and the target completion date was originally September 2023, as detailed in Exhibit 60 under the required implementation actions. As of the date the financial statements were available to be issued, completion date has been delayed to December 2023. Completion of this project is critical to be in compliance with the requirements of regulatory agencies such as CMS. In addition, the Cardiovascular Center has hired a vendor to implement the Enterprise Resource Planning (ERP) Cloud Service. This project is expected to finalize during February 2024.

Submission of single audit reporting package

The Single Audit reporting package, as defined and required in Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) for the fiscal year ended June 30, 2022, could not be submitted in a timely manner because of administrative delays. The submission of this report is expected to be completed before December 31, 2023.

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Required Supplementary Information

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Required Supplementary Information

Schedule of Proportionate Share of the Collective Total Pension Liability

	2022	2021	2020	2019
Proportionate share (percentage) of the net collective total pension liability	0.11512%	0.10759%	0.10492%	0.10083%
Proportion (amount) of the net collective total pension liability	$ 31,295,686	$ 30,201,269	$ 26,073,701	$ 24,692,768

Notes to required supplementary information

1. As a result of the implementation of the PayGo system, as provided by Act No. 106 of 2017 (Act 106), the Pension Plan no longer met the criteria to be considered a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, was required to apply the guidance in GASB 73 effective July 1, 2018. Act 106 eliminated all employer contributions and required ERS to liquidate its assets and to transfer the proceeds to the Commonwealth for the payment of pension benefits.

2. The Corporation's proportion of the total pension liability was actuarially determined based on the ratio of the Corporation's benefit payments to the total benefit payments made by all participating employers under the Pension Plan for the year ending on the measurement date.

3. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

4. The amounts presented have a measurement date of previous fiscal year end.

5. There are no assets accumulated in a trust to pay related benefits.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Required Supplementary Information

Schedule of Proportionate Share of the Collective Total OPEB Liability

	2022	2021	2020	2019	2018
Proportion of the collective total OPEB liability	0.08392%	0.08727%	0.08416%	0.07943%	0.07909%
Proportionate share of the collective net OPEB liability	$ 669,808	$ 763,304	$ 700,445	$ 668,918	$ 728,015

Notes to required supplementary information

1. The Corporation's proportion of the total OPEB liability was actuarially determined based on the ratio of the Corporation’s benefit payments to the total benefit payments made by all participating employers under the OPEB plan for the year ending on the measurement date.

2. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

3. The amounts presented have a measurement date of previous fiscal year end.

4. There are no assets accumulated in a trust to pay related benefits.