

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Financial Statements

June 30, 2023

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements 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, 2023, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Corporation, as of June 30, 2023, 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

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 and net position (deficit), to correct certain errors of prior years, detected by management during the year ended on June 30, 2023.

Restatement – (continued)

Also, as discussed in Notes 1, 2 and 10 to the financial statements, during 2023 the Corporation adopted the Governmental Accounting Standards Board Statement No. 96, *Subscription Based Information Technology Arrangements* and applied the statement retroactively by restating the financial statements as of and for the year ended June 30, 2022. Thus, the beginning balance of net position, subscription asset and subscriptions liability were restated to consider the retroactive effect of the implantation of GASB 96.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2024, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Corporation's internal control over financial reporting and compliance.



Galíndez LLC

San Juan, Puerto Rico
June 27, 2024
License No. LLC-322
Expires December 1, 2026

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Management's Discussion and Analysis

June 30, 2023 and 2022

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, 2023 and 2022. Please read it along with the Corporation's financial statements, which begin on page 13.

Using this Annual Report

The Corporation's financial statements consist of three statements: Statement of Net Position (Deficit) (pages 13-14), Statement of Revenues, Expenses and Changes in Net Position (Deficit) (page 15), and a Statement of Cash Flows (pages 16 and 17). These financial statements and related notes (pages 18 to 57) 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 worsened 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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Management's Discussion and Analysis – (Continued)

June 30, 2023 and 2022

Condensed Financial Information

At June 30, 2023 and 2022, and for the years then ended, the Corporation's financial information is summarized as follows:

| | 2023 | (Restated) 2022 | Variance | % |
|----------------------------------|----------------------|---------------------|----------------------|-------|
| Current assets | \$ 73,309,803 | \$ 72,281,559 | \$ 1,028,244 | 1% |
| Non-current assets: | | | | |
| Lease receivable | 4,102,126 | 3,564,196 | 537,930 | 15% |
| Right to use lease assets, net | 224,494 | 131,339 | 93,155 | 71% |
| Right to use subscriptions, net | 4,838,066 | 1,174,043 | 3,664,023 | 312% |
| Capital assets, net | <u>24,147,183</u> | <u>20,128,360</u> | <u>4,018,823</u> | 20% |
| Total assets | <u>106,621,672</u> | <u>97,279,497</u> | <u>9,342,175</u> | 10% |
| Deferred outflows of resources | <u>15,691,494</u> | <u>7,536,676</u> | <u>8,154,818</u> | 108% |
| Current liabilities | 50,841,132 | 61,720,653 | (10,879,521) | -18% |
| Other non-current liabilities | <u>40,920,799</u> | <u>31,213,563</u> | <u>9,707,236</u> | 31% |
| Total liabilities | <u>91,761,931</u> | <u>92,934,216</u> | <u>(1,172,285)</u> | -1% |
| Deferred inflows of resources | <u>8,836,498</u> | <u>5,621,871</u> | <u>3,214,627</u> | 57% |
| Net position (deficiency) | | | | |
| Net investment in capital assets | 27,824,431 | 20,038,369 | 7,786,062 | 39% |
| Net deficiency | <u>(6,109,694)</u> | <u>(13,778,283)</u> | <u>7,668,589</u> | -56% |
| Total net position | <u>\$ 21,714,737</u> | <u>\$ 6,260,086</u> | <u>\$ 15,454,651</u> | 247% |
| Operating revenues, net | \$ 84,572,697 | \$ 78,012,589 | \$ 6,560,108 | 8% |
| Operating expenses | <u>91,906,039</u> | <u>78,391,554</u> | <u>13,514,485</u> | 17% |
| Operating (loss) | (7,333,342) | (378,965) | (6,954,377) | 1835% |
| Non-operating income | 13,045,911 | 6,791,445 | 6,254,466 | 92% |
| Extraordinary item | <u>9,742,082</u> | <u>23,828,730</u> | <u>(14,086,648)</u> | -59% |
| Net change in net position | <u>15,454,651</u> | <u>30,241,210</u> | <u>(14,786,559)</u> | -49% |
| Total net position | <u>\$ 21,714,737</u> | <u>\$ 6,260,086</u> | <u>\$ 15,454,651</u> | 247% |

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Management's Discussion and Analysis – (Continued)

June 30, 2023 and 2022

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 \$9.3 million or 10% in comparison to fiscal year 2022. The reason for such an increase relates principally to increases in net capital assets of approximately \$4.0 million, an increase in inventory of supplies of approximately \$700 thousand, an increase in prepaid expenses and other assets of approximately \$600 thousand, and the recognition of right-of-use subscriptions per GASB 96 of approximately \$3.7 million.

The increase in net capital assets is mostly the result of the acquisition of approximately \$7.6 million in equipment and improvements to leased property, net of depreciation for approximately \$2.7 million, and approximately \$7.5 million in equipment disposal, with accumulated depreciation retired amounting to approximately \$6.7 million, for a net book value of the retirement amounting to approximately \$800 thousand.

Total liabilities decreased by approximately \$1.2 million or 1% in comparison to fiscal year 2022. The decrease in current liabilities is mostly related to the net effect of a decrease in amounts owed to related parties due to the forgiveness of the amount owed to the Puerto Rico Public Building Authority (PBA) for approximately \$9.7 million and an increase in unearned revenues of federal grants and other assistance programs of approximately \$8 million.

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

| | 2023 | 2022 | Variance | % |
|---|----------------------|----------------------|---------------------|------|
| Deferred outflows of resources - pension related | <u>\$ 15,637,394</u> | <u>\$ 7,479,876</u> | <u>\$ 8,157,518</u> | 109% |
| Deferred inflows of resources - pension related | <u>\$ 4,104,873</u> | <u>\$ 1,302,172</u> | <u>\$ 2,802,701</u> | 215% |
| Total pension liability (current and non-current) | <u>\$ 41,101,066</u> | <u>\$ 31,295,686</u> | <u>\$ 9,805,380</u> | 31% |

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, 2023 and 2022, the Corporation reflected operating loss of approximately (\$7.3) million and (\$379) thousands, respectively.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Management's Discussion and Analysis – (Continued)

June 30, 2023 and 2022

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

Results of Operations – (continued)

The following table presents comparative information of the patient services:

| <u>Indicator Description</u> | <u>June 30, 2023</u> | <u>June 30, 2022</u> | <u>Variance</u> | <u>% of Change</u> |
|--------------------------------|----------------------|----------------------|-----------------|------------------------|
| Admissions | 3,097 | 3,193 | -96 | -3% |
| Discharges | 3,103 | 2,814 | 289 | 10% |
| Patient days | 24,492 | 24,498 | -6 | 0% |
| Occupancy percentage | 40% | 43% | -3% | -7% |
| Surgery procedures | 1,420 | 1,398 | 22 | 2% |
| Invasive laboratory procedures | 9,005 | 9,205 | -200 | -2% |

For the fiscal year ended June 30, 2023, total operating expenses of the Corporation reflected an increase of approximately \$13.5 million or 17%, when compared to those of the fiscal year 2022. The most relevant changes in operating expenses for the fiscal year ended June 30, 2023, compared to those of fiscal year ended June 30, 2022 are related to increases in supplies, food and drugs of approximately \$4.1 million, pension expense of approximately \$4.1 million, salaries, wages and employee benefits of approximately \$2.4 million, professional fees and contracted services of approximately \$1.4 million, and depreciation and amortization expense of approximately \$1.4 million.

In addition, for the fiscal year ended on June 30, 2023, non-operating income and extraordinary item of the Corporation reflected a decrease of approximately \$7.8 million, when compared to fiscal year 2022. The main reason for such a decrease is the gain on extinguishment of the rent balance due to the Puerto Rico Public Building Authority by approximately \$9.7 million in fiscal year 2023 representing a reduction of approximately \$14.1 million compared to 2022. Also, during the year ended June 30, 2023, the Corporation recognized as non-operating income contributions from the Commonwealth of Puerto Rico for approximately \$7.6 million, representing an increase of approximately \$7.0 million compared to 2022. In addition, the Corporation recognized as non-operating income from federal grants the amount of approximately \$6.3 million, representing an increase of approximately \$218 thousand compared to 2022, and a loss on disposal of assets amounting to approximately \$794 thousand.

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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Management's Discussion and Analysis – (Continued)

June 30, 2023 and 2022

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

Results of Operations – (continued)

Capital Assets and Debt Administration

Capital Assets

On June 30, 2023 and 2022, the Corporation had approximately \$24.1 million and \$20.1 million, respectively, in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. During fiscal years 2023 and 2022, the Corporation made cash outlays for capital assets of approximately \$7.6 million and \$2 million, respectively. Furthermore, during the years ended June 30, 2023 and 2022, the Corporation received conditional contributions from the Commonwealth of Puerto Rico amounting to \$9.7 million and \$8.5 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, 2023. Also, during the year ended June 30, 2023, the Corporation implemented the GASB Statement No. 96 "*Subscription-Based Information Technology Arrangements*", which resulted in the recognition of right-of-use assets of approximately \$4.8 million, net of its amortization.

Operational Highlights of the Corporation

i. Background

In its 31 years of service to the community and as a leader in cardiovascular care, the Corporation's continues to expand its services, improve its infrastructure, and innovate with advanced technology for the benefit of patients and the medical community. The institution, recognized as a center of excellence in coronary and peripheral vascular care, nurtures future cardiology professionals in a cutting-edge environment equipped with the latest available technology. Additionally, the Corporation is accredited by multiple entities and serves as a Chest Pain Center for managing heart attacks.

ii. Infrastructure Improvements

The Corporation obtained FEMA contributions of approximately \$44 million through obligations to reconstruct Hurricane Maria damages. An advance of approximately \$10 million was obtained from COR3-FEMA as part of the Working Capital Advance. As of June 30, 2023, 54% of the reconstruction work is complete, with an investment of approximately \$5 million.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Management's Discussion and Analysis – (Continued)

June 30, 2023 and 2022

Operational Highlights of the Corporation – (continued)

Ongoing Projects and Improvements

- Replacement of air conditioning handling units (AUH)
- Remodeling and enhancements of operating rooms
- Modernization and replacement of all six (6) catheterization labs
- New hybrid surgical suite for coronary and vascular procedures (completed)

Infrastructure Projects

- Ambulance Area Roof Construction
- Emergency Room Expansion (Completed)
- Patient Room Furniture Remodeling
- Endoscopy Room Construction and Operating Room Disinfection Area (In Progress)

Improvements and Openings

- 4th Floor Hotel (Completed)
- Ficus Hotel
- 8th Floor Improvements (In Progress)
- Skill Nursing Facilities – Managed by MultyMedical Facility

Investment in Technology and Equipment

- BrainHi: New technology for appointment scheduling via electronic means.
- New Electronic Medical Record – Meditech (Completed)
- New Financial System (Oracle): Total technology overhaul for fiscal efficiency.
- Medical Imaging System (Synapse): Integrates various imaging modalities into a single platform for remote access.
- Updates to servers, Wi-Fi network, data backup system, network security, and communication.
- Replacement and update of the electronic inventory system (Pixys).

iii. Equipment Replacement and Acquisition

- Approved funds by the Fiscal Oversight Board (FOMB) approved investment funds of approximately \$3 million.
- CT Scan, Magnetic Resonance Imaging (MRI), Ultrasound (echocardiogram and vascular), Nuclear Medicine (Gamma Camera), and Stress Test Equipment.
- Upgrading disinfection equipment for the Operating Room, including reverse osmosis system for instrument washing (starting in 2024). This project is funded through CapEx.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Management's Discussion and Analysis – (Continued)

June 30, 2023 and 2022

Operational Highlights of the Corporation – (continued)

- Projected need to acquire high-tech rotating CT Scan equipment for improved temporal resolution in coronary angiography studies.
- Replacement of Hybrid Operating Room equipment with updated technology.
- Acquisition of DaVinci equipment for robotic thoracic surgery (started on May 2024).

i. Approved Legislative Matters

- Law 70-2023: Law to promote the recruitment, retention, and diversification of health professionals at the Puerto Rico and Caribbean Cardiovascular Center.
- RCC Project 573 - in progress: To authorize provisional licenses to Radiological Technologists specialized in Cardiovascular and Perivascular System.

iv. Community Impact

Community impact projects were established to convey a message of service and integrate the Corporation with the community. The projects were carried out under the slogan: "From the Cardiovascular to the community with heart":

- Adopted 15 low-income families in the Municipality of Adjuntas along with the organization "Puerto Rico Renace" for food delivery.
- Food and toys were delivered to Kennedy Dining Room.
- Serenade at a senior home.
- Craft Fairs in the Main Lobby of the Center.
- Health Fairs for the community.
- Participation and presence of the Corporation in conventions focused on health topics.
- Articles, interviews, and educational talks on health topics in various television, web, and radio media (Media plan).
- Vaccination clinics for the community and at the Corporation.

v. Conclusion

The strength and growth of the Cardiovascular Center Corporation of Puerto Rico and Caribbean is evident, with a staff of 500 employees and more than 180 faculty members of different specialties, it continues to be positioned as the only specialized alternative in the diagnosis and treatment of cardiovascular conditions in Puerto Rico and the Caribbean.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Management's Discussion and Analysis – (Continued)

June 30, 2023 and 2022

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

Year Ended June 30, 2023

Assets

Current assets:

| | | | | |
|---|------|----|-------------------|------|
| Unrestricted cash and cash equivalents | CU-4 | \$ | 37,643,895 | CU-1 |
| Restricted cash | I | | 20,094,201 | |
| Patients accounts receivable, net | | | 9,540,520 | |
| Estimated third-party payor - Medicare | | | 885,933 | |
| Other accounts receivable, net | | | 83,100 | |
| Lease receivable | | | 812,865 | |
| Inventory of supplies | | | 1,838,258 | |
| Prepaid expenses and other current assets | | | <u>2,411,031</u> | |
| Total current assets | | | <u>73,309,803</u> | |

Noncurrent assets:

| | | | | |
|--|--|--|-------------------|--|
| Lease receivable | | | 4,102,126 | |
| Right to use lease assets, net | | | 224,494 | |
| Right to use subscriptions, net | | | 4,838,066 | |
| Capital assets, net of depreciation and amortization | | | <u>24,147,183</u> | |
| Total noncurrent assets | | | <u>33,311,869</u> | |

| | | | | |
|--------------|--|--|--------------------|--|
| Total assets | | | <u>106,621,672</u> | |
|--------------|--|--|--------------------|--|

Deferred outflows of resources:

| | | | | |
|--------------------------------------|--|--|-------------------|------|
| Pension related | | | 15,637,394 | CU-1 |
| Other postemployment benefit related | | | <u>54,100</u> | |
| Total deferred outflows of resources | | | <u>15,691,494</u> | |

(Continues)

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statement of Net Position – (Continued)

Year Ended June 30, 2023

Liabilities and Net Position

Current liabilities:

| | | |
|--|------------------|------|
| Accounts payable | 17,518,221 | CU-2 |
| Accrued payroll and other expenses | 6,185,994 | |
| Due to related parties | F/S-38 4,075,690 | |
| Unearned revenue - federal grants and other assistance programs | 20,256,036 | |
| Lease liability | 77,462 | |
| Subscriptions liability | 633,746 | |
| Reserve for claim losses | 525,000 | |
| Total other postemployment benefit liability | 54,100 | |
| Total pension liability | <u>1,669,825</u> | |
| Total current liabilities | 50,996,074 | |

Noncurrent liabilities:

| | | |
|--|-------------------|--|
| Reserve for claim losses | 35,000 | |
| Total other postemployment benefit liability | 536,512 | |
| Total pension liability | 39,431,241 | |
| Lease liability | 149,831 | |
| Subscriptions liability | 524,273 | |
| Due to Medicare | <u>89,000</u> | |
| Total noncurrent liabilities | 40,765,857 | |
| Total liabilities | <u>91,761,931</u> | |

Deferred inflows of resources:

| | | |
|-------------------------------------|------------------|--|
| Pension related | 4,104,873 | |
| Leases related | <u>4,731,625</u> | |
| Total deferred inflows of resources | <u>8,836,498</u> | |

Net position (deficit):

| | | |
|----------------------------------|----------------------|--|
| Net investment in capital assets | 27,824,431 | |
| (Deficit) | <u>(6,109,694)</u> | |
| Total net position | <u>\$ 21,714,737</u> | |

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, 2023

| | | |
|---|----------------------|------|
| Operating revenues | | |
| Patient service revenue, net of contractual adjustments | \$ 89,336,998 | |
| Less: provision for bad debts | <u>8,420,020</u> | |
| Net patient service revenue | 80,916,978 | |
| Other revenue | <u>3,531,299</u> | |
| Total operating revenues | <u>84,448,277</u> | CU-3 |
| Operating expenses | | |
| Salaries and wages | 22,792,214 | |
| Employee benefits | 5,536,383 | |
| Professional fees and contracted services | 9,534,101 | |
| Supplies, food and drugs | 32,827,307 | |
| Repairs and maintenance | 2,962,153 | |
| Utilities | 2,432,745 | |
| Depreciation and amortization | 2,748,469 | |
| Insurance | 509,865 | |
| Provision for claim losses | 525,000 | |
| Bad debt expense | 437,418 | |
| Rent and other | 5,502,492 | |
| Pension expense | <u>6,097,892</u> | |
| Total operating expenses | <u>91,906,039</u> | |
| Operating loss | <u>(7,457,762)</u> | |
| Non-operating income (loss) | | |
| Loss on disposal of assets | (793,876) | |
| Lease interest income | 124,420 | |
| Federal grants revenues | 6,265,339 | |
| Contributions from the Commonwealth of Puerto Rico | <u>7,574,448</u> | |
| Total non-operating income, net | <u>13,170,331</u> | |
| Extraordinary item | | |
| Gain on debt extinguishment - PBA | <u>9,742,082</u> | |
| Net change in net position | 15,454,651 | |
| Net position, at beginning of year, as restated | <u>6,260,086</u> | |
| Net position, at end of year | <u>\$ 21,714,737</u> | |

See notes to financial statements.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statement of Cash Flows

Year Ended June 30, 2023

| | |
|--|-----------------------------|
| Cash flows from operating activities: | |
| Receipts from patient services | \$ 77,944,697 |
| Other receipts | 3,608,943 |
| Payments to suppliers | (52,939,198) |
| Payments to employees and employee benefits | (32,284,103) |
| Payments on malpractice claims | <u>(65,000)</u> |
| Net cash used in operating activities | <u>(3,734,661)</u> |
| Cash flows from capital and related financing activities: | |
| Cash outlays for capital assets | (7,561,168) |
| Cash outlays for subscription assets | (3,716,259) |
| Contribution from the Commonwealth of Puerto Rico | 9,785,321 |
| Contributions from federal grants | <u>10,065,348</u> |
| Net cash provided by capital and related financing activities | <u>8,573,242</u> |
| Net cash provided by non capital financing activities: | |
| Contributions from federal grants | <u>2,092,911</u> |
| Net change in cash, cash equivalents and restricted cash | 6,931,492 |
| Cash, cash equivalents and restricted cash, at beginning of year | <u>50,806,604</u> |
| Cash, cash equivalents and restricted cash, at end of year | <u><u>\$ 57,738,096</u></u> |
| Reconciliation of cash, cash equivalents and restricted cash to the statements of net position: | |
| Unrestricted cash and cash equivalents | \$ 37,643,895 |
| Restricted cash | <u>20,094,201</u> |
| Total cash, cash equivalents and restricted cash | <u><u>\$ 57,738,096</u></u> |

(Continues)

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statement of Cash Flows – (Continued)

Year Ended June 30, 2023

| | |
|---|-----------------------|
| Reconciliation of operating loss to net cash used in operating activities | |
| Operating loss | \$ (7,333,342) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation and amortization | 2,748,469 |
| Right to use, lease assets amortization | 66,345 |
| Right to use, subscriptions amortization | 562,654 |
| Provision for bad debts - patients accounts receivable | 8,420,020 |
| Provision for bad debts - other accounts receivable | 437,418 |
| Provision for claim losses | 525,000 |
| Changes in assets and liabilities | |
| (Increase) decrease in: | |
| Patient accounts receivable | (1,577,373) |
| Estimated third-party payor - Medicare | (129,225) |
| Other accounts receivable, net | 46,170 |
| Inventory of supplies | (717,051) |
| Prepaid expenses and other current assets | (609,769) |
| Deferred outflows of resources | (8,154,818) |
| Lease receivable | (504,873) |
| Increase (decrease) in: | |
| Due to related parties | (45,838) |
| Accounts payable | 2,382,284 |
| Accrued payroll and other expenses | (2,231,682) |
| Unearned revenues of advances from medical plans | (8,342,024) |
| Medicare Accelerated and Advance Payments Program | (1,343,678) |
| Unearned revenues - federal grants and other assistance programs | (129,181) |
| Reserve for claim losses | (65,000) |
| Lease liability | (63,546) |
| Subscriptions liability | (616,433) |
| Total other postemployment benefits liability | (79,196) |
| Total pension liability | 9,805,380 |
| Deferred inflows of resources | <u>3,214,628</u> |
| Total adjustments | <u>3,598,681</u> |
| Net cash used in operating activities | <u>\$ (3,734,661)</u> |

Supplemental disclosure of cash flows information

| | |
|---|---------------------|
| Related party adjustment due to: | |
| Non-operating gain on debt extinguishment - PBA | <u>\$ 9,742,082</u> |
| Loss on disposal of assets | <u>\$ 793,876</u> |

See notes to financial statements.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements

Year Ended June 30, 2023

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, 2023, net assets invested in capital assets, net of related debt, consisted of the balance of capital assets and right-of-use assets and subscriptions, net of the related lease and subscriptions liability.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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 or 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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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.

Subscription-Based Information Technology Arrangements

The Corporation is required to recognize a subscription-based information technology arrangements (SBITAs) liability and an intangible right-to-use SBITA asset. Right-to-use SBITA assets are amortized on straight-line method.

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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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

Summary of significant policies – (continued)

Accounting for the impairment of capital assets – (continued)

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, 2023 no capital assets were considered impaired by the Corporation.

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

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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

Summary of significant policies – (continued)

Compensated absences – (continued)

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.

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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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, 2023, 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, 2023:

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. The requirements of this Statement were effective for fiscal years beginning after December 15, 2021.

The adoption of GASB statement No. 91 did not have a material effect on the basic financial statements of the Corporation.

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).

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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

Summary of significant policies – (continued)

New accounting standards – (continued)

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 were effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

The adoption of GASB statement No. 94 did not have a material impact on the basic financial statements of the Corporation.

GASB No. 96, *Subscription Based Information Technology Arrangements*. Retroactive to July 1, 2021, the Corporation adopted the provisions of GASB No. 87. 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. Refer to Notes 2 and 10.

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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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

Summary of significant policies – (continued)

New accounting standards – (continued)

The adoption of GASB statement No. 99 did not have a material impact on the basic financial statements of the Corporation.

Accounting pronouncements issued but not yet effective

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

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 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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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)

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.

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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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)

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

GASB No. 102, *Certain Risk Disclosures*. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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 concentration or constraint
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements.
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

GASB No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, 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.

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Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 2 - Restatement

The Corporation restated the beginning balances of the patients accounts receivable, net and net position to correct certain unintentional errors of prior years detected by management, and the balances of right to use subscriptions, net, subscriptions liability, and net position, to reflect the change in accounting principle related to the implementation of GASB 96 during the year ended on June 30, 2023. The following table summarizes the changes to net deficit at the beginning of the year, as previously reported:

| | | |
|---|---------------------|------|
| Net position - at beginning of year 2022, as previously reported | \$ 965,396 | |
| Correction of errors: | | |
| Patients accounts receivable, net | 5,384,681 | CU-9 |
| Change in accounting principle: | | |
| Right to use subscriptions, net | 1,174,043 | |
| Subscriptions liability | <u>(1,264,034)</u> | |
| Net position - at beginning of year 2023, as restated | <u>\$ 6,260,086</u> | |

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 2020. The cost reports from 2021 through 2023 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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 3 - Net patient service revenue – (continued)

Also, the Corporation is subject to periodic audits by the U.S. Office of the Inspector General (OIG). At June 30, 2023, 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.

Short-term acute care – As part of the implementation of a Diagnosis Related Group (DRG) based prospective payment system for inpatient hospital services in the Plan VITAL program, the Corporation received several supplemental payments amounting to \$2,725,246 for the year ended June 30, 2023, in relation to the short-term acute care (STAC) services provided by the Corporation to the Plan VITAL beneficiaries for the period from January 1, 2020 through December 31, 2023. The supplemental payments are equal to the difference between what Manage Care Organizations (MCOs) pay for inpatient hospital services and a percentage of the amount that would be paid for the services under Medicare payment principles. The supplemental payments are included as patient service revenue in the accompanying statement of revenues, expenses and changes in net position (deficit).

A summary of patient service revenue, net of contractual allowances and discounts, for the year ended June 30, 2023 follows:

| | |
|---|----------------------|
| Third-party payors | \$ 87,730,190 |
| Self-pay patients | <u>1,606,808</u> |
| Patient service revenue (net of contractual allowances and discounts) | <u>\$ 89,336,998</u> |

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 4 - Patients accounts receivable

Patients accounts receivable at June 30, 2023 consist of:

| | |
|---------------------------------------|---------------------|
| Patient and third-party payors | \$ 63,467,770 |
| Less: allowance for doubtful accounts | <u>53,927,250</u> |
| Patient and third-party payors, net | <u>\$ 9,540,520</u> |

Changes in allowance for doubtful accounts on patients accounts receivable for the year ended June 30, 2023, were as follows:

| | |
|----------------------------|----------------------|
| Balance, beginning of year | \$ 49,179,871 |
| Provision for bad debts | 8,420,020 |
| Small balance write-offs | <u>(3,672,641)</u> |
| Balance, end of year | <u>\$ 53,927,250</u> |

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, 2023, 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, 2023, 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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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

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

| <u>Depository Accounts</u> | <u>Bank Balance at June 30, 2023</u> |
|---|--|
| Insured | \$ 250,000 |
| Collateralized: | |
| Collateral held in the Corporation's name | <u>59,065,607</u> |
| Total deposits | <u>\$ 59,315,607</u> CU-4 |

The current amounts of deposits at June 30, 2023, shown above are included in the Corporation's statement of net position under unrestricted cash and cash equivalents, amounting to \$37,643,895 and restricted cash amounting to \$20,094,201, respectively.

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Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 6 - Capital assets

Capital assets, additions, retirements and balances for the year ended June 30, 2023, were as follows:

| | 2022 | Additions | Retirements | Reclass | 2023 |
|---|----------------------|---------------------|-----------------------|-----------------|----------------------|
| Capital assets not being depreciated: | | | | | |
| Licenses in process of installation | \$ 83,712 | \$ - | \$ - | \$ - | \$ 83,712 |
| Equipment in process of installation | 247,958 | 361,027 | - | (48,600) | 560,385 |
| Construction in progress | 1,867,935 | - | - | - | 1,867,935 |
| Land | 94,123 | - | - | - | 94,123 |
| | <u>2,293,728</u> | <u>361,027</u> | <u>-</u> | <u>(48,600)</u> | <u>2,606,155</u> |
| Capital assets being depreciated: | | | | | |
| Improvements to leased property | 11,339,395 | 2,031,693 | - | - | 13,371,088 |
| Fixed equipment | 782,156 | - | - | - | 782,156 |
| Movable equipment | 34,761,613 | 5,139,572 | (7,494,278) | 48,600 | 32,455,507 |
| Library | 14,736 | - | - | - | 14,736 |
| Vehicles | 67,290 | 28,876 | - | - | 96,166 |
| Works of art | 8,849 | - | - | - | 8,849 |
| | <u>46,974,039</u> | <u>7,200,141</u> | <u>(7,494,278)</u> | <u>48,600</u> | <u>46,728,502</u> |
| Total cost | <u>\$ 49,267,767</u> | <u>\$ 7,561,168</u> | <u>\$ (7,494,278)</u> | <u>\$ -</u> | <u>\$ 49,334,657</u> |
| Less accumulated depreciation and amortization for: | | | | | |
| Improvements to leased property | \$ 4,771,162 | \$ 650,793 | \$ - | \$ - | \$ 5,421,955 |
| Fixed equipment | 775,981 | - | - | - | 775,981 |
| Movable equipment | 23,518,465 | 2,093,476 | (6,700,402) | - | 18,911,539 |
| Library | 6,509 | - | - | - | 6,509 |
| Vehicles | 67,290 | 4,200 | - | - | 71,490 |
| Total accumulated depreciation and amortization | <u>\$ 29,139,407</u> | <u>\$ 2,748,469</u> | <u>\$ (6,700,402)</u> | <u>\$ -</u> | <u>\$ 25,187,474</u> |
| Capital assets, net | <u>\$ 20,128,360</u> | <u>\$ 4,812,699</u> | <u>\$ (793,876)</u> | <u>\$ -</u> | <u>\$ 24,147,183</u> |

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 7 - Compensated absences

Compensated absences correspond to accrued vacations at June 30, 2023 and are as follow:

| | Beginning Balance | Additions | Deductions | Ending Balance |
|----------------------|----------------------|--------------|--------------|-------------------|
| Compensated absences | \$ 1,686,155 | \$ 1,023,536 | \$ 1,245,950 | \$ 1,463,741 |
| | | | | CU-2 |

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, 2023 are as follows:

| | Beginning Balance | Additions | Payments | Ending Balance |
|--------------------------|----------------------|------------|-----------|-------------------|
| Reserve for claim losses | \$ 100,000 | \$ 525,000 | \$ 65,000 | \$ 560,000 |

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, 2023:

| | |
|---|--------------|
| Patients accounts receivable | \$ 1,075,197 |
| Other accounts receivable | 712,212 |
| Less: reserve for uncollectible accounts | 712,212 |
| Other accounts receivable, net | - |
| Total amounts due from related parties, net | \$ 1,075,197 |

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 9 - Related party transactions – (continued)

The balance due to related parties as of June 30, 2023 consists of the following:

| | | |
|--|---------------------|--------|
| Puerto Rico Electric Power Authority (PREPA) | \$ 2,153,358 | CU-13 |
| Puerto Rico Aqueduct and Sewer Authority (PRASA) | 2,290 | |
| Accounts payable to other governmental entities | <u>1,920,042</u> | |
| Total | <u>\$ 4,075,690</u> | F/S-14 |

Due to PREPA and PRASA

The balance due to PREPA and PRASA as of June 30, 2023 corresponds to electricity and water services, respectively. During the year ended June 30, 2023, the Corporation incurred approximately \$2,296,000 for electricity services and \$16,000 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 by approximately \$23.8 million. The remaining amount due to the PBA was extinguished during fiscal year 2023 resulting in a gain on debt extinguishment of approximately \$9.7 million for the year ended June 30, 2023.

Note 10 - Leases and subscription obligations

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 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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 10 - Leases and subscription obligations – (continued)

The Corporation as lessee – (continued)

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 in December 2027, and requiring monthly payments.

As of June 30, 2023, 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, 2022 | CU-5 | Additions | Deductions | Balance June 30, 2023 |
|--|-------------------------|-------------|------------------|-------------|--------------------------|
| | | | CU-5 | | |
| Right-of-use lease assets | \$ 160,992 | | \$ 159,500 | \$ - | \$ 320,492 |
| Right-of-use lease assets accumulated amortization | (29,653) | | (66,345) | - | (95,998) |
| Total right-of-use assets, net | <u>\$ 131,339</u> | | <u>\$ 93,155</u> | <u>\$ -</u> | <u>\$ 224,494</u> |

The Corporation made principal payments of \$63,546 during the year ended on June 30, 2023, which reduced the leases liability included in the statement of net position to \$227,293. Right of use amortization expenses of \$66,345 and interest expenses of \$1,308 for the year ended on June 30, 2023, are included in rent and other expenses on the accompanying statement of revenues, expenses and changes in net position (deficit).

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 10 - Leases and subscription obligations – (continued)

The Corporation as lessee – (continued)

As of June 30, 2023, the principal and interest requirements to maturity for the lease liability is as follows:

| <u>Years ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|-------------------|------------------|-------------------|
| 2024 | \$ 77,462 | \$ 8,511 | \$ 85,973 |
| 2025 | 59,729 | 6,223 | 65,953 |
| 2026 | 38,637 | 4,119 | 42,755 |
| 2027 | 36,292 | 2,043 | 38,335 |
| 2028 | 15,173 | 226 | 15,399 |
| | <u>\$ 227,293</u> | <u>\$ 21,123</u> | <u>\$ 248,415</u> |

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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 10 - Leases and subscription obligations – (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 4.14%, depending on the duration of the lease contract, among other factors.

Lease income from noncancellable long-term leases amounted to approximately \$1,060,000 for the year ended June 30, 2023. Interest income from noncancellable long-term leases amounted to approximately \$124,000 for the year ended June 30, 2023. Lease income is included in other revenues while interest income is included in non operating income (loss) 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 \$4,732,000 as of June 30, 2023.

At June 30, 2023, the Corporation had minimum principal and interest lease receivable payment requirements in its lessor activity as follows:

| <u>Years ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|---------------------|---------------------|---------------------|
| 2024 | \$ 812,865 | \$ 107,469 | \$ 920,334 |
| 2025 | 706,504 | 93,903 | 800,406 |
| 2026 | 532,788 | 81,807 | 614,595 |
| 2027 | 188,526 | 73,595 | 262,121 |
| 2028 | 196,849 | 66,656 | 263,505 |
| 2029 - 2033 | 938,068 | 221,707 | 1,159,775 |
| 2034 - 2038 | 264,339 | 135,811 | 400,150 |
| 2039 - 2043 | 235,496 | 113,620 | 349,116 |
| 2044 - 2048 | 317,882 | 86,839 | 404,721 |
| 2049 - 2053 | 417,981 | 51,201 | 469,183 |
| 2054 - 2058 | 303,693 | 9,236 | 312,929 |
| | <u>\$ 4,914,991</u> | <u>\$ 1,041,844</u> | <u>\$ 5,956,836</u> |

Subscription assets

Subscription assets are amortized on a straight-line basis over the life of the subscription. Amortization expense charged for the fiscal year ended June 30, 2023 amounted to approximately \$563,000.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 10 - Leases and subscription obligations – (continued)

Subscription assets – (continued)

As of June 30, 2023, the total amount of subscription assets, and the related accumulated amortization and changes therein for the year then ended, are as follows:

| | Balance July 1, 2022 | Additions | Deductions | Balance June 30, 2023 |
|---|-------------------------|---------------------|-------------|--------------------------|
| Right-of-use subscriptions | \$ 2,429,055 | \$ 4,226,677 | - | \$ 6,655,732 |
| Right-of-use subscriptions accumulated amortization | (1,255,012) | (562,654) | - | (1,817,666) |
| Total right-of-use assets, net | <u>\$ 1,174,043</u> | <u>\$ 3,664,023</u> | <u>\$ -</u> | <u>\$ 4,838,066</u> |

Subscriptions liability

As of June 30, 2023, the Corporation's subscriptions liability totaled approximately \$1,158,000 and changes therein for the year then ended, are as follows:

| | Balance July 1, 2022 | Additions | Deductions | Balance June 30, 2023 |
|-------------------------|-------------------------|-------------------|---------------------|--------------------------|
| Subscriptions liability | <u>\$ 1,264,034</u> | <u>\$ 510,418</u> | <u>\$ (616,433)</u> | <u>\$ 1,158,019</u> |

The principal and interest requirements to maturity for the subscriptions liability are as follows:

| Years ending June 30, | Principal | Interest | Total |
|-----------------------------------|-------------------|------------------|-------------------|
| 2024 | \$ 633,746 | \$ 53,260 | \$ 687,006 |
| 2025 | 342,263 | 19,853 | 362,116 |
| 2026 | 100,512 | 9,896 | 110,408 |
| 2027 | 81,498 | 4,849 | 86,347 |
| | 1,158,019 | 87,858 | 1,245,877 |
| Less: current portion | (633,746) | (53,260) | (687,006) |
| Long-term subscriptions liability | <u>\$ 524,273</u> | <u>\$ 34,598</u> | <u>\$ 558,871</u> |

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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 \$560,000 as of June 30, 2023.

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 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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 11 - Commitments and contingencies – (continued)

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, 2023, 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 hospitals may begin participation for EHR reporting periods in 2016 and would have to be successfully demonstrating meaningful use in order to avoid a negative payment adjustment. 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, 2023. Also, the drugs utilization fees amounted to approximately \$5,514,000 for the year ended June 30, 2023.

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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 12 - Retirement plan – (continued)

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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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 1, 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 1, 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.

Cardiovascular Center Corporation
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Notes to Financial Statements (Continued)

June 30, 2023

Note 12 - Retirement plan – (continued)

Total pension liability and actuarial information

The total pension liability recorded by the Corporation as of June 30, 2023 (measurement date June 30, 2022) amounted to \$41,101,066, 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, 2023 (measurement date June 30, 2022) was determined by actuarial valuations as of July 1, 2021, that were rolled forward to June 30, 2022 (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, 2022 (measurement date), the Corporation's proportion was 0.18554%.

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, 2022 (measurement date) was 3.54%. 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, 2022 (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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 12 - Retirement plan – (continued)

Total pension liability and actuarial information – (continued)

Mortality – (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. This assumption is also used for beneficiaries prior to the member's death.
- 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, 2022

| | |
|-----------------------|--|
| Actuarial cost method | Entry age normal |
| Inflation rate | Not applicable |
| Salary increases | 3.00% per year. No compensation increases are assumed until July 1, 2022 as a result of Act No. 3 of 2017, four-year extension Act No. 66 of 2014 and the current general economy. |

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 12 - Retirement plan – (continued)

Total pension liability and actuarial information – (continued)

(b) 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, 2023 (measurement date June 30, 2022) for ERS, calculated using the discount rate of 3.54%, 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 (2.54%) or 1% point higher (4.54%) than the current rate:

| | 1% Decrease (2.54%) | Current Discount Rate (3.54%) | 1% Increase (4.54%) |
|---|------------------------|-------------------------------------|------------------------|
| Corporation's proportionate share of total pension liability | \$ 45,993,374 | \$ 41,101,066 | \$ 37,034,149 |

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, 2023 are as follows:

| | Deferred outflows of resources |
|---|-----------------------------------|
| Difference between actual and expected experience | \$ 515,617 |
| Changes in assumptions | 3,317,319 |
| Changes in proportion | 10,134,633 |
| Pension benefits paid subsequent to the measurement date | 1,669,825 |
| | <u>\$ 15,637,394</u> |
| | Deferred inflows of resources |
| Difference between actual and expected experience | \$ 871,488 |
| Changes in assumptions | 3,233,385 |
| | <u>\$ 4,104,873</u> |

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 12 - Retirement plan – (continued)

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2023 will be recognized in the pension expense in the Corporation's financial statements as follows:

| Years ending June 30, | Amount |
|--------------------------|---------------------|
| 2024 | \$ 7,986,320 |
| 2025 | <u>1,876,376</u> |
| | <u>\$ 9,862,696</u> |

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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 13 - Total other postemployment benefit liability – (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, 2023 (measurement date June 30, 2022) amounted to \$590,612, 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, 2023 (measurement date June 30, 2022) was determined by actuarial valuation as of July 1, 2021 that was rolled forward to June 30, 2022 (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, 2023, the Corporation's proportion of the OPEB plan liability was 0.08491%.

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, 2022 (measurement date) was 3.54%. 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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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

Mortality

The mortality tables used in the June 30, 2022 (measurement date) actuarial valuation were as follows:

- Post-Retirement Mortality - Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree 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.

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, 2023 (measurement date June 30, 2022) calculated using the discount rate of 3.54%, 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 (2.54%) or 1% point higher (4.54%) than the current rate:

| | 1% Decrease (2.54%) | Current Discount Rate (3.54%) | 1% Increase (4.54%) |
|--|------------------------|-------------------------------------|------------------------|
| Corporation's proportionate share of OPEB liability | <u>\$ 642,854</u> | <u>\$ 590,612</u> | <u>\$ 545,700</u> |

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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

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 \$54,100 as of June 30, 2023.

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 as of June 30, 2023 is as follows:

| | |
|--|-------------|
| Triple S | 19% |
| MMM Healthcare | 13% |
| Medical Card System | 5% |
| Medicare | 4% |
| Self Pay (mostly deductibles, non-covered charges and private patient accounts) | 31% |
| Other third-party payors | 28% |
| | <u>100%</u> |

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, 2023 are as follow:

| | |
|----------------------------|----------------------|
| Health care services | \$ 76,702,368 |
| General and administrative | <u>15,203,671</u> |
| | <u>\$ 91,906,039</u> |

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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.

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.

The Corporation has 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).

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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

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, 2023 are as follows:

| | |
|---|---------------------|
| Provider Relief Fund | \$ 1,527,508 |
| Coronavirus Relief Fund | 48,601 |
| FEMA | 2,544,686 |
| Community Development Block Grant - Disaster Recovery | 126,078 |
| Coronavirus State and Local Recovery Fund | <u>2,018,466</u> |
| | <u>\$ 6,265,339</u> |

As of June 30, 2023, the Corporation has recognized unearned revenues for unexpended federal grants and other programs as follows:

| | |
|---|----------------------|
| FEMA | \$ 7,394,584 |
| Coronavirus State and Local Recovery Fund | 376,265 |
| Local Government Contributions | <u>12,485,187</u> |
| | <u>\$ 20,256,036</u> |

The Corporation believes that 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.

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, 2023.

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.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

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, 2023, consist of the following:

| <u>Description</u> | <u>2023</u> |
|--|----------------------------|
| Funds received from the Puerto Rico Treasury Department for the payment of the employees' Upside Participation Bonus | \$ 1,574,091 |
| Funds received during FY2020 from the Puerto Rico Treasury Department for surgery house staff | 200,000 |
| Funds received from the Puerto Rico Treasury Department for capital and medical equipment expenditures | <u>5,800,357</u> |
| | <u><u>\$ 7,574,448</u></u> |

During the year ended June 30 2023, the Corporation received conditional contributions from the Commonwealth of Puerto Rico amounting to \$9,785,321, for capital and medical equipment expenditures and for the payment of the employees Upside Participation Bonus. As of June 30, 2023, \$12,485,187, 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 June 27, 2024, 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.

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. The project was completed during 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 July 2024.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2023

Note 18 - Subsequent events – (continued)

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, 2023, 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, 2024.

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

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Proportion (percentage) of the net collective total pension liability | <u>0.18554%</u> | <u>0.11512%</u> | <u>0.10759%</u> | <u>0.10492%</u> | <u>0.10083%</u> |
| Proportion (amount) of the net collective total pension liability | <u>\$ 41,101,066</u> | <u>\$ 31,295,686</u> | <u>\$ 30,201,269</u> | <u>\$ 26,073,701</u> | <u>\$ 24,692,768</u> |

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

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Proportion of the collective net OPEB liability | <u>0.08491%</u> | <u>0.08392%</u> | <u>0.08727%</u> | <u>0.08416%</u> | <u>0.07943%</u> | <u>0.07909%</u> | <u>0.07496%</u> |
| Proportionate share of the collective net OPEB liability | <u>\$590,612</u> | <u>\$669,808</u> | <u>\$763,304</u> | <u>\$700,445</u> | <u>\$668,918</u> | <u>\$728,015</u> | <u>\$888,328</u> |

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.