

**CENTER FOR INVESTIGATION, EDUCATIONAL AND MEDICAL SERVICE
FOR DIABETES OF PUERTO RICO**

dba

**Center of Diabetes for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

June 30, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Center for Investigation, Educational and
Medical Services for Diabetes of Puerto Rico
San Juan, Puerto Rico

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the **Center for Investigation, Educational and Medical Services for Diabetes of Puerto Rico (the Center's)** as of and for the fiscal year ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the **Center's** basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the **Center's**, as of June 30, 2021 and 2020, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the **Center's**, 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 opinions.

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 **Center'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.

Auditor's 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 auditor's report that includes our opinions. 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Center'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 Center'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 information 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 Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as whole. The supplementary information on page 23 is presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Governmental Auditing Standards, we have also issued a separated report dated August 29, 2022 on our consideration of the Center for Investigation, Educational and Medical Services for Diabetes of Puerto Rico internal control and our tests of its compliance with certain provision of laws, regulations, contracts agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

Ferrnando Valdivia Stompay, PSC

August 29, 2022

Stamp number
affixed to original



MANAGEMENT DISCUSSION ANALYSIS

The Center for Investigation, Education and Medical Service for Diabetes of Puerto Rico (Center of Diabetes for Puerto Rico) is a public corporation and a component unit of the Commonwealth of Puerto Rico, created by Law No. 166 approved on August 12, 2000. The purposes of the Center of Diabetes for Puerto Rico are to perform studies, provide medical training, education, as well as outpatient and other related medical services to the diabetic population around the island and the neighbor countries. The Center of Diabetes for Puerto Rico offers to the financial statements readers this narrative overview and analysis of the financial activities for the fiscal years ended June 30, 2021 and 2020.

Financial Highlights

- The total liabilities of the Center of Diabetes for Puerto Rico at the close of the fiscal years ended June 30, 2021 and 2020 amounted to \$368,027 and \$381,177 each one, comprised of the accruals required under GASB No. 34 for payables, payroll taxes, rent payable, vacations and unearned revenues in 2021 and 2020, please refer to statement of net position for specific accounts detail. The assets exceeded its liabilities by \$429,631 and \$554,067 for 2021 and 2020, as reflected from the above analysis the Center of Diabetes for Puerto Rico has the resources to meet its ongoing obligations. The principal component of assets consists of unrestricted cash in the amount of \$307,913 and \$468,645 for 2021 and 2020.
- The Center of Diabetes for Puerto Rico's total net change in net position decreased by \$124,436 for 2021 and \$297,459 for 2020. The principal concept for the decrease on 2021 and 2020 is attributable to the decrease in legislative appropriations, which the Center has to react to such decreases with cuts over operating expenses including professional services.
- The Center of Diabetes for Puerto Rico received a subsidy (legislature appropriation) by the Commonwealth of Puerto Rico of \$338,000 and \$339,000 for 2021 and 2020, respectively.
- The Center of Diabetes for Puerto Rico recognized intergovernmental transactions between the UPR Medical Science School and the Center for monthly lease obligations in the amount of \$4,594. At June 30, 2021 and 2020 the total outstanding debt of such commitment amounted to \$222,933 and \$218,699, respectively. At the same time, it recognized a receivable balance from the UPR Medical Science School of \$56,442 for 2021 and 2020, related to some space rent at the Center of Diabetes for Puerto Rico's facilities.
- Operating expenses reflects decreases in relation to last year and basically consist of less depreciation expense and professional services on medical and other services.

Overview of the Financial Statements

This Management's Discussion and Analysis document is intended to serve as an introduction to the Center of Diabetes for Puerto Rico's basic financial statements. The Center's basic financial statements comprise of four components: 1) statements of net position 2) statements of revenue, expenses and changes in net position, 3) cash flows and 4) notes to the financial statements.

Statements of net position summarize the financial position of the Center of Diabetes for Puerto Rico as of June 30, 2021 and 2020. The financial position includes its economic resources (assets), obligations (liabilities) and net position and their relationships to each other at a moment of time. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Center of Diabetes for Puerto Rico is improving or deteriorating as a result of the year's operations.

The statements of revenue, expenses and changes in net position present information showing how the Center of Diabetes for Puerto Rico's net position changes during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statements of cash flows provide information about the Center of Diabetes for Puerto Rico's cash receipts and cash payments during an accounting period. It also provides information about the cash effects of an entity's operating, investing and financing activities during an accounting period.

The Statements of Net Position, Statements of Revenue, Expenses and Changes in Net Position and Cash Flows of the Center of Diabetes for Puerto Rico's finances can be found on pages 6 to 8 of this report.

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 10 to 21 of this report.

A supplementary information has been included in addition to the basic financial statements and basically consist of an Operating Expense – General and Administrative schedule detailing of all expenses not presented on the Statements of Revenue, Expenses and Changes in Net Position.

Financial Analysis

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Center of Diabetes for Puerto Rico is accounted for as a discretely presented component unit of the Commonwealth of Puerto Rico.

The financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when incurred. As allowed by Government Accounting Standard Board ("GASB") Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting".

Capital Assets

The capital assets of the Center of Diabetes for Puerto Rico are those assets that are used in the performance of its functions. The investment in capital assets for the fiscal year ended June 30, 2021 and June 30, 2020 amounted to \$0 and \$0, respectively. Major capital asset events during 2021 consist of the following:

- None.

REQUEST OF INFORMATION

This financial report is designed to provide a general overview of the Center of Diabetes for Puerto Rico's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Division of the Center of Diabetes for Puerto Rico, Centro Medico Mail Station, P.O. Box 70344, PMB-87, San Juan, Puerto Rico 00936.

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Net Position
As of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets:		
Unrestricted cash	\$ 307,913	\$ 468,645
Accounts receivable, net	88,469	89,107
Inventory	760	729
Prepaid expenses	369	351
Capital assets, net	<u>400,147</u>	<u>376,412</u>
Total assets	<u><u>\$ 797,658</u></u>	<u><u>\$ 935,244</u></u>
Liabilities:		
Accounts payable, trade	\$ 61,740	\$ 60,437
Accrued payroll taxes	28,017	26,288
Accrued rent payable	222,933	218,699
Non-current liabilities - accrued vacations		
Due within one year	54,916	38,817
Due after one year	<u>421</u>	<u>36,936</u>
Total liabilities	<u><u>368,027</u></u>	<u><u>381,177</u></u>
Net position:		
Investment in capital assets	400,147	376,412
Unrestricted	<u>29,484</u>	<u>177,655</u>
Total net position	<u><u>429,631</u></u>	<u><u>554,067</u></u>
Total liabilities and net position	<u><u>\$ 797,658</u></u>	<u><u>\$ 935,244</u></u>

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

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Revenues, Expenses and Changes in Net Position
For the years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues:		
Patient service revenue, net	\$ 280,190	\$ 201,210
Less: Provision for bad debts	<u>(16,123)</u>	<u>(6,060)</u>
	264,067	195,150
Other operating revenues	<u>6,175</u>	<u>4,679</u>
Total revenues	<u>270,242</u>	<u>199,829</u>
Operating expenses:		
Salaries and employee benefits	394,038	424,647
Depreciation expense	38,676	31,028
Rent	59,642	59,364
Professional services		
Accounting	42,275	43,600
Legal	21,085	35,933
Audit services	6,500	6,500
Medical	124,048	138,045
Programmers	25,262	20,083
Others	32,027	26,965
Insurance expense	17,893	22,336
Cost of sales - nutristore	1,959	5,239
General and administrative	<u>34,866</u>	<u>31,796</u>
Total expenses	<u>798,271</u>	<u>845,536</u>
Operating (loss) before non-operating revenues	(528,029)	(645,707)
Non-operating revenues:		
Legislature appropriations by the Commonwealth of Puerto Rico	338,000	339,000
Other income	65,593	6,055
Interest income	<u>-</u>	<u>3,193</u>
Total non-operating revenue	<u>403,593</u>	<u>348,248</u>
Decrease in net position	(124,436)	(297,459)
Net position, beginning of year	<u>554,067</u>	<u>851,526</u>
Net position, end of year	<u>\$ 429,631</u>	<u>\$ 554,067</u>

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

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Cash Flows
For the years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Operating (loss) before non-operating revenues	\$ (528,029)	\$ (645,707)
Adjustments to reconcile (loss) before non-operating revenues to net cash (used in) operating activities:		
Depreciation	38,676	31,028
Bad debts expenses	(6,059)	12,881
(Increase)/decrease in receivables	(5,421)	3,078
(Increase)/Decrease in inventory	(31)	490
(Increase) in prepaid expenses	(18)	(29)
Increase in accounts payable	1,303	11,330
Increase in rent payable	4,234	540
(Decrease)/increase in accrued payroll taxes	1,729	(2,102)
(Decrease)/increase in accrued vacations	<u>(20,416)</u>	<u>701</u>
Total adjustments	<u>13,997</u>	<u>57,917</u>
Net cash (used in) operating activities	<u>(514,032)</u>	<u>(587,790)</u>
Cash flows from investing activities:		
Non-operating income (rent, interest and others)	65,593	9,248
Acquisition of property and equipment	<u>-</u>	<u>-</u>
Net cash provided by investing activities	<u>65,593</u>	<u>9,248</u>
Cash flows from non-capital financing activities:		
Legislature appropriations	338,000	339,000
Sponsor Income	<u>-</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>338,000</u>	<u>339,000</u>
Net (decrease) in cash and cash equivalents	(160,732)	(239,542)
Cash and cash equivalents at beginning of year	<u>468,645</u>	<u>708,187</u>
Cash and cash equivalents at end of year	<u>\$ 307,913</u>	<u>\$ 468,645</u>

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

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2021 and 2020

Note 1 – Organization and Summary of Significant Accounting Policies

Organization

The Center for Investigation, Educational & Medical Service for Diabetes of Puerto Rico (the "Center of Diabetes for Puerto Rico") is a public corporation and a component unit of the Commonwealth of Puerto Rico, created by Act No. 166 approved on August 12, 2000. The purposes of the Center of Diabetes for Puerto Rico are to perform studies, provide medical training, education, as well outpatient and other related medical services to the diabetic population around the island and the neighbor countries.

The Financial Reporting Entity

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Center of Diabetes for Puerto Rico is accounted for as a discretely presented component unit of the Commonwealth of Puerto Rico.

Measurement Focus, Basis of Accounting and Financial Presentation

The Center of Diabetes for Puerto Rico uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis of accounting, using the economic resources measurement focus. The Center of Diabetes for Puerto Rico adopted Governmental Accounting Standards Board (GASB) Statement No. 62, which objective is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The GASB also allows the Corporation to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict or contradict with GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20. The adoption of GASB statement No. 62 did not have an effect on the Corporation's financial statements.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively.

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)
June 30, 2021 and 2020

Note 1 – Organization and Summary of Significant Accounting Policies - continued

Measurement Focus, Basis of Accounting and Financial Presentation – continued

Previous financial reporting standards do not include guidance for reporting these financial statement elements, which are distinct from assets and liabilities. There was no impact on the Center of Diabetes for Puerto Rico's financial statements because of the GASB Statement No. 63

Risk Financing

The Center of Diabetes for Puerto Rico carried commercial insurance to cover for casualty, theft, tort claims and other losses. Current insurance policies have not been cancelled or terminated. Also, pays premiums for workmen compensation insurance to another component unit of the Commonwealth of Puerto Rico. Settled claims have not exceeded this commercial insurance coverage in any of the four preceding years.

Use of Estimates

The preparation of the basic 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 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 cash on hand, cash on banks and short-term investments with maturities of three months or less. The Center of Diabetes for Puerto Rico is restricted by law to deposit in banks qualified as depository of public funds by the Puerto Rico Treasury Department.

Restricted cash

Restricted cash consists of cash available from private entities contributions restricted for specific medical investigations of diabetes diseases. They are also restricted for capital assets acquisitions and improvements.

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)
June 30, 2021 and 2020

Note 1 – Organization and Summary of Significant Accounting Policies - continued

Valuation of accounts receivable

The Center of Diabetes for Puerto Rico makes judgments as to the collectability of accounts receivables based on historical trends and future expectations. Management estimates an allowance for doubtful accounts, which represents the collectability of patient service accounts receivables. 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 180 days using the Center for Diabetes for Puerto Rico's accounts receivable aging.

Inventories of supplies

Inventories of supplies consisting of over the counter medicines, food and other products, they are stated at the lower of cost or market on a first-in, first-out basis.

Capital Assets

Capital assets, which include property and equipment, are stated at cost, except for contributions of property received from the Commonwealth of Puerto Rico and others, which are recorded at the appraised value at the date of contribution. Provision for depreciation of property and equipment is computed using the straight-line-method over their estimated useful lives of assets. Maintenance and repairs are charged to expenses as incurred. Expenditures for major renewals and betterments that extend the useful lives of the assets are capitalized.

Compensated Absences

Compensated absences are accrued when earned by the employees. Employees may carry-forward their compensated absences as permitted by statute and may settle them in a cash payment from the Center of Diabetes for Puerto Rico, if employment has ceased. The vacation policy of the Commonwealth of Puerto Rico that applies to the Office employees provides for the accumulation of one and a quarter (1.25) days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of sixty (60) days. Office's employees accumulate sick leave at a maximum of ninety (90) days.

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)
June 30, 2021 and 2020

Note 1 – Organization and Summary of Significant Accounting Policies - continued

Tax exemption

The Center of Diabetes for Puerto Rico is exempt from all income, municipal and excise taxes, including license fees, imposed by the Commonwealth of Puerto Rico or any of its subdivisions, which includes all operations, fixed and movable property, capital, revenue and surplus.

Net position

Net position of the Center of Diabetes for Puerto Rico is classified in three components. Net position invested in capital asset net of related debt, consists of capital assets net of accumulated depreciation and reduced by the spent portion of outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. Unspent related debt proceeds at year are not included in the determination of amount invested in capital assets.

Restricted net position are non-capital net assets that must be used for a purpose, as specified by contributor external to the Center of Diabetes for Puerto Rico. As of June 30, 2021, no restricted net position exists.

Unrestricted net position is the component of net assets that does not meets the definition of invested in capital assets net of related debt or restricted net position.

Net patient service revenue

The Center of Diabetes for Puerto Rico has agreements with third-party payors that provide for payments to the Center of Diabetes for Puerto Rico 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 estimates retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimate basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)
June 30, 2021 and 2020

Note 1 – Organization and Summary of Significant Accounting Policies - continued

Net patient service revenue –continued

The Center of Diabetes for Puerto Rico adopted the requirements of the 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 to present as separate line items on the face of the statement of income, 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 Center of Diabetes for Puerto Rico'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.

Operating revenues and expenses

The Center of Diabetes for Puerto Rico statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care related services, the Center of Diabetes for Puerto Rico's principal activity. Other non-operating revenues include appropriations received from the Commonwealth of Puerto Rico for purposes other than operations and capital assets acquisition, are reported as non-operating revenues. Operating expenses are all the expenses incurred to provide health care related services, other than financing costs and normal operating activities.

Legislature Appropriations

The Commonwealth of Puerto Rico granted to the Center of Diabetes for Puerto Rico annual appropriations of \$338,000 and \$339,000, for their fiscal years ended on June 30, 2021 and 2020, respectively, and is available for operations and capital expenses as a subsidy for their actual deficits.

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)
June 30, 2021 and 2020

Note 1 – Organization and Summary of Significant Accounting Policies - continued

GASB Statement No. 75

The Center of Diabetes for Puerto Rico follows the provisions of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, which replaces GASB Statement No. 45. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by other entities.

As of June 30, 2021 and 2020, the Center of Diabetes for Puerto Rico does not have postemployment retirees and for that reason there has been no impact on the financial statements.

Note 2 – Deposits

The Center of Diabetes for Puerto Rico adopted GASB Statement No. 40 “Deposit and Investment Risk Disclosures” an amendment of GASB Statement No. 3.

Custodial credit risk for deposits is the risk that in the event of bank failure, the Center of Diabetes for Puerto Rico may not be able to recover deposits that are in the possession of an outside party. The carrying amounts of deposits amounted to \$ 308,784 and \$470,914 as of June 30, 2021 and 2020, respectively. From the bank statements balance, is not insured or collateralized because such amounts are over the Federal Deposit Insurance Corporation insured amount of \$250,000, which is the collateral requirement of the Commonwealth of Puerto Rico banking regulations. But such financial institutions are highly respectable financial institution with strong credit rating and management believes that credit risk related to these deposits is minimal.

Concentration of credit risk – the Center of Diabetes for Puerto Rico has deposits amounting to \$307,726 and \$468,532 on one financial institution, representing more than 5% of total deposits as of June 30, 2021 and 2020 respectively. The Center of Diabetes for Puerto Rico’s deposit guidelines specify that no more than 5% of Center of Diabetes for Puerto Rico’s assets at market shall be deposited in one single institution.

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)
June 30, 2021 and 2020

Note 3 – Account Receivable

Accounts receivable at June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Patients and third-party payors	\$ 74,306	\$ 58,822
Less: allowance for doubtful accounts	<u>(60,446)</u>	<u>(44,324)</u>
	13,860	14,498
Other receivable	<u>74,609</u>	<u>74,609</u>
Accounts receivable, net	<u>\$ 88,469</u>	<u>\$ 89,107</u>

At June 30, 2021 and 2020, other receivable has \$74,442 that are transactions with a related government agency. Part of that total correspond to a rental space with RCM dental practice, please refer to note 6 for further detail.

Note 4 – Account Receivable from Restricted Donation Grants

The Center of Diabetes for Puerto Rico receives during the year several donations or grants directed to a specific purpose. Many of them are for the investigation in diabetic patients. In relation to these funds the Center of Diabetes for Puerto Rico have a gain of an approximately of 10% after incurring in the payment of the laboratories, medical studies and professional service personnel in charge of the investigation.

As of June 30, 2021 and 2020 the account receivable from restricted donation grants amounted to nil.

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)
June 30, 2021 and 2020

Note 5 – Capital Assets

Capital assets, additions, retirements and balances for the years ended June 30, 2021 and 2020 were as follows:

	2020	Additions/ Reclass	Retirements/ Adj.	2021
Property and equipment	\$ 816,956	\$ 4,669	\$ -	\$ 821,625
Information system	24,405	57,742	-	82,147
Furniture	113,757	-	-	113,757
Vehicle	20,993	-	-	20,994
Leasehold improvements	924,554	-	-	924,554
	<u>\$ 1,900,665</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,963,076</u>

Less accumulated depreciation and amortization for:

	2020	Additions/ Reclass	Retirements/ Adj.	2021
Property and equipment	\$ 816,956	\$ -	\$ -	\$ 816,956
Information system	24,405	8,180	-	32,585
Furniture	113,305	389	-	113,305
Vehicle	20,993	-	-	20,993
Leasehold improvements	548,594	30,107	-	578,701
	<u>\$ 1,524,253</u>	<u>\$ 31,028</u>	<u>\$ -</u>	<u>\$ 1,562,930</u>

Capital assets – net \$ 376,412 \$ (38,676) \$ - \$ 400,147

	2019	Additions/ Reclass	Retirements/ Adj.	2020
Property and equipment	\$ 816,956	\$ -	\$ -	\$ 816,956
Information system	24,405	-	-	24,405
Furniture	113,757	-	-	113,757
Vehicle	20,993	-	-	20,993
Leasehold improvements	924,554	-	-	924,554
	<u>\$ 1,900,665</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,900,665</u>

Less accumulated depreciation and amortization for:

	2019	Additions/ Reclass	Retirements/ Adj.	2020
Property and equipment	\$ 816,956	\$ -	\$ -	\$ 816,956
Information system	24,405	-	-	24,405
Furniture	112,916	389	-	113,305
Vehicle	20,993	-	-	20,993
Leasehold improvements	517,955	30,639	-	548,594
	<u>\$ 1,493,225</u>	<u>\$ 31,028</u>	<u>\$ -</u>	<u>\$ 1,524,253</u>

Capital assets – net \$ 407,440 \$ (31,028) \$ - \$ 376,412

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)
June 30, 2021 and 2020

Note 6 – Rent

Payable

The Center of Diabetes for Puerto Rico rents its facilities with the UPR Medical Science Campus (a related company), through operating lease. As of June 30, 2021 and 2020, it has an outstanding balance payable to the UPR Medical Science Campus of \$222,933 and \$218,699, respectively. Rent expense under such lease agreements for the years ended June 30, 2021 and 2020 amounted to \$55,132 and \$55,132, respectively.

Receivable

The Center of Diabetes for Puerto Rico leases a dental office to the UPR Medical Science Campus and as of June 30, 2021 and 2020 it has a receivable balance of approximately \$56,442 and \$56,442, respectively.

Note 7 – Contingencies

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 government for previously billed patient services. While management of the Center of Diabetes for Puerto Rico believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Center of Diabetes for Puerto Rico 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 comply 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 Center of Diabetes for Puerto Rico's management believes that they are complying.

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)
June 30, 2021 and 2020

Note 7 – 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. Meaningful use compliance is required before the Federal Fiscal Year 2016 or otherwise the Center of Diabetes for Puerto Rico will incur penalties for non-compliance that may reduce future Medicare payments and potentially Medicare Advantage program payments. As of June 30, 2021 and 2020, the Center of Diabetes for Puerto Rico is under the implementation of its EHR system.

Other

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. The Center expects this matter to negatively continue to impact its operating results. The Center has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended June 30, 2021 and 2020 have not been adjusted to reflect their impact.

Note 8 – Retirement Plan

The Center of Diabetes for Puerto Rico participates in a defined contribution plan which covers all full-time employees who have one year of service and are age twenty-one or older. The employees contribute up to the less of 10% of their pretax annual compensation or \$11,000. The Center of Diabetes for Puerto Rico matching contribution to the plan equal 50% of employee contributions up to 3% of the base compensation for all eligible employees. As of June 30, 2021 and 2020 the Center of Diabetes for Puerto Rico made contribution to the plan or charged to pension cost in the amount of \$8,328 and \$6,266, respectively.

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2021 and 2020

Note 9 – Patient Service Revenue, net

Patient service revenue is recorded at established rates and is reduced by contractual adjustments, charity allowances and policy discounts to arrive at patient service revenue, net. Contractual adjustments that are subject to retroactive calculation arising under reimbursement agreements with third-party payors are accrued as estimated in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Patient service revenue as of June 30, 2021 and 2020, net are as follows:

	<u>2021</u>	<u>2020</u>
Gross patient service revenue	\$ 280,190	\$ 201,210
Less provision for contractual adjustments under third-party reimbursement programs	-	-
Patient service revenues, net	<u>\$ 280,190</u>	<u>\$ 201,210</u>

From the above ending balances 100% of such patient service revenues, net of contractual allowances and discounts comes from third-party payors contracts.

Changes in allowance for doubtful accounts on patients' accounts receivable for the years ended June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 44,324	\$ 38,264
Provision charged to operations	16,122	6,060
Write-off uncollectible accounts	-	-
Balance, end of year	<u>\$ 60,446</u>	<u>\$ 44,324</u>

Net patient service revenue from third-party payors is estimated fully collectible and it is recorded when the health care services are provided. Also, health care services provided to uninsured patients is recorded when the services are provided. The Center of Diabetes for Puerto Rico records provision for bad debts, as an operating expense in the accompanying statement of revenues, expenses, and change in net position, for accounts with balances over 180 days, for which collection efforts have been followed in accordance with the Center of Diabetes for Puerto Rico's policies, particularly amounts receivable from third-party payors. Provision for bad debts related to receivables from uninsured patients and for patients for whom it was assessed the patient does not have the ability to pay is recorded as a deduction of net patient service revenue in the accompanying statements of revenues, expense and changes in net position.

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)
June 30, 2021 and 2020

Note 9 – Patient Service Revenue, net - continued

At June 30, 2021 and 2020, 100% of the amounts reserved as uncollectible are related to third-party payors, which includes deductibles and co-insurance which the Center of Diabetes for Puerto Rico accounts for as patient balance.

Note 10 – Concentration of credit – patients' accounts receivable

The Center of Diabetes for Puerto Rico's grants credit without collateral to its patients, most of who are residents of Puerto Rico and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Triple S	41%	46%
Humana	3%	5%
First Medical	11%	3%
MMM	15%	15%
Others	<u>30%</u>	<u>31%</u>
	<u>100%</u>	<u>100%</u>

Note 11 – Other Operating Revenues

Other operating revenues for the year ended June 30, 2021 and 2020 consisted of:

	<u>2021</u>	<u>2020</u>
Nutritional-store sales	<u>\$ 6,175</u>	<u>\$ 4,679</u>
Total other operating revenues	<u>\$ 6,175</u>	<u>\$ 4,679</u>

Note 12 – Government Subsidy

The Commonwealth of Puerto Rico granted for the fiscal years ended on June 30, 2021 and 2020 to the Center of Diabetes for Puerto Rico appropriations to subsidize its operations in the amount of \$338,000 and \$339,000, respectively.

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2021 and 2020

Note 13 - Functional expenses

The Center of Diabetes for Puerto Rico provides general health care services to patients with diabetes conditions. Expenses, related to providing these services for the years ended June 30, 2021 and 2020 are as follow:

	<u>2021</u>	<u>2020</u>
Health care services	\$ 572,804	\$ 622,063
General and administrative	<u>225,467</u>	<u>223,473</u>
	<u>\$ 798,271</u>	<u>\$ 845,536</u>

Note 14 - Subsequent Events

Center of Diabetes for Puerto Rico evaluated subsequent events through August 29, 2022, which is the date the financial statements were available to be issued. There has been no subsequent event to the balance sheet date and to the date the financial statements were available to be issued, that would require adjustments to, or disclosure in, the financial statements.

SUPPLEMENTARY INFORMATION

CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
Operating Expenses - General and Administrative
For the years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Medical supplies	\$ 1,020	\$ 1,179
Office expenses	9,134	6,615
Telephone expenses	4,398	4,725
Postage and mailing expenses	219	189
Auto expenses	1,222	307
Equipment rental expense	5,280	5,082
Maintenance expense	5,798	6,380
Other services fees	3,528	1,726
Disposal & recycling	914	940
Continued education	-	25
Employee benefits expense	2,000	-
Advertising expenses	-	832
Miscellaneous expenses	<u>1,353</u>	<u>3,796</u>
 Total general and administrative expenses	 <u>\$ 34,866</u>	 <u>\$ 31,796</u>

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



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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**The Board of Directors
Center of Investigation, Educational and Medical Service for
Diabetics of Puerto Rico
San Juan, Puerto Rico**

We have audited, in accordance with auditing standards generally in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units and the aggregate remaining fund information of **Center for Investigation, Educational and Medical Service for Diabetics of Puerto Rico (the Center)**, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the **Center's** basic financial statements and have issued our report thereon dated August 29, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit, we considered the **Center's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Center's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Center's** internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such

opinion. The results of our tests disclosed **no** instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fernando Valbuena Horwary, PSC

August 29, 2022

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