

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

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

June 30, 2024 and 2023

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT DISCUSSION AND ANALYSIS	4
STATEMENTS OF NET POSITION	7
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	8
STATEMENTS OF CASH FLOWS	9
NOTES TO FINANCIAL STATEMENTS	11
SUPPLEMENTARY INFORMATION	31

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 business-type activities of the **Center for Investigation, Educational and Medical Services for Diabetes of Puerto Rico (the Center of Diabetes of Puerto Rico)** a component unit of the Commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the **Center of Diabetes of Puerto Rico'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 business-type activities of the **Center of Diabetes of Puerto Rico's**, as of June 30, 2024 and 2023, 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 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the **Center of Diabetes of Puerto Rico'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 of Diabetes of Puerto Rico'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 and Government 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 and government 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 of Diabetes of Puerto Rico'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 of Diabetes of Puerto Rico'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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as whole. The supplementary information on page 31 is presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Governmental Auditing Standards, we have also issued a separated report dated March 14, 2025 on our consideration of the **Center of Diabetes of Puerto Rico** internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, grants 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 the effectiveness of the **Center of Diabetes of Puerto Rico** internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards in considering the **Center of Diabetes of Puerto Rico's** internal control over financial reporting and compliance.

Fernando Valdivia Sotomayor, PSC

San Juan, Puerto Rico
March 14, 2025

Stamp number
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Center for Investigation, Educational and
Medical Service for Diabetes of Puerto Rico

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, 2024 and 2023.

Financial Highlights

- The total liabilities of the Center of Diabetes for Puerto Rico at the close of the fiscal years ended June 30, 2024 and 2023 amounted to \$2,393,367 and \$2,564,212 each one, comprised of the accruals required under GASB No. 34 for payables, payroll taxes, rent payable and vacations in 2024 and 2023, please refer to statement of net position for specific accounts detail. The assets exceeded its liabilities by \$2,199,657 and \$736,059 for 2024 and 2023, 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 cash (unrestricted and restricted) in the amounts of \$3,989,807 and \$2,894,030 for 2024 and 2023, respectively.
- The Center of Diabetes for Puerto Rico's total net change in net position increased by \$1,463,598 and \$292,705 for 2024 and 2023, respectively. The principal concept for the increase on 2024 is attributable to the increase in Contributions from the Commonwealth of Puerto Rico and Capital Expenditures Grants for \$1,057,000 when compared to prior year fiscal operations. On 2023 amount received amount to \$862,829.
- 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, 2024 and 2023 the total outstanding debt of such commitment amounted to \$218,159. At the same time, it recognized a receivable balance from the UPR Medical Science School of \$56,442 for 2024 and 2023, related to some space rent at the Center of Diabetes for Puerto Rico's facilities.
- Operating expenses reflects increases in relation to last year in approximately \$98,700 and basically consist of more professional services related to medical professional staffs.

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.

Overview of the Financial Statements - continued

Statements of net position summarize the financial position of the Center of Diabetes for Puerto Rico as of June 30, 2024 and 2023. 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 because 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 7 to 9 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 11 to 30 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. There was an influx of funds for the construction in progress of new facilities in the amount of \$200,000 for the fiscal year ended June 30, 2024.

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, 2024 and 2023

	<u>2024</u>		<u>2023</u>
Assets:			
Unrestricted cash	\$ 1,936,970	CU-1	\$ 641,193
Restricted cash	2,052,837		2,252,837
Accounts receivable, net	130,493		90,942
Prepaid expenses	407		393
Capital assets, net	<u>472,317</u>		<u>314,906</u>
Total assets	<u><u>\$ 4,593,024</u></u>	↓	<u><u>\$ 3,300,271</u></u>
Liabilities:			
Accounts payable, trade	\$ 59,160	CU-2	\$ 30,938
Accrued payroll taxes	28,181		27,888
Accrued rent payable	218,159		218,159
Deferred capital expenditure - non current	2,052,837		2,252,837
Non-current liabilities - accrued vacations			
Due within one year	34,609		33,969
Due after one year	<u>421</u>		<u>421</u>
Total liabilities	<u><u>2,393,367</u></u>		<u><u>2,564,212</u></u>
Net position:			
Investment in capital assets	472,317		314,906
Unrestricted	<u>1,727,340</u>		<u>421,153</u>
Total net position	<u><u>2,199,657</u></u>		<u><u>736,059</u></u>
Total liabilities and net position	<u><u>\$ 4,593,024</u></u>	↓	<u><u>\$ 3,300,271</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, 2024 and 2023

	<u>2024</u>		<u>2023</u>
Revenues:			
Patient service revenue, net	\$ 301,115	CU-3	\$ 186,099
Less: Provision for bad debts	<u>(5,567)</u>		<u>(1,866)</u>
	295,548		184,233
Other operating revenues	<u>787</u>		<u>1,099</u>
Total revenues	<u>296,335</u>		<u>185,332</u>
Operating expenses:			
Salaries and employee benefits	318,453		334,064
Depreciation expense	42,589		42,589
Rent	57,022		61,122
Professional services:			
Accounting	47,250		45,200
Legal	17,573		13,478
Audit services	7,000		6,500
Medical	214,666		149,230
Programmers	30,700		30,011
Others	77,572		53,788
Medical insurance expense	23,623		22,960
Insurance expense	18,824		15,782
Cost of sales - nutristore	1,515		1,138
Other operating expenses	<u>49,942</u>		<u>32,208</u>
Total expenses	<u>906,729</u>		<u>808,070</u>
Operating (loss) before non-operating revenues	<u>(610,394)</u>		<u>(622,738)</u>
Non-operating revenues:			
Contributions from the Commonwealth of Puerto Rico	1,057,000		200,000
Capital expenditures grants	200,000		-
General resolutions appropriations	662,598		662,829
Interest income	154,394		51,114
Other income	<u>-</u>		<u>1,500</u>
Total non-operating revenue	<u>2,073,992</u>		<u>915,443</u>
Increase in net position	1,463,598		292,705
Net position, beginning of year	<u>736,059</u>		<u>443,354</u>
Net position, end of year	<u>\$ 2,199,657</u>	↓	<u>\$ 736,059</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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities		
Patient services received	255,997	183,089
Other operating receipts	787	1,099
Payments for administrative expenses	(23,249)	(54,022)
Payments on rent	(57,022)	(61,122)
Payments for professional services	(394,761)	(298,207)
Payments for insurance	(42,447)	(38,742)
Payments to employees and wages	(317,520)	(344,804)
Net cash used in operating activities	<u>(578,215)</u>	<u>(612,709)</u>
Cash flows from investing activities:		
Non-operating income (rent, interest and others)	154,394	52,614
Construction in progress - new facilities	<u>(200,000)</u>	<u>-</u>
Net cash (used in)/provided by investing activities	(45,606)	52,614
Cash flows from capital and related financing activities:		
Deferred capital expenditure	<u>(200,000)</u>	<u>2,252,837</u>
Net cash (used in)/provided by capital and related financing activities	<u>(200,000)</u>	<u>2,252,837</u>
Cash flows from non-capital financing activities:		
Contributions from Commonwealth of Puerto Rico	1,057,000	862,829
Appropriations and capital expenditures grants	<u>862,598</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>1,919,598</u>	<u>862,829</u>
Net increase in cash and cash equivalents	1,095,777	2,555,571
Cash and cash equivalents at beginning of year	<u>2,894,030</u>	<u>338,459</u>
Cash and cash equivalents at end of year	<u>\$ 3,989,807</u>	<u>\$ 2,894,030</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 - Continued
For the years ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating (loss) before non-operating revenues	\$ (610,394)	\$ (622,738)
Adjustments to reconcile operating loss before non-operating revenues to net cash (used in) operating activities:		
Depreciation	42,589	42,589
Changes in assets and liabilities		
(Increase) in receivables	(39,551)	(1,144)
Decrease in inventory	-	581
(Increase) in prepaid expenses	(14)	(24)
Increase/(decrease) in accounts payable	28,222	(21,233)
Increase/(decrease) in accrued payroll taxes	293	(472)
Increase/(decrease) in accrued vacations	640	(10,268)
Total adjustments	<u>32,179</u>	<u>10,029</u>
Net cash (used in) operating activities	<u>(578,215)</u>	<u>(612,709)</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, 2024 and 2023

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's financial statements are presented as an enterprise fund and conform to the provision of Governmental Accounting Standards Board, Statement No. 34 (GASB No 34), Basic Financial Statements and Management's Discussion and Analysis for State and Local Government. GASB No 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 asset component as the unspent proceeds. As of 2024 and 2023, net assets invested in capital assets, net of related debt, consisted of the balance of capital assets.

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

Notes to Financial Statements
June 30, 2024 and 2023

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

Measurement Focus, Basis of Accounting and Financial 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”.

The financial statements of the Center of Diabetes for Puerto Rico 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.

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.

Unrestricted Cash

Unrestricted cash include cash on hand and cash on banks. 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.

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

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

Restricted cash

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

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.

Medical supplies

Medical supplies consisting of over the counter medicines, food, and other supplies-products, they are stated at the lower of cost or net realizable value on a First-in, First-out basis. The Center of Diabetes for Puerto Rico decide to recognized as expenses since amounts are immaterial for financial statement purpose.

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.

Accounting for the impairment of capital assets

The Center of Diabetes for Puerto Rico 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.

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

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

Accounting for the impairment of capital assets - continued

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.

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, 2024 and 2023 no capital assets were considered impaired by the Center of Diabetes for Puerto Rico.

Statement also establishes accounting requirements for insurance recoveries.

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.

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

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

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 Center of Diabetes for Puerto Rico employees provides for the accumulation of 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. Center of Diabetes for Puerto Rico's employees accumulate sick leave at a maximum of ninety (90) days.

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.

Operating revenues and expenses

The Center of Diabetes for Puerto Rico's 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 services, the Center of Diabetes for Puerto Rico'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.

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

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

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.

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.

A summary of patient service revenue, net of allowance and discounts, for the fiscal year ended June 30, 2024 is as follows:

Third-party payors	\$267,402
Self-pay patients	<u>33,713</u>
Patients service revenue (net of contractual allowances and discounts)	<u>\$301,115</u>

Related parties (other governmental entities)

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

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

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

Deposits and investment risks

The Center of Diabetes for Puerto Rico 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 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.

New accounting standards

The provisions of the following Governmental Accounting Standards Board (GASB) Statements were effective during the year ended June 30, 2024:

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 Center of Diabetes for Puerto Rico.

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

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

New accounting standards - continued

GASB No. 94, Public-Private and Public-Public Partnerships and Availability Payments Arrangements.

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

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

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.

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

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

New accounting standards - continued

The adoption of GASB statement No. 96 did not have a material impact on the basic financial statements and the Center of Diabetes for Puerto Rico have decided to deferred their implementation to next fiscal year (2025).

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.

The adoption of GASB statement No. 99 did not have a material impact on the basic financial statements of the Center of Diabetes for Puerto Rico.

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.

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

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

New accounting standards - continued

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 amounts of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

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

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

The adoption of GASB statement No. 100 did not have a material impact on the basic financial statements of the Center of Diabetes for Puerto Rico.

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

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

New accounting standards - continued

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

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

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

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

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long 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.

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

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

New accounting standards - continued

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

The adoption of GASB statement No. 101 did not have a material impact on the basic financial statements of the Center of Diabetes for Puerto Rico.

Accounting pronouncements issued but not yet effective

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:

- 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. The Center of Diabetes for Puerto Rico has decided to defer this statement to next fiscal year (2025).

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.

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

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

Accounting pronouncements issued but not yet effective - continued

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 Center of Diabetes for Puerto Rico financial statements upon adoption.

GASB No. 104, Disclosure of Certain Capital Assets. The objective of this Statement is to provides users of government financial statements with essential information concerning two types of capital assets: (1) capital assets associated with leases and other intangible assets and (2) capital assets held for sale. This Statement also addresses certain disclosure in the notes to the financial statements.

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 Center of Diabetes for Puerto Rico financial statements upon adoption.

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. Such deposits should be kept in separate accounts in the name of the institution.

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 \$4,013,645 and \$2,909,656 as of June 30, 2024 and 2023, respectively. From above amount, the bank statements balance is insured or collateralized up to \$250,000 from the Federal Deposit Insurance Corporation, uninsured amounted to \$3,763,645 and \$2,659,656 for fiscal year ended on June 30, 2024 and 2023, respectively. But, the Center for Diabetes for Puerto Rico consider that such financial institutions are highly respectable with strong credit rating and 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 \$3,989,783 and \$2,893,822 on one financial institution, representing more than 5% of total deposits as of June 30, 2024 and 2023 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, 2024 and 2023

Note 3 – Account Receivable

Accounts receivable at June 30, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Patients and third-party payors	\$102,605	\$57,486
Less: allowance for doubtful accounts	<u>(53,429)</u>	<u>(53,429)</u>
	49,175	4,057
Other receivable	<u>81,318</u>	<u>86,885</u>
Account receivable, net	<u>\$130,493</u>	<u>\$90,942</u>

At June 30, 2024 and 2023, other receivable has \$74,442 that are transactions with a related government agency. Part of that total correspond to a rental space with RCM & ELA dental practice, please refer to note 6 for further detail. Also, during June 30, 2024 the Center of Diabetes for Puerto Rico records a direct write off against others receivable in the amount of \$5,567.

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, 2024 and 2023 the account receivable from restricted donation grants amounted to nil.

Note 5 – Capital Assets

A detail of Capital Assets is as follows:

	<u>2024</u>	<u>2023</u>
Leasehold improvements	\$1,746,179	\$1,746,179
Furniture	113,757	113,757
Information system	82,147	82,147
Vehicles	20,994	20,994
Construction in progress	<u>200,000</u>	<u>-</u>
	1,963,077	1,963,077
Less: accumulated depreciation	<u>(1,690,760)</u>	<u>(1,648,171)</u>
Capital Assets, net	<u>\$ 472,317</u>	<u>\$ 314,906</u>

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

Note 6 – Deferred capital expenditure fund

Capital expenditure fund

The Center of Diabetes for Puerto Rico got assigned Capital Expenditure funds for the construction and remodeling of their future facilities. The amount received total \$2,052,837 in 2023 and such funds are restricted for their specific use. Since construction and remodeling are still in the planning stages, the Center have decided to maintain such funds as long-term liability at fiscal year-end June 30, 2024 and 2023. For June 30, 2024, the Center of Diabetes for Puerto Rico recognized \$200,000 from Public Building Authority funds as Construction in Progress as disbursement have been made for blue print and planning phases of the new facilities.

Note 7 – Compensated absence

Compensated absences correspond to accrued vacations at June 30, 2024 and 2023 and are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Compensated absences	<u>\$34,390</u>	<u>\$3,536</u>	<u>\$2,896</u>	<u>\$35,030</u>

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

Note 8 – Rent

Receivable

The Center of Diabetes for Puerto Rico leases a dental office to the UPR Medical Science Campus and as of June 30, 2024 and 2023 it has a receivable balance of approximately \$56,442.

Payable

The Center of Diabetes for Puerto Rico lease its facilities with the UPR Medical Science Campus (a related company). As of June 30, 2024 and 2023, it has an outstanding balance payable to the UPR Medical Science Campus of \$218,159. Rent expense under such lease agreements for the year ended June 30, 2024 amounted to \$50,538 and a rent warehouse \$6,484 which totals the rent amount for the year to \$57,022. As of June 30, 2024 and 2023 the lease was evaluated under the new guidelines of GASB Statement No. 87, Leases and it do not apply, since lease is renewable on a yearly basis.

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

Note 9 – 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.

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, 2024 and 2023, the Center of Diabetes for Puerto Rico is under the implementation of its EHR system.

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

Notes to Financial Statements
June 30, 2024 and 2023

Note 10 – 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, 2024 and 2023 the Center of Diabetes for Puerto Rico made contribution to the plan or charged to pension cost in the amount of \$7,225 and \$7,487, respectively.

Note 11 – 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, 2024 and 2023, net are as follows:

	<u>2024</u>	<u>2023</u>
Patient service revenue, net	\$301,115	\$186,099
Less: provision for bad debts	<u>(5,567)</u>	<u>(1,866)</u>
Patient service revenues, net	<u>\$295,548</u>	<u>\$184,233</u>

Changes in allowance for doubtful accounts on patients' accounts receivable for the years ended June 30, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Balance, beginning of year	\$53,429	\$53,429
Provision charged to operations	5,567	1,866
Write-off uncollectible account	<u>(5,567)</u>	<u>(1,866)</u>
Balance, end of year	<u>\$53,429</u>	<u>\$53,429</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

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

Note 11 – Patient Service Revenue, net(continued)

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.

Note 12 – 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, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Triple S	21%	36%
First Medical	43%	16%
MMM	10%	13%
MCS	9%	8%
Others	<u>17%</u>	<u>27%</u>
	<u>100%</u>	<u>100%</u>

Note 13 – Other Operating Revenues

Other operating revenues for the year ended June 30, 2024 and 2023 consisted of:

	<u>2024</u>	<u>2023</u>
Nutritional-store sales	<u>\$787</u>	<u>\$1,099</u>

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

Note 14 – Contributions from the Commonwealth of Puerto Rico

The Commonwealth of Puerto Rico contributions, included in non-operating income in the statement of revenues, expenses and changes in net position for the fiscal years ended on June 30, 2024 and 2023, consist of the following:

<u>Description</u>	<u>2024</u>	<u>2023</u>
Funds received from the Puerto Rico Treasury Department for the relocation and remodeling of the new facilities, the retention and recruitment of medical professionals, and to reinitiate the research program	\$1,057,000	\$200,000
Funds released from special assignment for relocation and remodeling of new facilities	200,000	-
Funds received from the Puerto Rico Commonwealth of Puerto Rico for subsidize its operations	662,598	662,598
	\$1,919,598	\$862,598

Note 15 - 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, 2024 and 2023 are as follow:

	<u>2024</u>	<u>2023</u>
Health care services	\$615,821	\$555,382
General and administrative	290,908	252,688
	\$906,729	\$808,070

Note 16 – Reclassification

Certain reclassifications have been made to the prior year Financial Statements to agree with the current year presentation.

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

Notes to Financial Statements (continued)
June 30, 2024 and 2023

Note 17 – Subsequent Events

Center of Diabetes for Puerto Rico evaluated subsequent events through March 14, 2025, 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

DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
Other Operating Expenses
For the years ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Medical supplies	\$ 1,518	\$ 335
Office expenses	12,017	6,537
Telephone expenses	11,382	10,555
Postage and mailing expenses	296	276
Auto expenses	-	472
Equipment rental expense	11,202	2,190
Maintenance expense	6,935	5,420
Other services fees	1,465	1,475
Disposal & recycling	1,680	1,320
Employee benefits expense	2,000	2,000
Miscellaneous expenses	<u>1,447</u>	<u>1,628</u>
Total other operating expense	<u>\$49,942</u>	<u>\$32,208</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

107 Isabel Andreu Aguilar St, 2nd Floor Hato Rey, PR 00918 • PO Box 10083 San Juan, PR 00922-0083

Tel: (787) 296-5693 • Fax: (787) 758-9858 • www.fvcompany.com

**The Board of Directors
Center of Investigation, Educational and Medical Service for
Diabetes 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 business-type activities of **Center for Investigation, Educational and Medical Service for Diabetics of Puerto Rico (the Center of Diabetes of Puerto Rico)** a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the **Center of Diabetes of Puerto Rico's** basic financial statements and have issued our report thereon dated March 14, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Center of Diabetes of Puerto Rico's** internal control over financial reporting as a basis for designing auditing procedures that are appropriate in circumstances 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 of Diabetes of Puerto Rico's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Center of Diabetes of Puerto Rico's** internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material 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 of Diabetes of Puerto Rico's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements.

Report on Compliance and Other Matters - continued

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 Valdivia Shoupanyi, PSC

San Juan, Puerto Rico
March 14, 2025

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Center for Investigation, Educational and
Medical Service for Diabetes of Puerto Rico