

**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, 2015 and 2014

TABLE OF CONTENTS

| | |
|---|----|
| INDEPENDENT AUDITORS' REPORT | 1 |
| MANAGEMENT DISCUSSION AND ANALYSIS | 3 |
| STATEMENTS OF NET POSITION | 6 |
| STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION | 7 |
| STATEMENTS OF CASH FLOWS | 8 |
| NOTES TO FINANCIAL STATEMENTS | 9 |
| SUPPLEMENTARY INFORMATION | 22 |



Fernández Valdivia & Company, PSC

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Center for Investigation, Educational and Medical Service for Diabetes of Puerto Rico (Center of Diabetes for Puerto Rico) a component unit of the Commonwealth of Puerto Rico, as of June 30, 2015 and 2014, and for the year then ended, and the related notes to financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments; the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Member of

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center of Diabetes for Puerto Rico as of June 30, 2015 and 2014, and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 to 5 be presented to supplement the basic financial statements. Such information, 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 pages 22 through 25 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information have 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 December 28, 2015 on our consideration of the Center of Diabetes for 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 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.

Fernández Valdivia & Company, PSC

December 28, 2015

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, 2015 and 2014.

Financial Highlights

- The total liabilities of the Center of Diabetes for Puerto Rico at the close of the fiscal years ended June 30, 2015 and 2014 amounted to \$529,447 and \$390,239 each one, comprised of the accruals required under GASB No. 34 for payables, payroll taxes, rent payable, vacations and unearned revenues in 2015 and 2014, please refer to statement of net assets for specific accounts detail. The assets exceeded its liabilities by \$2,285,099 and \$2,684,430, as reflected from the above analysis the Center of Diabetes for Puerto Rico has the resources to meet its ongoing obligations. The principal components of assets consist of unrestricted cash in the amount of \$1,714,929 and \$2,023,840 for 2015 and 2014.
- The Center of Diabetes for Puerto Rico's total net change in assets decreased by \$399,331 for 2015 and \$320,112 for 2014. The principal concept for the decrease on 2015 is attributable to a decrease in patient service. The decrease in net income in 2015 comes from an increase in professional services medical and accounting all related to improve service and operational results. Also during this fiscal year there was an increase in salaries and employee benefits and general and administrative.
- The Center of Diabetes for Puerto Rico received a subsidy (legislature appropriation) by the Commonwealth of Puerto Rico of \$700,000 if that money is not received on a yearly basis the Center will operate each year with recurring losses and deficits. Beginning on 2016 this subsidy will decrease to \$500,000 which may lead to recurring wider deficits.
- 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 \$10,508 suffering a reduction in lease in October to \$9,241. At June 30, 2015 and 2014 the total outstanding debt of such commitment amounted to \$114,694 and \$73,556, respectively. At the same time it recognized a receivable balance from the UPR Medical Science School of \$61,178 for 2015 and \$54,074 for 2014, related to some space rent at the Center's facilities.
- Operating expenses reflects increases in relation to last year and basically consist to professional services on medics and nurses contracted to improve medical services and opportunities on patient service revenues, all other operating expenses increase due to normal inflation rates.

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 activities 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 Diabetes Center as of June 30, 2015 and 2014. 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 activities and changes in net position present information showing how the Center of Diabetes for Puerto Rico's net assets 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'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 Activities 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 annual 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 9 to 21 of this report.

A supplementary information have 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 Activities and Changes in Net Position. Finally, there is a Donation – Grants Schedule detailing all grants received and their respective activities both fiscal years.

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.

Financial Analysis - continued

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, 2015 and June 30, 2014 amounted to \$30,885 and \$29,002 respectively. Mayor capital asset events during the fiscal year consist of the following:

- Additions of equipment and information system.

REQUEST OF INFORMATION

This financial report is designed to provide a general overview of the Diabetes Center'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 Diabetes Center of 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

June 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|--|----------------------------|----------------------------|
| Assets: | | |
| Unrestricted cash (notes 1 and 2) | \$ 1,714,929 | \$ 2,023,840 |
| Accounts receivable, net (notes 3 and 10) | 141,949 | 66,703 |
| Inventory (note 1) | 6,292 | 6,786 |
| Prepaid expenses | 3,058 | 3,564 |
| Capital assets, net (note 5) | 610,256 | 628,891 |
| Restricted cash (notes 1 and 2) | <u>338,062</u> | <u>344,885</u> |
| Total assets | <u><u>\$ 2,814,546</u></u> | <u><u>\$ 3,074,669</u></u> |
| Liabilities: | | |
| Accounts payable, trade | \$ 147,321 | \$ 87,349 |
| Accrued payroll taxes | 37,170 | 60,558 |
| Accrued rent payable (notes 6) | 167,232 | 73,554 |
| Non-current liabilities - accrued vacations (note 1) | | |
| Due within one year | 13,628 | 13,628 |
| Due after one year | 126,035 | 110,264 |
| Unearned restricted revenue (notes 4 and 12) | <u>38,061</u> | <u>44,886</u> |
| Total liabilities | <u><u>529,447</u></u> | <u><u>390,239</u></u> |
| Net Position (note 1): | | |
| Investment in capital assets | 610,256 | 628,891 |
| Unrestricted | <u>1,336,781</u> | <u>1,710,654</u> |
| | 1,947,037 | 2,339,545 |
| Restricted | <u>338,062</u> | <u>344,885</u> |
| Total net position | <u><u>2,285,099</u></u> | <u><u>2,684,430</u></u> |
| Total liabilities and net position | <u><u>\$ 2,814,546</u></u> | <u><u>\$ 3,074,669</u></u> |

See notes to 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

Years ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|--------------|--------------|
| Revenues: | | |
| Patient service revenues, net (notes 1 and 9) | \$ 212,163 | \$ 233,359 |
| Less: Provision for bad debts | (15,937) | (4,994) |
| | 196,226 | 228,365 |
| Other operating revenues (notes 1 and 12) | 91,843 | 71,693 |
| Total revenues | 288,069 | 300,058 |
| Operating expenses (notes 1 and 13): | | |
| Salaries and employee benefits | 524,029 | 519,109 |
| Depreciation expense | 53,251 | 49,566 |
| Rent (note 6) | 114,694 | 147,109 |
| Donation grants expense | 54,682 | 15,665 |
| Professional services | | |
| Accounting | 48,575 | 20,456 |
| Legal | 57,785 | 26,257 |
| Audit services | 23,200 | 6,750 |
| Medical | 213,824 | 252,817 |
| Programmers | 19,974 | 18,336 |
| Others | 146,000 | 156,671 |
| Medical insurance expense | 36,720 | 33,808 |
| Insurance expense | 27,282 | 30,781 |
| Cost of sales - nutristore | 15,109 | 23,404 |
| Continued Education Programs | 4,832 | 2,602 |
| General and administrative | 58,319 | 66,943 |
| Total expenses | 1,398,276 | 1,370,274 |
| Operating (loss) before non-operating revenues | (1,110,207) | (1,070,216) |
| Non-operating revenues: | | |
| Legislature appropriations by the Commonwealth of Puerto Rico (notes 1 and 11) | 700,000 | 700,000 |
| Rent income | 7,104 | 18,522 |
| Other income | 2,594 | 29,379 |
| Interest income | 1,178 | 2,203 |
| Total non-operating revenue | 710,876 | 750,104 |
| Decrease in net position | (399,331) | (320,112) |
| Net position, beginning of year (note 11) | 2,339,545 | 2,696,381 |
| Transfer in / (out) from restricted assets | 6,823 | (36,724) |
| Net position, end of year | \$ 1,947,037 | \$ 2,339,545 |

See notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|----------------|----------------|
| Cash flows from operating activities | | |
| Operating (loss) before government subsidies, rent and interest income | \$ (1,110,207) | \$ (1,070,216) |
| Adjustments to reconcile operating (loss) before government subsidies and interest income to net cash used in operating activities: | | |
| Depreciation | 53,251 | 49,566 |
| Bad debts expenses | 15,937 | 4,994 |
| (Increase) in receivables | (91,184) | (21,853) |
| Decrease in inventory | 494 | 1,455 |
| Decrease in prepaid expenses | 507 | 4,752 |
| Increase (decrease) in accounts payable | 59,972 | (14,106) |
| Increase in rent payable | 93,678 | 63,046 |
| (Decrease) in accrued payroll taxes | (23,388) | (41,427) |
| Increase (decrease) in accrued vacations | 15,771 | (18,490) |
| (Decrease) increase in unearned restricted donations | (6,825) | 36,725 |
| Total adjustments | 118,213 | 64,662 |
| Net cash (used in) operating activities | (991,994) | (1,005,554) |
| Cash flows from investing activities: | | |
| Non-operating income (rent and interest) | 10,876 | 50,104 |
| Acquisition of property and equipment | (34,616) | (29,002) |
| Net cash (used in) provided by investing activities | (23,740) | 21,102 |
| Cash flows from non-capital financing activities: | | |
| Legislature appropriations | 700,000 | 700,000 |
| Net (decrease) in cash and cash equivalents | (315,734) | (284,452) |
| Cash and cash equivalents at beginning of year | 2,368,725 | 2,653,177 |
| Cash and cash equivalents at end of year | \$ 2,052,991 | \$ 2,368,725 |

See notes to financial statements.

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

Notes to Financial Statements
June 30, 2015 and 2014

Note 1 – Organization and Summary of Significant Accounting Policies

Organization

The Center for Investigative, 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, 2015 and 2014

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 Corporation's financial statements as a result 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, 2015 and 2014

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'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 two and a half (2.5) 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. Upon retirement, and employee receives all accumulated unpaid leave at the current rate, if the employee has at least ten (10) years of services with 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, 2015 and 2014

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. The Center of Diabetes for Puerto Rico has elected the reimbursement method for purposes of state unemployment taxes.

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 particular purpose, as specified by contributor external to the Center of Diabetes for Puerto Rico. As of June 30, 2015 and 2014, restricted net position consist mainly of cash available from private entities grants contributions received for medical investigations on diabetes diseases.

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 estimates 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, 2015 and 2014

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

Net patient service revenue –continued

During 2012, 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 \$700,000 for their fiscal years ended on June 30, 2015 and 2014, and is available for operations and capital expenses as a subsidy for their actual deficits. Such appropriations are recorded as revenue as realized in the period they received.

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

Notes to Financial Statements (continued)
June 30, 2015 and 2014

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

GASB Statement No. 45

The Center of Diabetes for Puerto Rico follows the provisions of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

As of June 30, 2015 and 2014, the Center of Diabetes for Puerto Rico does not have postemployment retirees and for that reason there has being 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 amount of deposits amounted to \$1,804,845 and \$2,111,243 as of June 30, 2015 and 2014, 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 \$2,043,850 and \$2,359,549 on one financial institution, representing more than 5% of total deposits as of June 30, 2015 and 2014 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, 2015 and 2014

Note 3 – Account Receivable

Accounts receivable at June 30, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---------------------------------------|------------|-----------|
| Patients and third-party payors | \$ 40,559 | \$ 26,207 |
| Less: allowance for doubtful accounts | (18,268) | (13,691) |
| | 22,291 | 12,516 |
| Other receivable | 119,658 | 54,187 |
| Accounts receivable, net | \$ 141,949 | \$ 66,703 |

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, 2015 and 2014 the account receivable from restricted donation grants amounted to nil.

Note 5 – Capital Assets

Capital assets, additions, retirements and balances for the years ended June 30, 2015 and 2014 were as follows:

| | 2014 | Additions/ Reclass | Retirements/ Adj. | 2015 |
|------------------------|--------------|-----------------------|----------------------|--------------|
| Property and equipment | \$ 786,855 | \$ 22,951 | \$ - | \$ 809,806 |
| Information system | 15,639 | 8,766 | - | 24,405 |
| Furniture | 113,757 | - | - | 113,757 |
| Vehicle | 20,993 | - | - | 20,993 |
| Leasehold improvements | 921,654 | 2,900 | - | 924,554 |
| | \$ 1,858,898 | \$ 34,617 | \$ - | \$ 1,893,515 |

Less accumulated depreciation and amortization for:

| | 2014 | Additions/ Reclass | Retirements/ Adj. | 2015 |
|------------------------|--------------|-----------------------|----------------------|--------------|
| Property and equipment | 746,050 | 14,578 | \$ - | 760,628 |
| Information system | 3,068 | 4,440 | - | 7,508 |
| Furniture | 110,968 | 389 | - | 111,357 |
| Vehicle | 20,993 | - | - | 20,993 |
| Leasehold improvements | 348,929 | 33,844 | - | 382,773 |
| | \$ 1,230,008 | \$ 53,251 | \$ - | \$ 1,283,259 |

| | | | | |
|----------------------|------------|-------------|------|------------|
| Capital assets – net | \$ 628,890 | \$ (18,634) | \$ - | \$ 610,256 |
|----------------------|------------|-------------|------|------------|

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

Notes to Financial Statements (continued)
June 30, 2015 and 2014

Note 5 – Capital Assets - continued

| | 2013 | Additions/ Reclass | Retirements/ Adj. | 2014 |
|---|---------------------|-----------------------|----------------------|---------------------|
| Property and equipment | \$ 786,138 | \$ 718 | \$ - | \$ 786,856 |
| Information system | 5,795 | 9,844 | - | 15,639 |
| Furniture | 113,757 | - | - | 113,757 |
| Vehicle | 20,993 | - | - | 20,993 |
| Leasehold improvements | 903,214 | 18,440 | - | 921,654 |
| | <u>\$ 1,829,897</u> | <u>\$ 29,002</u> | <u>\$ -</u> | <u>\$ 1,858,899</u> |
| Less accumulated depreciation and amortization for: | | | | |
| | 2013 | Additions/ Reclass | Retirements/ Adj. | 2014 |
| Property and equipment | \$ 731,721 | \$ 14,329 | \$ - | \$ 746,050 |
| Information system | 644 | 2,424 | - | 3,068 |
| Furniture | 110,579 | 389 | - | 110,968 |
| Vehicle | 20,993 | - | - | 20,993 |
| Leasehold improvements | 316,505 | 32,424 | - | 348,929 |
| | <u>\$ 1,180,442</u> | <u>\$ 49,566</u> | <u>\$ -</u> | <u>\$ 1,230,008</u> |
| Capital assets – net | <u>\$ 649,455</u> | <u>\$ (20,564)</u> | <u>\$ -</u> | <u>\$ 628,891</u> |

Note 6 – Rent

Rent Payable

The Center of Diabetes for Puerto Rico rents its facilities with the UPR Medical Science Campus (a related company), through operating lease agreement in which the latest expired in June 2016, with an auto-renewal clause for five (5) more years. Rent expense under such lease agreements for the years ended June 30, 2015 and 2014 amounted to approximately \$115,000 and \$147,000, respectively.

As of June 30, 2015 it has an outstanding balance payable to the UPR Medical Science Campus of \$167,232. Future minimum lease payments as of June 30, 2015 are as follows:

| <u>Year ending June 30,</u> | <u>Amounts</u> |
|-----------------------------|----------------|
| 2016 | \$110,000 |
| 2017 | 110,000 |
| 2018 | 110,000 |
| 2019 | 110,000 |
| 2020 | 110,000 |

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

Notes to Financial Statements (continued)
June 30, 2015 and 2014

Note 6 – Rent - continued

Rent Receivable (Odontology)

The Center of Diabetes leases a dental office to the UPR Medical Science Campus. As of June 30, 2015 and 2014 it has a receivable balance of approximately \$61,178 and \$54,074, 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 Diabetes Center will not be subject to governmental inquiries or actions.

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act (HIPAA) was enacted in August 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Organizations are required to be in compliance with HIPAA provisions. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. The Center of Diabetes for Puerto Rico's management believes that they are in compliance.

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

Notes to Financial Statements (continued)
June 30, 2015 and 2014

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, 2015, the Center of Diabetes for Puerto Rico is under the implementation of its EHR system.

Legal Cases

The Center of Diabetes for Puerto Rico is subject to legal proceedings and claims, which have risen in the ordinary course of its business and have not been finally adjudicated. These actions, when ultimately concluded and determined, in the opinion of management, are not expected to have a material adverse effect upon the financial position and results of operations of the Center of Diabetes for Puerto Rico.

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, 2015 and 2014 the Center of Diabetes for Puerto Rico made contribution to the plan or charged to pension cost in the amount of \$6,054 and \$6,745, respectively.

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.

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

Notes to Financial Statements (continued)
June 30, 2015 and 2014

Note 9 – Patient Service Revenue, net - continued

Patient service revenues as of June 30, 2015 and 2014, net are as follows:

| | | |
|--|-------------------|-------------------|
| Gross patient service revenue | \$ 212,163 | \$ 233,359 |
| Less provision for contractual adjustments under third-party reimbursement programs | <u>-</u> | <u>-</u> |
| Patient service revenues, net | <u>\$ 212,163</u> | <u>\$ 233,359</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, 2015 and 2014 were as follows:

| | | |
|-------------------------------------|------------------|------------------|
| Balance, beginning of year | \$ 13,691 | \$ 8,697 |
| Provision charged to operations | 4,557 | 4,994 |
| Write-off of uncollectible accounts | <u>-</u> | <u>-</u> |
| Balance, end of year | <u>\$ 18,268</u> | <u>\$ 13,691</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 activities, 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 has 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.

At June 30, 2015 and 2014, 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.

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

Notes to Financial Statements (continued)
June 30, 2015 and 2014

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, 2015 and 2014 is as follows:

| | | |
|---------------|-------------|-------------|
| Triple S | 52% | 59% |
| Humana | 13% | 11% |
| First Medical | 9% | 3% |
| Others | <u>26%</u> | <u>27%</u> |
| | <u>100%</u> | <u>100%</u> |

Note 11 – Other Operating Revenues

Other operating revenues for the year ended June 30, 2015 and 2014 consisted of:

| | | |
|--------------------------------|------------------|------------------|
| Nutritional-store sales | \$ 19,622 | \$ 29,282 |
| Grants revenues | <u>72,221</u> | <u>42,411</u> |
| Total other operating revenues | <u>\$ 91,843</u> | <u>\$ 71,693</u> |

Note 12 – Government Subsidy

The Commonwealth of Puerto Rico granted for the fiscal years ended on June 30, 2015 and 2014 to the Center of Diabetes for Puerto Rico appropriations to subsidize its operations and capital assets acquisitions in the amount of \$700,000 for both years.

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, 2015 and 2014 are as follow:

| | | |
|----------------------------|---------------------|---------------------|
| Health care services | \$ 1,006,667 | \$ 1,001,636 |
| General and administrative | <u>407,546</u> | <u>373,632</u> |
| | <u>\$ 1,414,213</u> | <u>\$ 1,375,268</u> |

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

Notes to Financial Statements (continued)
June 30, 2015 and 2014

Note 14 – Reclassifications

Certain reclassifications have been made to 201⁴ financial statements to conform to the current year presentation.

Note 15 - Subsequent Events

The Center of Diabetes for Puerto Rico evaluated subsequent events through December, 28 2015, which is the date the financial statements were available to be issued. No events have occurred subsequent to the statement of net assets date and to the date the financial statements were available to be issued, that would require additional adjustment 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

Years ended June 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| Medical supplies | \$ 1,358 | \$ 2,413 |
| Office expenses | 16,938 | 13,251 |
| Telephone expenses | 6,457 | 5,911 |
| Postage and mailing expenses | 515 | 284 |
| Auto expenses | 705 | 3,772 |
| Equipment rental expense | 8,206 | 7,197 |
| Maintenance expense | 15,038 | 15,992 |
| Other services fees | 1,327 | 1,936 |
| Disposal & Recycling | 3,434 | 3,793 |
| Penalties and surcharges | | |
| Miscellaneous expenses | <u>4,341</u> | <u>12,394</u> |
| Total general and administrative expenses | <u>\$ 58,319</u> | <u>\$ 66,943</u> |

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

Donation - Grants Schedule

Year ended June 30, 2015

| <u>Description</u> | <u>Grant Amount</u> | <u>Received Amount</u> | <u>Expense Amount</u> | <u>Unearned Amount</u> |
|--------------------------------|---------------------|------------------------|-----------------------|------------------------|
| Eli Lilly - ABEC 14L-MC | \$ 94,321 | \$ 52,597 | \$ 44,436 | \$ 8,161 |
| Bristol Myers - 65277 | 10,000 | 10,000 | 6,575 | 3,425 |
| Lilly Grant Office - 100225723 | 25,000 | 25,000 | 8,525 | 16,475 |
| Lilly Grant Office - 100225802 | 5,000 | 5,000 | 5,000 | - |
| Merc Sharp & Dohme | 10,000 | 10,000 | - | 10,000 |
| | <u>\$ 144,321</u> | <u>\$ 102,597</u> | <u>\$ 64,536</u> | <u>\$ 38,061</u> |

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

Donation - Grants Schedule

Years ended June 30, 2014

| <u>Description</u> | <u>Grant Amount</u> | <u>Amount Received</u> | <u>Amount Expense</u> | <u>Unearned Amount</u> |
|--------------------------------|---------------------|------------------------|-----------------------|------------------------|
| Eli Lilly - ABEC 14L-MC | \$ 94,321 | \$ 52,597 | \$ 44,436 | \$ 8,161 |
| Bristol Myers - 65277 | 10,000 | 10,000 | 6,575 | 3,425 |
| Lilly Grant Office - 100225723 | 25,000 | 25,000 | 1,700 | 23,300 |
| Lilly Grant Office - 100225802 | 5,000 | 5,000 | 5,000 | - |
| Merc Sharp & Dohme | 10,000 | 10,000 | - | 10,000 |
| | <u>\$ 144,321</u> | <u>\$ 102,597</u> | <u>\$ 57,711</u> | <u>\$ 44,886</u> |