Cardiovascular Center Corporation of Puerto Rico and the Caribbean

Financial Statements

June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Cardiovascular Center Corporation of Puerto Rico and the Caribbean (the Corporation), a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic 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.

Auditors' 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 auditors' 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 purpose of expressing an 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Cardiovascular Center Corporation of Puerto Rico and the Caribbean, as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-8 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2014, on our consideration of the Cardiovascular Center Corporation of Puerto Rico and the Caribbean's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Cardiovascular Center Corporation of Puerto Rico and the Caribbean's internal control over financial reporting and compliance.

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COLEGIO DE CONTADORES PUBLICOS AUTORIZADOS DE PUERTO RICO
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San Juan, Puerto Rico
December 9, 2014

Our discussion and analysis of Cardiovascular Center Corporation of Puerto Rico and the Caribbean's (the Corporation) financial performance provides an overview of the Corporation's financial activities for the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the Corporation's financial statements, which begin on page 9.

Using this Annual Report

The Corporation's financial statements consist of three statements: Statement of Net Position (page 9), Statement of Revenues, Expenses and Changes in Net Position (Deficiency) (page 10), and a Statement of Cash Flows (pages 11 and 12). These financial statements and related notes (pages 13 to 37) provide information about the activities of the Corporation, including resources held by the Corporation but restricted for specific purposes by enabling legislation.

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

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

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

Statement of Cash Flow

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

Condensed Financial Information

At June 30, 2014 and 2013 and for the years then ended the Corporation's financial information is summarized as follows:

	2014	2013	Variance	%
Current assets	$ 18,147,536	$ 20,767,131	$ (2,619,595)	-13%
Non-current assets:				
Restricted cash	-	102,272	(102,272)	-100%
Capital assets, net	17,167,413	16,826,847	340,566	2%
	17,167,413	16,929,119	238,294	1%
Total assets	35,314,949	37,696,250	(2,381,301)	-6%
Current liabilities	70,091,452	68,576,038	1,515,414	2%
Other non-current liabilities	5,038,401	5,393,651	(355,250)	-7%
Total liabilities	75,129,853	73,969,689	1,160,164	2%
Net investment in capital assets	17,167,413	16,826,847	340,566	2%
Net position restricted	-	102,272	(102,272)	-100%
Net (deficiency)	(56,982,317)	(53,202,558)	(3,779,759)	7%
Total net (deficiency)	(39,814,904)	(36,273,439)	(3,541,465)	10%
Operating revenues	85,527,196	81,018,857	4,508,339	6%
Operating expenses	(89,139,190)	(88,926,184)	(213,006)	0%
Non-operating income	70,529	14,532,839	(14,462,310)	-100%
Change in net position (deficiency)	(3,541,465)	6,625,512	(10,166,977)	-153%
Total net (deficiency)	$ (39,814,904)	$ (36,273,439)	$ (3,541,465)	10%

Analysis of Net Position and Results of Operations

Net Position

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

Total assets decreased by $2.4 million or 6% in comparison to fiscal year 2013. The reason for such decrease relates principally to a decrease in net patients accounts receivable, which is composed of collections of approximately $85.2 million and billings of $82.6 million for the year ended June 30, 2014. For the fiscal year 2013, collections amounted to approximately $79.2 million and billings amounted to approximately $78.6 million.

The Corporation's specialist in Medicare reimbursements processing has reasonably estimated that at June 30, 2014 and 2013, the amount due to the Corporation by Medicare amounted to $145,248 and $227,309, respectively, and it is disclosed in the accompanying statements of net position as "Estimated Third Party Payor – Medicare".

The current liabilities of the Corporation increased by approximately $1.5 million or 2% during the fiscal year ended June 30, 2014 principally because of; an increase in the amount due to related parties of approximately $2.2 million in comparison with fiscal year 2013, which is related to an increase in the amount due to the Puerto Rico Buildings Authority for rent fees; an increase in accrued payroll and other expenses of approximately $836,000, mostly related to the accrual of the last payroll of June 30, 2014 disbursed in the subsequent fiscal year; a decrease in accounts payable of approximately $800,000, related to the payments made to suppliers and; a decrease of approximately $836,000 in the current portion of the reserve for claim losses, which is due to the accrual of settlements to be disbursed within the next fiscal year, as assessed by management and legal counsel.

Results of Operations

The Corporation generates all of its operating revenues from activities related to patient services either directly or ancillary, which are typical of a hospital unit, such as cafeteria facility rent, physicians facility rent, parking facility rent, etc. In addition, the expenses incurred in those activities are accounted for as general operating expenses and are divided as healthcare services and general and administrative.

During the year ended June 30, 2014, the Corporation reflected an operating loss of ($3,611,994) and deficiency of revenues over expenses of ($3,541,465) including $70,529 of non-operating revenues. The non-operating activities of the Corporation as of June 30, 2014 relate to interest income. As of June 30, 2013, the Corporation reflected an operating loss of ($7,907,327) and an excess of revenues over expenses of $6,625,512, including $14,532,839 of non-operating revenues of which, $14,477,754 correspond to contributions from the Commonwealth of Puerto Rico for the repayment of the amounts owed to the Puerto Rico Building Authority.

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

Results of Operations – (continued)

The following table presents comparative information of the patient services:

Indicator Description	June 30, 2014	June 30, 2013	Variance	% of Change
Admissions	4,179	3,973	206	5%
Discharges	4,530	4,395	135	3%
Patient days	39,003	35,252	3,751	11%
Occupancy percentage	69%	65%	4%	6%
Surgery procedures	2,551	2,724	-173	-6%
Invasive laboratory procedures	12,907	12,159	748	6%

The Corporation reflected an increase in the operating revenues of $4,508,339 or 6%. This is principally associated to an increase in admissions, catheterizations, surgeries, percutaneous transluminal coronary angioplasties (PTCA) and other invasive procedures.

Also, for the fiscal year ended June 30, 2014, the operational expenses of the Corporation reflected a net decrease of $213,006 when compared to those of the fiscal year 2013. The most relevant changes in expenses for the fiscal year ended June 30, 2014, compared to the expenses of the fiscal year ended June 30, 2013, are; an increase in salaries and wages and related employee benefits of approximately $1.4 million, which is related to salaries and benefits assessed and paid during the year ended on June 30, 2014 as a result of a settlement between the Corporation and a group of employees, and the increase in the employer contribution to the retirement system (see note 9); a decrease in supplies, food and drugs expense of approximately $2.1 million due to a decrease in purchases of medical devices as part of a plan for control of inventory; a decrease in the provision for claim losses of approximately $600,000, which was estimated for a lower amount by management and the legal counsel based on claims known, as well as claims from unknown incidents; and an increase in rent and other expenses of approximately $1.2 million, which is due to the increase of the rent fees charged by the Puerto Rico Public Building Authority.

Factors Affecting the Change in Net Position and the Availability of Funds

The investment made by the Puerto Rico Government in the Corporation was based in a higher operating level than the actual. Originally, the Corporation was created as the principal provider of cardiovascular services in Puerto Rico with extended services offer to patients from the Caribbean, Center and South America. The original capital investment was approximately $65,000,000 in capital assets and the related effect in working capital that this type of investment needs. During the first eight years of operations, the Corporation was subsided by the Puerto Rico Government for the payment of rent related to the Public Building Authority lease for the hospital and parking facilities. In the year 2000, the Central Government discontinued such subsidy to the Corporation resulting in an adverse effect in the Corporation's working capital. During the year ended June 30, 2013 the Corporation received contributions from the Central Government for $14,477,754 for the payment of rent to the Puerto Rico Public Building Authority. During the year ended June 30, 2014 the Corporation did not receive contributions from the Central Government.

As part of the approval of the Law No. 72 (Health Reform) as amended, the Central Government changed its policy and became a purchaser of health insurance instead of a provider of healthcare services. The Corporation was no longer the exclusive provider of cardiovascular services for the medically indigent population. In addition, the situation deteriorated when licenses were approved to other hospitals in Puerto Rico to provide catheterization, angioplasty and cardiovascular surgery services. Finally, the Corporation lost almost all the patients from the Medicaid program. However, the Corporation is the only provider of services to patients with congenital diseases and the only that has a program of heart transplant and services to cardiovascular patients with acute conditions.

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

Capital Assets and Debt Administration

Capital Assets

At June 30, 2014, the Corporation had $17,167,413 in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. During fiscal year 2014, the Corporation made cash outlays for capital assets by $2,056,772 for the acquisition of equipment.

GASB Statement No. 45

The Corporation follows the provisions of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. GASB Statement No. 45 establishes standards for the measurement, recognition of Other Postemployment Benefits (OPEB), related liabilities and disclosures. The effect of such statement resulted in a decrease in net position of approximately $7,600 and $13,400 for the years ended June 30, 2014 and 2013, respectively.

Contacting the Corporation's Financial Management

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

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statements of Net Position

June 30, 2014 and 2013

	2014	2013
Assets		
Current assets		
Unrestricted cash and cash equivalents	$10,162,863	$ 9,394,139
Patients accounts receivable, net	3,405,633	6,321,112
Estimated third-party payor - Medicare	145,248	227,309
Other accounts receivable, net of estimated uncollectibles of $1,377,134 in 2014 and 2013	1,610,607	1,435,728
Inventory of supplies	2,396,047	2,481,294
Prepaid expenses and other current assets	427,138	907,549
Total current assets	18,147,536	20,767,131
Non-current assets		
Restricted cash	-	102,272
Capital assets, net of depreciation and amortization	17,167,413	16,826,847
	17,167,413	16,929,119
Total assets	35,314,949	37,696,250
Liabilities and Net Position (Deficiency)		
Current liabilities		
Due to related parties	35,985,747	33,790,807
Accounts payable	27,394,658	28,200,942
Accrued payroll and other expenses	6,356,047	5,392,940
Reserve for claim losses	355,000	1,191,349
Total current liabilities	70,091,452	68,576,038
Reserve for claim losses	4,949,401	5,304,651
Due to Medicare	89,000	89,000
Total liabilities	75,129,853	73,969,689
Net position (deficiency)		
Net investment in capital assets	17,167,413	16,826,847
Restricted	-	102,272
(Deficiency)	(56,982,317)	(53,202,558)
Total net (deficiency)	(39,814,904)	(36,273,439)
Total liabilities and net (deficiency)	$35,314,949	$37,696,250

See notes to financial statements

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statements of Revenues, Expenses and Changes in Net Position (Deficiency)

Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues		
Patient service revenue, net of contractual adjustment	$ 83,006,106	$ 78,754,213
Less: provision for bad debts	358,314	174,406
Net patient service revenue	82,647,792	78,579,807
Other revenue	2,879,404	2,439,050
Total operating revenues	85,527,196	81,018,857
Operating expenses		
Salaries and wages	27,417,486	26,426,496
Employee benefits	10,089,679	9,694,879
Professional fees and contracted services	5,551,152	5,448,968
Supplies, food and drugs	29,466,913	31,554,961
Repairs and maintenance	2,735,976	2,609,691
Utilities	3,875,205	3,993,029
Provision for bad debts	471,387	775,662
Depreciation and amortization	1,716,206	1,986,889
Insurance	171,647	153,135
Provision for claim losses	317,250	912,178
Rent and other	7,326,289	5,370,296
Total operating expenses	89,139,190	88,926,184
Operating (loss)	(3,611,994)	(7,907,327)
Non-operating income		
Contributions from the Commonwealth of Puerto Rico	-	14,477,754
Interest income	70,529	55,085
Total non-operating income	70,529	14,532,839
Decrease (increase) in net (deficiency)	(3,541,465)	6,625,512
Net (deficiency), at beginning of year	(36,273,439)	(42,898,951)
Net (deficiency), at end of year	$ (39,814,904)	$ (36,273,439)

See notes to financial statements

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Receipts from patient services	$85,173,945	$79,243,463
Other receipts	2,704,525	2,066,747
Payments to suppliers	(47,172,867)	(43,307,797)
Payments to employees and employee benefits	(36,544,059)	(37,087,313)
Payments on malpractice claims	(1,508,849)	(26,900)
Net cash provided by operating activities	2,652,695	888,200
Cash flows from capital and related financing activities		
Cash outlays for capital assets	(2,056,772)	(2,641,957)
Cash flows from investing activities		
Decrease in restricted cash	102,272	2,167,858
Receipts of interests	70,529	55,085
Net cash provided by investing activities	172,801	2,222,943
Increase in unrestricted cash and cash equivalents	768,724	469,186
Unrestricted cash and cash equivalents, at beginning of year	9,394,139	8,924,953
Unrestricted cash and cash equivalents, at end of year	$10,162,863	$ 9,394,139

(Continues)

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statements of Cash Flows (Continued)

Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of operating (loss) to net cash provided by operating activities		
Operating (loss)	$ (3,611,994)	$ (7,907,327)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation and amortization	1,716,206	1,986,889
Provision for bad debts	829,701	950,068
Provision for claim losses	317,250	912,178
Changes in assets and liabilities		
Decrease in patient accounts receivable	2,085,778	400,251
Decrease in estimated third-party payor - Medicare	82,061	-
(Increase) in other accounts receivable	(174,879)	(372,303)
Decrease in inventory of supplies	85,247	117,345
Decrease in prepaid expenses and other current assets	480,411	328,995
Increase (decrease) in accounts payable	(806,284)	2,162,338
Increase in amount due to related parties	2,194,940	3,213,604
(Decrease) in reserve for claim losses	(1,508,849)	(26,900)
(Decrease) increase in accrued payroll and other expenses	963,107	(965,938)
Increase in due to Medicare	-	89,000
Total adjustments	6,264,689	8,795,527
Net cash provided by operating activities	$ 2,652,695	$ 888,200
Supplemental disclosure of non capital financing activities:		
Rent fees paid on behalf of the Corporation with contributions from the Commonwealth of Puerto Rico	$ -	$ 14,477,754

See notes to financial statements

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

Cardiovascular Center Corporation of Puerto Rico and the Caribbean (the Corporation) complies with the accounting principles generally accepted in the United States of America applicable to governmental entities. The following is a summary of the significant accounting policies:

Reporting entity

Cardiovascular Center Corporation of Puerto Rico and the Caribbean is a public corporation created by Act No. 51 (the Act) of June 30, 1986, to provide treatment for cardiovascular diseases in Puerto Rico and the Caribbean. The Corporation operates a hospital facility with 202 certified beds as an independent and separate unit from any agency or instrumentality of the Commonwealth of Puerto Rico.

Use of estimates

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

Basis of accounting and measurement focus

The Corporation uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis of accounting, using the economic resources measurement focus. Also, the Corporation follows 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 use of GASB statement No. 62 did not have an effect on the Corporation's financial statements.

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

Basis of accounting and measurement focus - (continued)

In June 2011, the GASB issued 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. 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.

Cash and cash equivalents

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

Restricted cash

Restricted cash consists of cash available from governmental contributions restricted for capital assets acquisition and improvements.

Valuation of accounts receivable

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

Inventory of supplies

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

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

Capital assets

The Corporation's capital assets are reported at historical cost. Depreciation is provided over the estimated useful life of each class of depreciable asset, ranging from 3 to 30 years, and is computed using the straight-line method.

The Corporation capitalizes those capital assets with an individual cost of more than $300.

Tax exemption

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

Contributions

From time to time, the Corporation receives contributions from the Commonwealth. Revenues from contributions (including contributions for capital assets) are recognized when all eligibility requirements, including time requirements are met. Contributions are restricted for operations purposes (payment of rent to Public Buildings Authority) and for capital purposes. Amounts received for the payment of rent to the Puerto Rico Public Buildings Authority are reported as non-operating income. Amounts received for capital assets acquisitions are reported after non-operating income and expenses.

During the years ended June 30, 2014 and 2013 the Commonwealth contributed nil and $14,477,754, respectively, for the payment of rent.

Net position (deficiency)

Net position of the Corporation is classified in three components. Net investment in capital assets, consist 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 end are not included in the determination of amount invested in capital assets.

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

Net position (deficiency) - (continued)

Restricted net position consists of non-capital assets reduced by the liabilities related to those assets and associated deferred inflows and outflows, if any, that must be used for a particular purpose, as specified by a contributor external to the Corporation. As of June 30, 2014 and 2013, restricted net position consists mainly of cash available from governmental contributions received for improvements to the Corporation's facilities and other capital acquisitions.

Unrestricted net position (deficiency) is the component of net position that do not meet the definition of invested in capital assets net of related debt or restricted net position.

Operating revenues and expenses

The Corporation's statement of revenues, expenses and changes in net position (deficiency) distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Corporation's principal activity. Non-exchange revenues include contributions received from the Commonwealth of Puerto Rico for purposes other than capital assets acquisition, which are reported as non-operating revenues. Operating expenses are all the expenses incurred to provide health care services, other than financing costs.

Net patient service revenue

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

The Corporation follows the requirements of the FASB *Accounting Standards Update* No. 2011-07 *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Healthcare Entities.* The standard update requires healthcare entities that recognize a significant amount of patient service revenue at the time the services are rendered, even though they do not assess the patient's ability to pay at that moment, to present as

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

Net patient service revenue - (continued)

separate line items on the face of the statement of revenues, expenses and changes in net position (deficiency), the provision for bad debts, related to patient service revenue, as a deduction from patient revenue (net of contractual allowances and discounts).

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

Compensated absences

The Corporation's employees are entitled to 2.5 days per month, up to a maximum of 60 days, for vacations, and 1.5 days per month, up to a maximum of 90 days for sick leave. Earned vacations and sick leave are recorded as benefits when earned.

GASB Statement No. 45

The Corporation 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 Other Postemployment Benefits (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.

The Corporation provides post-retirement benefits to all employees who meet certain age and years of services requirements. Such benefits consist of health care benefits which are provided for a period of approximately six (6) months after retirement (see Note 10).

The above accounting standard resulted in a decrease in net position of approximately $7,600 and $13,400 for the years ended June 30, 2014 and 2013, respectively.

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

Risk management

The Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption, errors and omissions, and natural disasters, among others. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial insurance coverage since various preceding years.

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The Corporation is self-insured for medical malpractice claims and judgments. Since August 23, 2005, the Corporation is insured by the Commonwealth of Puerto Rico.

Note 2 - Net patient service revenue

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

Medicare - Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient capital costs are paid based on the fully prospective method. Medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Corporation is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Corporation and audits thereof by the Medicare fiscal intermediary. The Corporation's Medicare cost reports have been audited by the Medicare fiscal intermediary through 2013. The cost report for 2014 is due on November 30, 2014 and is subject to the Medicare fiscal intermediary examination. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note 2 - Net patient service revenue – (continued)

Also, the Corporation is subject to periodic audits by the U.S. Office of the Inspector General (OIG). At June 30, 2014 and 2013, the Corporation provided for a reserve in the amounts of $89,000 in both periods, in relation with the expected recovered amounts by the Medicare Program through the Recovery Audit Contractor Program or RAC. These amounts are recorded as Due to Medicare in the accompanying statements of net position.

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

A summary of patient service revenue, net of contractual allowances and discounts, for the years ended June 30, 2014 and 2013 follows:

	2014	2013
Third-party payors	$82,858,017	$78,586,812
Self-pay patients	148,089	167,401
Patient service revenue (net of contractual allowances and discounts)	$83,006,106	$78,754,213

Changes in allowance for doubtful accounts on patients' accounts receivable for the years ended June 30, 2014 and 2013 were as follows:

	2014	2013
Balance, beginning of year	$20,495,482	$19,545,414
Provision charged to operations	829,701	950,068
Balance, end of year	$21,325,183	$20,495,482

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 Corporation records provision for bad debts, as an operating expense in the accompanying statements of revenues, expenses and changes in net position (deficiency), for accounts with balances over 365 days, for which collection efforts have been followed in accordance with the Corporation's policies, particularly amounts receivable

Note 2 - Net patient service revenue – (continued)

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, expenses and changes in net position (deficiency). At June 30, 2014 and 2013, 91% and 97%, respectively, of the amounts reserved as uncollectible are related to third-party payors, and 9% and 3%, respectively, are related to self-pay patients, which includes deductibles and co-insurance which the Corporation accounts for as patient balance.

Note 3 - Cash and cash equivalents – custodial credit risk deposits

The Corporation is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico. Such deposits should be kept in separate accounts in the name of the Corporation. During the years ended June 30, 2014 and 2013, the Corporation invested its funds in bank accounts bearing interest.

Custodial credit risk is the risk that, in an event of a bank failure, the Corporation's deposit might not be recovered. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth.

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

Depository Accounts	Bank Balance at June 30, 2014	Bank Balance at June 30, 2013
Insured	$ 250,000	$ 250,000
Collateralized:		
Collateral held in the Corporation's name	11,144,314	11,070,206
Total deposits	$ 11,394,314	$ 11,320,206

The current amounts of deposits at June 30, 2014 and 2013, shown above are included in the Corporation's statements of net position under unrestricted cash and cash equivalents and restricted cash and amounted to $10,162,863 and $9,496,411 in the aggregate, respectively.

Note 4 - Capital assets

Capital assets, additions, retirements and balances for the years ended June 30, 2014 and 2013 were as follows:

	2013	Additions (Reclassifications)	Retirements	2014
Land	$ 94,123	$ -	$ -	$ 94,123
Improvements to leased property	9,409,954	-	-	9,409,954
Fixed equipment	775,981	-	-	775,981
Movable equipment	25,390,205	2,056,772	-	27,446,977
Library	14,736	-	-	14,736
Vehicles	67,290	-	-	67,290
Works of art	8,849	-	-	8,849
Total cost	35,761,138	2,056,772	-	37,817,910
Less acummulated depreciation and amortization for:				
Improvements to leased property	2,039,689	334,460	-	2,374,149
Fixed equipment	775,981	-	-	775,981
Movable equipment	16,057,660	1,370,822	-	17,428,482
Library	6,509	-	-	6,509
Vehicles	54,452	10,924	-	65,376
Total accumulated depreciation and amortization	18,934,291	1,716,206	-	20,650,497
Capital assets, net	$ 16,826,847	$ 340,566	$ -	$ 17,167,413

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Note 4 - Capital assets – (continued)

	2012	Additions (Reclassifications)	Retirements	2013
Land	$ 94,123	$ -	$ -	$ 94,123
Improvements to leased property	8,980,319	429,635	-	9,409,954
Fixed equipment	775,981	-	-	775,981
Movable equipment	23,177,883	2,212,322	-	25,390,205
Library	14,736	-	-	14,736
Vehicles	67,290	-	-	67,290
Works of art	8,849	-	-	8,849
Total cost	33,119,181	2,641,957	-	35,761,138
				-
Less acummulated depreciation and amortization for:				-
Improvements to leased property	1,734,309	305,380	-	2,039,689
Fixed equipment	775,981	-	-	775,981
Movable equipment	14,387,075	1,670,585	-	16,057,660
Library	6,509	-	-	6,509
Vehicles	43,528	10,924	-	54,452
Total accumulated depreciation and amortization	16,947,402	1,986,889	-	18,934,291
Capital assets, net	$ 16,171,779	$ 655,068	$ -	$ 16,826,847

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Note 5 - Compensated absences

Compensated absences at June 30, 2014 and 2013 are as follow:

Year ended June 30, 2014	Beginning Balance	Additions	Deductions	Ending Balance
Vacations	$ 1,661,980	$ 2,566,916	$ 2,451,926	$ 1,776,970
Sick leave	1,732,941	1,526,322	1,544,403	1,714,860
Total compensated absences	$ 3,394,921	$ 4,093,238	$ 3,996,329	$ 3,491,830

Year ended June 30, 2013	Beginning Balance	Additions	Deductions	Ending Balance
Vacations	$ 1,691,096	$ 2,433,205	$ 2,462,321	$ 1,661,980
Sick leave	1,679,083	1,432,332	1,378,474	1,732,941
Total compensated absences	$ 3,370,179	$ 3,865,537	$ 3,840,795	$ 3,394,921

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

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Note 6 - Reserve for claim losses

A summary of the reserve for claim losses at June 30, 2014 and 2013 follows:

	Beginning Balance	Additions	Payments	Ending Balance
Year ended June 30, 2014				
Reserve for claim losses	$6,496,000	$317,250	$1,508,849	$5,304,401
Year ended June 30, 2013				
Reserve for claim losses	$5,610,722	$912,178	$ 26,900	$6,496,000

Note 7 - Related party transactions

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

The accounts receivable of the Corporation include at June 30, 2014 and 2013 the following amounts due from other governmental entities considered related parties:

	2014	2013
Patients accounts receivable	$ 898,709	$ 998,035
Other accounts receivable	1,705,588	1,615,820
Total	$2,604,297	$2,613,855

At June 30, 2014 and 2013, a reserve for uncollectible accounts was recorded for $923,648 corresponding to the other accounts receivable above.

Note 7 - Related party transactions – (continued)

The balance due to related parties as of June 30, 2014 and 2013 consists of the following:

	2014	2013
Autoridad de Energía Electrica (A.E.E.)	$ 17,278,736	$ 18,572,200
Autoridad de Acueductos y Alcantarillados de Puerto Rico (A.A.A.)	129,312	4,344
P.R. Public Building Authority	17,697,597	14,745,105
Accounts payable to other governmental entitties	880,102	469,158
Total	$ 35,985,747	$ 33,790,807

Due to A.E.E. and A.A.A.

The balance due to A.E.E. and A.A.A. at June 30, 2014 and 2013 corresponds to electricity and water services, respectively. During the years ended June 30, 2014 and 2013, the Corporation incurred approximately $3,205,300 and $3,808,900, respectively, for electricity services. During the years ended June 30, 2014 and 2013, the Corporation incurred approximately $552,700 and $84,900, respectively, for water services.

Due to the Puerto Rico Public Building Authority

Since 1992, the Corporation maintains an agreement with the Puerto Rico Public Building Authority (the Authority) regarding the operating lease for the building and parking facilities in which the Corporation operates. The Authority financed the construction of these facilities through a bond issuance. The rent expense for the years ended June 30, 2014 and 2013 amounted to $3,661,828 and $1,409,303, respectively.

The lease contract between the Corporation and the Authority is subject to the resolutions of the bond issuance by the Authority to finance the building and parking facilities. In any circumstances in which the lease agreement is in contest with the bond resolution, the latest will prevail. Rent commitment for fiscal years subsequent to June 30, 2014 will be determined by the Authority’s annual calculation of the portion corresponding to the Corporation’s share of the resolution of the bond issuance applicable to the building and parking facilities.

Note 8 - Commitments and contingencies

Commitments

Operating leases

The Corporation leases equipment under operating leases expiring at various dates through September 2017. Total rent expense for the years ended June 30, 2014 and 2013 for all operating leases was approximately $538,400 and $543,700, respectively.

Parking rental agreement

The Corporation subleases the parking facilities to Fontán Associates, Inc. for a five-year term which expires on February 28, 2016. There are two renewal clauses for additional five years of each clause. Fontán Associates, Inc. will pay the Corporation a monthly rental fee, which will increase annually. Parking rent income for the years ended June 30, 2014 and 2013 was approximately $336,900 and $327,100, respectively.

Future minimum parking rent income as of June 30, 2014, follows:

Year	Amount
2015	$ 346,992
2016	358,582
	$ 705,574

Food and nutrition service facility rental agreement

The Corporation subleased the food and nutrition services facilities to Metropolitan Food Services, Inc. on a five-year term agreement expired on August 31, 2013. Under such agreement, Metropolitan Food Services, Inc. will pay a monthly rental fee of $5,000, plus a 3% percent of the gross earnings for food sales and utilities. Since September 1, 2013 and as of June 30, 2014, the agreement remains under the same fees of the expired contract and its being operated on a month to month basis. Total income related to this agreement for the years ended June 30, 2014 and 2013, was approximately $121,800 and $104,300, respectively.

Note 8 - Commitments and contingencies – (continued)

Commitments – (continued)

Fourth floor facilities rental agreement

The Corporation subleased the fourth floor facilities to Hostales de Puerto Rico, Inc. on a twenty-year term agreement which expires on August 31, 2027. Hostales de Puerto Rico, Inc. will pay a staggered monthly rental fee of $5,000 up to $8,500 between 2008 and 2027. Total income related to the agreement for the years ended June 30, 2014 and 2013, amounted to $80,000 and $60,000, respectively.

Other rental agreements

The Corporation leases space to various other unrelated parties under operating leases with average terms from three (3) to twenty (20) years. Rent income for the years ended June 30, 2014 and 2013 on the other rental agreements was approximately $674,200 and $876,100, respectively. Future minimum rent income as June 30, 2014, follows:

Year	Approximate amount
2015	$ 183,488
2016	169,425
2017	52,500
2018	27,600
2019	28,500
2020	7,200
	$ 468,713

Note 8 - Commitments and contingencies – (continued)

Contingencies

Malpractice and legal claims

The Corporation's medical malpractice insurance coverage expired in February 2002; thus the Corporation is self-insured for claims received for the period through February 2002 that were not reported to its insurance carrier and for claims for the period from March 2002 through August 22, 2005. Since August 23, 2005, the Corporation is insured by the Commonwealth of Puerto Rico. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

The Corporation is also involved in other legal and administrative proceedings arising out of the normal operation of its business.

Based on a review of current facts and circumstances management has provided for what it is believed to be a reasonable estimate of the exposure to loss associated to litigation. The Corporation has established an accrual reserve for claim losses in the amount of $5,304,401 and $6,496,000 at June 30, 2014 and 2013, respectively. The reserve for claim losses includes approximately $697,300 at June 30, 2014 and 2013, for both periods, corresponding to a claim from the employees' union regarding the implementation of a classification and compensation plan.

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 statues 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 Corporation believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Corporation will not be subject to governmental inquiries or actions.

Note 8 - Commitments and contingencies – (continued)

Contingencies – (continued)

Regulatory issues – (continued)

On March 14, 2011, the U.S Office of the Inspector General (OIG) notified the Corporation its intention to conduct an audit, which actually began on July 22, 2011. The objective of the OIG audit was to determine whether the Corporation complied with certain Medicare regulations for the period of January 1, 2008 through June 30, 2010. On September 2012, the OIG submitted the final report of the audit concluding that, for the period audited, the Corporation complied with Medicare requirements for billing inpatient and outpatient services for 157 of the 171 claims reviewed. However, the Corporation did not fully complied with Medicare billing requirements for the remaining 14 claims, resulting in overpayments, reimbursed by the Corporation to Medicare during the year ended June 30, 2013, totaling $72,139. Also, as disclosed in note 2, at June 30, 2014 and 2013, the Corporation provided for a reserve in the amounts of $89,000 in both periods, in relation with the expected amounts due to Medicare through the Recovery Audit Contractor Program (RAC).

Health Insurance Portability and Accountability Act

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

Also, in order to be in compliance with HIPAA provisions, the Corporation must adopt the 10th revision of the International Statistical Classification of Diseases and Related Health Problems (ICD-10), on or before October 1, 2015. ICD-10 consists of a medical classification list revised by the World Health Organization (WHO) used in diagnosis coding and procedure coding system for inpatient hospital procedure coding that will enable a significant extension of the codes allowing an improved tracking of many new diagnoses. The Corporation is currently under the implementation of ICD-10 and expects to complete such before the due date.

Note 8 - Commitments and contingencies – (continued)

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 hospital will incur penalties for non-compliance that may reduce future Medicare payments and potentially Medicare Advantage program payments.

The Centers for Medicare and Medicaid Services (CMS) manages and has implemented an incentive program for those hospitals that implement EHR and that also, comply with certain specific requirements. CMS EHR Incentive Programs provide incentive payments to eligible hospitals as they adopt, implement, upgrade or demonstrate meaningful use, as defined by CMS, of certified EHR technology. As of June 30, 2014 and 2013, the Corporation is under the implementation of its EHR system. During 2014 the Corporation qualified to participate of the incentive program under the Medicaid provisions and, on September 2, 2014, the Corporation received an incentive amounting to $726,778. The incentive program terminates on the fiscal year 2016.

Note 9 - Retirement system

The Corporation participates in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico and its instrumentalities (ERS), a multiple-employer contributory retirement plan, which covers only eligible full-time employees. The system provides retirement, death, and disability benefits and annuities to Commonwealth of Puerto Rico (Commonwealth) employees not covered by their own systems.

As of June 30, 2014, the Commonwealth legislation required employees to contribute 10% of their monthly gross salary. As of June 30, 2013, the Commonwealth legislation required employees to contribute 5.275% for the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Corporation is required by the same statute to contribute 12.275% and 11.275% of the participants' gross salary as of June 30, 2014 and 2013, respectively. Also, the employer contribution will increase 1% annually until June 30, 2016 and 1.25% annually until June 30, 2021, reaching an aggregate contribution rate of 20.525%. Total employer contributions during the years ended June 30, 2014 and 2013 were approximately $2,800,400 and $2,463,600, respectively.

Note 9 - Retirement system – (continued)

The financial statements of the Corporation do not include any provision related to the deficiency that might result from actuarial reports up to June 30, 2014.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1991, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the system as of December 31, 1999 may elect to stay in the defined benefit plan or transfer to the new program. Persons joining on or after January 1, 2000 are only allowed to become members of the System 2000. System 2000 reduced the retirement age from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this plan, there is a pool of pension assets, which is invested by the System, together with those of the defined benefit plan. The Commonwealth of Puerto Rico does not guarantee benefits at retirement age. The annuity is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employees' salary up to a maximum of 10%) will be invested in an account which either; (1) earn a fixed rate based on the two year Constant Maturity Treasury Note or (2) earn a rate equal to 75% of the return of the System investment portfolio (net of management fees), or (3) earn a combined of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not granted under System 2000. The employer's contribution (12.275% and 11.275% of the employee's salary as of June 30, 2014 and 2013, respectively) will be used to fund the current plan.

For the years ended June 30, 2014 and 2013, total covered payroll for employees was approximately $21,278,900 and $22,340,600, respectively. Covered payroll refers to all compensation paid by the Corporation to employees covered by the ERS on which contributions to the pension are based.

On April 4, 2013 the Governor of Puerto Rico signed into law Act No. 3 of 2013 which represents a comprehensive reform of the Employee Retirement System (ERS). Act No. 3 became effective on July 1, 2013 and amends the provisions of the different structures under the ERS, including, but not limited to the following:

- For active participants of the contributory defined benefits program under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 are frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- Increases the minimum pension for current retirees from $400 to $500 per month.

Note 9 - Retirement system – (continued)

- The retirement age for Act No. 447 participants is gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the "merit annuity" available to participants who joined the ERS prior to April, 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- The employee contribution rate increased from 8.275% to 10%.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from $600 to $200 and is eliminated for future retirees. The summer bonus is eliminated.
- Disability benefits are eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits are modified.

Additional information of the Retirement System is available in their financial statement for the year ended June 30, 2014, which copy is available at the Retirement System, Minillas Station, Box 42003, San Juan, Puerto Rico 00940.

Note 10 - Post-employment benefits other than pensions

The Corporation provides to its unionized employees through the Collective Bargain Agreement and to its non-unionized employees through a Board of Directors Certification certain post-employment benefits. Such benefits consist in the payment of healthcare plan coverage during the period from the date of the employee's retirement and the date the employee commences to receive the retirement benefits. The benefit provided by the Corporation includes the basic coverage for hospitalization, ambulatory and pharmacy services. The employee retains the option to maintain a similar coverage he/she actually enjoyed and should assume the cost of any optional coverage such as major medical and dental services.

Funding Policy – The required contribution is based on projected pay-as-you-go financing requirements. The contributions requirements of the plan are established and may be amended in accordance with the Collective Bargain Agreement reached by the Corporation and the Labor Union for those unionized employees and by the Board of Directors for the non-unionized employees.

Note 10 - Post-employment benefits other than pensions – (continued)

Annual OPEB Cost – The annual other postemployment benefit (OPEB) Cost is calculated based on the Annual Required Contribution of the employer (ARC), an amount actuarially determined in accordance with the provisions of GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". The ARC represents a level of funding that, if paid on ongoing basis, is projected to cover normal cost each year and amortize any funded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the Corporation's annual OPEB Plan cost, the amount actually contributed, and the changes in the net OPEB Plan obligation for the years ended June 30, 2014 and 2013:

	2014	2013
Net OPEB obligation, beginning of year	$ 69,552	$ 56,163
Annual OPEB cost (AOC):		
Annual required employer contribution (ARC)	18,482	16,053
Less amorization of net OPEB obligation	(12,647)	(2,247)
Plus interest on net OPEB obligation	1,780	2,156
Total annual OPEB cost	7,615	15,962
Actual contributions made	-	(2,573)
Net OPEB obligation, end of year	$ 77,167	$ 69,552

The three year trend information for the OPEB annual cost, annual cost contributed and net obligation is as follows:

	Three Year Trend Information		
Year Ended June 30,	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
2012	$ 14,835	6%	$ 56,163
2013	$ 15,962	16%	$ 69,552
2014	$ 18,482	59%	$ 77,167

Note 10 - Post-employment benefits other than pensions – (continued)

The net OPEB obligation at June 30, 2014 and 2013 is recorded as a component of accrued payroll and other expenses in the accompanying statements of net position.

Funded status and funding progress – As of June 30, 2014, the actuarial valuation date (latest available), the OPEB plan was 0% funded, the actuarial accrued liability for benefits was $148,890, and the actuarial value of assets was nil, resulting in an unfunded actuarial accrued liability (UAAL) of $148,890. The annual covered payroll was approximately $26,627,400 and the ratio of the UAAL to the covered payroll was .6%.

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits:

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assest (a)	Actuarial Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2008	$ -	$ 140,927	$ 140,927	0.0%	$ 18,793,500	0.7%
June 30, 2009	$ -	$ 151,789	$ 151,789	0.0%	$ 19,321,800	0.8%
June 30, 2010	$ -	$ 158,487	$ 158,487	0.0%	$ 20,000,000	0.8%
June 30, 2011	$ -	$ 162,206	$ 162,206	0.0%	$ 20,000,000	0.8%
June 30, 2012	$ -	$ 175,773	$ 175,773	0.0%	$ 20,000,000	0.9%
June 30, 2013	$ -	$ 188,814	$ 188,814	0.0%	$ 20,000,000	0.9%
June 30, 2014	$ -	$ 148,890	$ 148,890	0.0%	$ 26,627,372	0.6%

Actuarial methods and assumptions - Actuarial valuations of an ongoing plan involve estimates of the value or reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Note 10 - Post-employment benefits other than pensions – (continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

The actuarial methods are:

Actuarial cost method	Entry age cost method
Amortization method	Level percent of projected payroll, closed period
Amortization period	30 year

The actuarial assumptions are:

Interest rate	4.0%
Plan coverage period	Up to six (6) months after retirement.
Projected annual salaries increase	3.5%
Inflation rate	Included in the healthcare cost trend
Healthcare cost trend rate	8% and 8.5% for the years ended June 30, 2014 and 2013, respectively, grading to an ultimate rate of 5% for the year ending June 30, 2023

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Note 11 - Concentration of credit risk – patients' accounts receivable

The Corporation 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, 2014 and 2013 is as follows:

	2014	2013
Humana Healthcare	5%	7%
Triple S	14%	10%
MMM Healthcare	5%	5%
Others	76%	78%
	100%	100%

Note 12 - Functional expenses

The Corporation provides general health care services to patients with cardiovascular conditions. Expenses, related to providing these services for the years ended June 30, 2014 and 2013 are as follow:

	2014	2013
Health care services	$ 77,994,920	$ 77,471,110
General and administrative	11,144,270	11,455,074
	$ 89,139,190	$ 88,926,184

Note 13 - Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform them to the 2014 financial statements presentation.

Note 14 - Subsequent events

As disclosed in note 8, on September 2, 2014, the Corporation received $726,778 corresponding to the CMS EHR Incentive Program.

The Corporation evaluated subsequent events through December 9, 2014, which is the date the financial statements were available to be issued. Except for the event described in the preceding paragraph, no events have occurred subsequent to the statement of net position 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.