Cardiovascular Center Corporation of Puerto Rico and the Caribbean

Financial Statements

June 30, 2017 and 2016

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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, 2017 and 2016, 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 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. Those standards require that we plan and perform the audit 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, 2017 and 2016, and the changes in net deficiency, and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Going Concern

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" OR THE "Act"), was enacted into law. This Act establishes an Oversight Board to assist the Government of Puerto Rico, including instrumentalities, in managing its public finances, and for other purposes. On September 30, 2016, the Corporation was identified as one of the covered entities subject to oversight under this Act.

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), on behalf of the Commonwealth of Puerto Rico ("Puerto Rico"), filed a petition for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") in the United States District Court for the District of Puerto Rico.

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note 18 to the financial statements, the Corporation has suffered recurring losses and has a negative financial position. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 18. These financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Corporation be unable to continue as a going concern.

Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-9 and the schedule of proportionate share of net pension liability and the schedule of contributions on pages 57 and 58 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.

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San Juan, Puerto Rico
December 30, 2019
License No. LLC-322
Expires December 1, 2020

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, 2017 and 2016. Please read it along with the Corporation's financial statements, which begin on page 10.

Using this Annual Report

The Corporation's financial statements consist of three statements: Statement of Net Position (page 10), Statement of Revenues, Expenses and Changes in Net Deficiency (page 11), and a Statement of Cash Flows (pages 12 and 13). These financial statements and related notes (pages 14 to 57) provide information about the activities of the Corporation, including resources held by the Corporation but restricted for specific purposes by enabling legislation.

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

The statement of net position and the statement of revenues, expenses and changes in 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 less liabilities and deferred inflows of resources, as one way to measure the Corporation's financial health, or financial position. Over time, increases or decreases in the Corporation's net position (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, 2017 and 2016 and for the years then ended, the Corporation's financial information is summarized as follows:

	2017	2016	Variance	%
Current assets	$ 13,909,593	$ 14,712,706	$ (803,113)	-5%
Non-current assets:				
Capital assets, net	14,881,200	14,957,076	(75,876)	-1%
Total assets	28,790,793	29,669,782	(878,989)	-3%
Deferred outflows of resources - pension related	41,100,963	33,088,697	8,012,266	24%
Current liabilities	80,544,148	72,485,317	8,058,831	11%
Other non-current liabilities	172,558,851	157,092,691	15,466,160	10%
Total liabilities	253,102,999	229,578,008	23,524,991	10%
Deferred inflows of resources - pension related	3,192,865	2,629,757	563,108	21%
Net position (deficiency)				
Net investment in capital assets	14,881,200	14,957,076	(75,876)	-1%
Net deficiency	(201,285,308)	(184,406,362)	(16,878,946)	9%
Total net (deficiency)	(186,404,108)	(169,449,286)	(16,954,822)	10%
Operating revenues, net	80,936,118	76,162,794	4,773,324	6%
Operating expenses	(97,890,940)	(90,862,341)	(7,028,599)	8%
Non-operating income	-	254,549	(254,549)	-100%
Change in net position (deficiency)	(16,954,822)	(14,444,998)	(2,509,824)	17%
Total net (deficiency)	$ (186,404,108)	$ (169,449,286)	$ (16,954,822)	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 approximately $879,000 or 3% in comparison to fiscal year 2016. The reason for such decrease relates principally to; an increase in unrestricted cash and cash equivalents of approximately $1.9 million; a decrease on patients accounts receivable for approximately $1.7 million, both of the above-mentioned related to an increase in patient service collections; and a decrease of approximately $1.3 million in other accounts receivable mostly due to bad debt expense related to rent receivable from Recinto de Ciencias Médicas (a related party) and Centro de Imagen y Diagnósticos, an unrelated third party.

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

Net Position – (continued)

The current liabilities of the Corporation increased by approximately $8.1 million or 11% during the fiscal year ended June 30, 2017 in comparison with fiscal year 2016, which is directly related to an increase in accrued pension costs and amount due to related parties for approximately $4.4 million for employees' and employer pension contributions, rent fees, utilities and other governmental obligations; and an increase on accounts payable and accrued liabilities for approximately $2.5 million, and $746,000, respectively.

Also, because of the adoption of Governmental Accounting Standard Board (GASB) Statements No. 71 and No. 68, the Corporation was allocated with a proportionate share of the Commonwealth of Puerto Rico's Retirement System's net pension liability. The effects of such allocation significantly changed the Corporation's net position, as follows:

	2017	2016	Variance	%
Deferred outflows of resources - pension related	$ 41,100,963	$ 33,088,697	$ 8,012,266	24%
Deferred inflows of resources - pension related	$ 3,192,865	$ 2,629,757	$ 563,108	21%
Net pension liability	$ 166,822,798	$ 151,603,594	$ 15,219,204	10%

Results of Operations

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

During the year ended June 30, 2017, the Corporation reflected an operating loss and an increase in net deficiency of approximately $17 million. For the year ended June 30, 2016, the Corporation reflected an operating loss of approximately $14.7 million and a deficiency of revenues over expenses of approximately $14.4 million, including $254,549 of non-operating revenues.

The non-operating activities of the Corporation for the year ended June 30, 2016 relate to interest income, and contributions from the Commonwealth of Puerto Rico.

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, 2017	June 30, 2016	Variance	% of Change
Admissions	4,171	3,922	249	6%
Discharges	4,160	4,073	87	2%
Patient days	39,356	33,307	6,049	-5%
Occupancy percentage	68%	58%	10%	17%
Surgery procedures	2,279	2,261	18	1%
Invasive laboratory procedures	11,545	10,797	748	7%

The Corporation reflected an increase in the operating revenues of approximately $4.8 million or 6%. This is principally associated to an increase in patient services, as reflected in the statistical information of patient services presented above.

Also, for the fiscal year ended June 30, 2017, the operational expenses of the Corporation reflected an increase of approximately $7 million or 8%, when compared to those of the fiscal year 2016. The most relevant changes in expenses for the fiscal year ended June 30, 2017, compared to the expenses of the fiscal year ended June 30, 2016, are; a increase in salaries and wages and employee benefits of approximately $3.5 million, which is mostly due to contributions to the retirement system of the Commonwealth of Puerto Rico; an increase in professional fees and contracted services for approximately $1.2 million, related to the subcontracting of essential services that used to be performed by employees that retired; an increase in supplies expense for approximately $3.3 million; an increase in utilities expense for approximately $346,000; an increase in bad debt expense related to rent receivable for approximately $1.3 million and; a decrease of rent and other expenses for approximately $1.6 million, mostly related to a decrease in the rent expense of the building, which is imposed by the Public Buildings Authority of the Commonwealth of Puerto Rico.

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

Results of Operations – (continued)

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.

As part of the approval of the Law No. 72 of September 7, 1993 (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.

Finally, the adoption of the GASB No. 71 and No. 68 by the Commonwealth of Puerto Rico and its instrumentalities brought change from the then existing "funding based" accounting model, where the Annual Required Contribution (ARC) was compared to the actual payments made and that difference determined the net pension obligation; to an "accrual basis" model, where the total pension obligation (actuarially determined) is compared to the plan net position and the difference represents the net pension liability. The Primary Government of the Commonwealth of Puerto Rico, as well as its component units and the municipalities, are considered "cost sharing" employers of the Employees Retirement System (ERS); therefore, the Corporation reports its allocated share of the ERS's net pension liability and the related pension amounts.

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, 2017 and 2016, the Corporation had $14.8 million and $14.9 million, respectively in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. During fiscal years 2017 and 2016, the Corporation made cash outlays for capital assets by $1,235,070 and $884,029, respectively.

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 nil and $18,900 for the years ended June 30, 2017 and 2016, respectively. Act. No. 26 of 2017 eliminated this benefit for all active employees effective April 29, 2019.

Contacting the Corporation's Financial Management

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

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statements of Net Position

June 30, 2017 and 2016

	2017	2016
Assets:		
Current assets:		
Unrestricted cash and cash equivalents	$ 7,602,527	$ 5,704,115
Patients accounts receivable, net	3,483,272	5,154,883
Estimated third-party payor - Medicare	507,786	145,248
Other accounts receivable, net of estimated uncollectibles of $2,638,775 in 2017 and $1,377,134 in 2016	431,826	1,755,276
Inventory of supplies	1,571,218	1,264,403
Prepaid expenses and other current assets	312,964	688,781
Total current assets	13,909,593	14,712,706
Capital assets, net of depreciation and amortization	14,881,200	14,957,076
Total assets	28,790,793	29,669,782
Deferred outflows of resources - pension related	41,100,963	33,088,697

Liabilities and Net Deficiency

	2017	2016
Current liabilities:		
Current portion of note payable	225,000	-
Accrued pension costs	5,687,443	1,540,493
Due to related parties	40,024,330	38,875,367
Accounts payable	28,554,599	26,008,756
Accrued payroll and other expenses	5,895,858	5,996,282
Reserve for claim losses	156,918	64,419
Total current liabilities	80,544,148	72,485,317
Reserve for claim losses	5,527,053	5,400,097
Note payable, net of current portion	120,000	-
Net pension liability	166,822,798	151,603,594
Due to Medicare	89,000	89,000
Total liabilities	253,102,999	229,578,008
Deferred inflows of resources - pension related	3,192,865	2,629,757
Net position (deficiency):		
Net investment in capital assets	14,881,200	14,957,076
(Deficiency)	(201,285,308)	(184,406,362)
Total net (deficiency)	$ (186,404,108)	$ (169,449,286)

See notes to financial statements

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statements of Revenues, Expenses and Changes in Net Deficiency

Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues		
Patient service revenue, net of contractual adjustments	$ 79,213,179	$ 74,439,364
Less: provision for bad debts	706,002	717,469
Net patient service revenue	78,507,177	73,721,895
Capitation revenue	246,748	-
Other revenue	2,182,193	2,440,899
Total operating revenues	80,936,118	76,162,794
Operating expenses		
Salaries and wages	23,438,102	23,026,590
Employee benefits	12,965,665	9,882,898
Professional fees and contracted services	8,003,930	6,780,309
Supplies, food and drugs	30,641,947	27,342,645
Repairs and maintenance	2,586,720	2,578,979
Utilities	3,264,475	2,918,003
Depreciation and amortization	1,761,146	1,827,092
Insurance	172,122	172,991
Provision for claim losses	283,875	283,875
Pension expense	7,770,046	8,702,552
Bad debt expense	1,261,641	-
Rent and other	5,741,271	7,346,407
Total operating expenses	97,890,940	90,862,341
Operating loss	(16,954,822)	(14,699,547)
Non-operating income		
Contributions from the Commonwealth of Puerto Rico	-	186,765
Interest income	-	67,784
Total non-operating income	-	254,549
Increase in net deficiency	(16,954,822)	(14,444,998)
Net deficiency, at beginning of year	(169,449,286)	(155,004,288)
Net deficiency, at end of year	$ (186,404,108)	$ (169,449,286)

See notes to financial statements

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Receipts from patient services	$ 80,062,998	$ 74,009,612
Other receipts	2,244,002	2,169,674
Payments to suppliers	(46,646,657)	(44,107,300)
Payments to employees and employee benefits	(32,357,241)	(33,009,446)
Payments on malpractice claims	(64,420)	(152,618)
Net cash provided by (used in) operating activities	3,238,682	(1,090,078)
Cash flows from capital and related financing activities		
Cash outlays for capital assets	(1,235,270)	(884,029)
Principal paid on note payable	(105,000)	-
Net cash used in capital and related financing activities	(1,340,270)	(884,029)
Net cash provided by investing activities-		
Receipts of interests	-	67,784
Increase (decrease) in unrestricted cash and cash equivalents	1,898,412	(1,906,323)
Unrestricted cash and cash equivalents, at beginning of year	5,704,115	7,610,438
Unrestricted cash and cash equivalents, at end of year	$ 7,602,527	$ 5,704,115

(Continues)

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statements of Cash Flows (Continued)

Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Operating loss	$ (16,954,822)	$ (14,699,547)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation and amortization	1,761,146	1,827,092
Provision for bad debts	1,967,643	717,469
Provision for claim losses	283,875	283,875
Changes in assets and liabilities		
(Increase) decrease in:		
Patient accounts receivable	965,609	(266,741)
Estimated third-party payor - Medicare	(362,538)	(163,011)
Other accounts receivable	61,809	(271,225)
Inventory of supplies	(306,815)	703,946
Prepaid expenses and other current assets	375,817	(125,797)
Deferred outflows of resources - pension related	(8,012,266)	(15,198,756)
Increase (decrease) in:		
Accounts payable	2,545,843	(126,115)
Due to related parties	1,148,963	1,460,865
Reserve for claim losses	(64,420)	(152,618)
Accrued payroll and other expenses	(100,424)	(99,958)
Accrued pension cost	4,146,950	1,119,135
Net pension liability	15,219,204	22,089,855
Deferred inflows of resources - pension related	563,108	1,811,453
Total adjustments	20,193,504	13,609,469
Net cash provided by (used in) operating activities	$ 3,238,682	$ (1,090,078)
Supplemental disclosure of non capital and related financing activities:		
Contribution from the Commonwealth of Puerto Rico paid on behalf of the Corporation for the Retirement System of Puerto Rico	$ -	$ 186,765
Supplemental disclosure of capital and related financing activities:		
Equipment financed by a supplier	$ 450,000	$ -

See notes to financial statements

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

Reporting entity

Cardiovascular Center Corporation of Puerto Rico and the Caribbean (the Corporation) is a public corporation created by Act No. 51 (the Act) of June 30, 1986, 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 (the Commonwealth).

Summary of significant policies

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The following is a description of the most significant accounting policies:

Basis of presentation

The Corporation's financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 (GASB No. 34), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* GASB 34, as amended, establishes standards for external financial reporting for all state and local government entities, which includes a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. It requires the classification of net assets into three components: net invested in capital assets, restricted, and unrestricted.

These classifications are defined as follows:

- Net invested in capital assets – This component of net assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any bonds, mortgage notes, or other borrowings that are attributable to and spent in the acquisition, construction, or improvement of those assets.

  If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net invested in capital assets; rather, that portion of the debt is included in the same net assets component as the unspent proceeds. As of June 30, 2017, and 2016, net assets invested in capital assets, net of related debt consisted of the balance of capital assets.

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

Basis of presentation - (continued)

- Restricted – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributions, or laws or regulations of other governments of constraints imposed by law through constitutional provisions or enabling legislation. As of June 30, 2017, and 2016, the Corporation did not have restricted net assets.

- Unrestricted– This component of net assets consists of net assets that do not meet the definition of "restricted" or "net invested in capital assets".

Measurement focus and basis of accounting

The financial statements of the Corporation are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental units. Under this basis, revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid.

Use of estimates

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

Cash and cash equivalents

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

Fair value of financial instruments

The carrying amounts reported in the statement of net position for cash, receivables, other receivables and payables approximate their fair value due to their short-term duration.

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

Valuation of accounts receivable

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

Inventory of supplies

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

Capital assets

The Corporation's capital assets are reported at historical cost. Depreciation is provided over the estimated useful life of each class of depreciable asset, ranging from 3 to 30 years, and is computed using the straight-line method. The Corporation capitalizes those capital assets with an individual cost in excess of $300.

Accounting for the impairment of capital assets

The Corporation accounts for assets impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its services utility has declined significantly and unexpectedly. This statement also establishes accounting requirements for insurance recoveries. A capital asset generally should be considered impaired if both, (a) the decline in service utility of the capital asset is large in magnitude, and (b) the event of change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. As of June 30, 2017, and 2016, no capital assets were considered impaired by the Corporation.

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

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 the additional uniform contribution to the Employees Retirement System (ERS) of the Commonwealth) and for capital purposes. Contributions for the payment of the additional uniform contribution to the ERS are reported as non-operating income and amounted to nil and $186,765 for the years ended June 30, 2017 and 2016, respectively. No contributions for capital purposes were received during the years 2017 and 2016.

Operating revenues and expenses

The Corporation's statement of revenues, expenses and changes in net 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. Operating expenses are all the expenses incurred to provide health care services, other than financing costs.

Non-exchange transactions

GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, establishes accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (for example, grants, and contributions). In a non-exchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal value. Under the provisions of the GASB No. 33, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied. Non-exchange revenues include contributions received from the Commonwealth of Puerto Rico for purposes other than capital assets acquisition, which are reported as non-operating revenues.

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

Net patient service revenue

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

The Corporation follows the requirements of the Financial Accounting Standard Board (FASB) *Accounting Standards Update* No. 2011-07 *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Healthcare Entities.* The standard update requires healthcare entities that recognize a significant amount of patient service revenue at the time the services are rendered, even though they do not assess the patient's ability to pay at that moment, to present as separate line items on the face of the statement of revenues, expenses and changes in net position (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 were entitled to 2.5 days per month, up to a maximum of 60 days, for vacations, and 1.5 days per month, up to a maximum of 90 days for sick leave annually. Vacation time was fully vested to the employees from the first day of work. However, as per Law No. 26 of April 29, 2017, Fiscal Plan Compliance Law, the accumulation is reduced to fifteen (15) days of vacation and eighteen (18) days of sick leave annually. Also, for any employee hired after February 4, 2017, the accumulation is reduced to fifteen (15) days of vacation and twelve (12) days of sick leave annually.

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

Compensated absences – (continued)

Under the collective bargain agreement, employees were entitled to the payment of the excess of sixty (60) days of vacation at a rate equal to double of their hourly rate. On the other hand, employees not covered under the collective bargain agreement were entitled to the payment of the excess of sixty (60) days of vacation at their hourly rate. However, as per Law No. 26 of April 29, 2017, payment of the excess of sixty (60) days of vacation cannot be completed and the excess of sixty (60) days of vacation would be eliminated at the end of each calendar year.

Under the collective bargain agreement and the Corporation policies, all employees were entitled to the payment of the excess of fifteen (15) days in accumulated sick leave, up to a maximum of eighteen (18) days. However, as per Law No. 26 of April 29, 2017, the payment previously mentioned cannot be completed and the excess of ninety (90) days of sick leave would be eliminated at the end of each calendar year.

GASB Statement No. 45

The Corporation followed the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The Corporation provided post-retirement benefits to all employees who meet certain age and years of service requirements. Such benefits consisted of health care benefits which were provided for a period of approximately six (6) months after retirement (see Note 13). The above accounting standard resulted in a decrease in net position of nil, and $18,900 for the years ended June 30, 2017 and 2016, respectively. However, as per Law No. 26 of April 29, 2017, Fiscal Plan Compliance Law, the post-retirement health care benefits were suspended during the fiscal year 2016.

Risk management

The Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption, errors and omissions, and natural disasters, among others. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial insurance coverage since various preceding years. The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Since August 23, 2005, the Corporation is insured by the Commonwealth of Puerto Rico.

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

Deferred outflows and inflows of resources

The Corporation follows GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which requires that, in addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources, which represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Also, in addition to liabilities, the statement of net position will sometimes report a separate section of deferred inflows of resources, which represents an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2017, and 2016, all deferred outflows of resources and all deferred inflows of resources of the Corporation are pension related items, as further disclosed in Note 12.

New accounting standards adopted

Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (GASB No. 73) - This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets.

It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities. This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.

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

New accounting standards adopted – (continued)

2. Accounting and financial reporting for separately financed specific liabilities of individual employers and non-employer contributing entities for defined benefit pensions.

3. Timing of employer recognition of revenue for the support of non-employer contributing entities not in a special funding situation.

This pronouncement is effective for fiscal year June 30, 2017.

The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (GASB No. 76) - The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This pronouncement is effective for fiscal year June 30, 2016.

Accounting pronouncements issued but not yet effective

The following summarizes new accounting standards that have been issued but are not yet effective, which are expected to have a direct and material effect on the Corporation's financial statements once they become effective:

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB No. 75) - The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2017.

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

Accounting pronouncements issued but not yet effective – (continued)

Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73 (GASB No. 82) - The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

Omnibus (GASB No. 85) - The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and "negative" goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB

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

Accounting pronouncements issued but not yet effective – (continued)

- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Certain Debt Extinguishment Issues (GASB No. 86) - The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements (GASB No. 88) - The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Additional accounting pronouncements have been issued and are not yet effective.

The impact of these statements on the Corporation's basic financial statements has not yet been determined.

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 2017. 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.

Also, the Corporation is subject to periodic audits by the U.S. Office of the Inspector General (OIG). At June 30, 2017 and 2016, 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, 2017 and 2016 follows:

	2017	2016
Third-party payors	$ 78,657,434	$ 73,907,452
Self-pay patients	555,745	531,912
Patient service revenue (net of contractual allowances and discounts)	$ 79,213,179	$ 74,439,364

Note 2 - Net patient service revenue – (continued)

Capitation revenue

The Corporation has an agreement with an insurance carrier to provide medical services to enrolled members. Under this agreement, the Corporation receives fixed monthly capitation payments, regardless of services performed by the Corporation. The Corporation's health care premiums (capitation revenues) are reported as revenue in the month that enrolled members are entitled to health care benefits.

Note 3 - Patients accounts receivable

Patients' accounts receivable at June 30, 2017 and 2016 consist of:

	2017	2016
Humana Healthcare	$ 345,566	$ 1,507,257
Triple S	4,223,876	5,340,037
MMM Healthcare	3,433,740	5,487,713
Medical Card System	2,669,824	3,704,441
Medicare	1,263,124	2,216,499
Self Pay (mostly deductibles, non-covered charges and private patient accounts)	5,140,683	4,812,606
Other third-party payors	9,823,508	4,805,585
	26,900,321	27,874,138
Less: allowance for doubtfull accounts	23,417,049	22,719,255
Patient and third-party payors, net	$ 3,483,272	$ 5,154,883

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Note 3 - Patients accounts receivable – (continued)

Changes in allowance for doubtful accounts on patients' accounts receivable for the years ended June 30, 2017 and 2016 were as follows:

	2017	2016
Balance, beginning of year	$ 22,719,255	$ 21,995,560
Small balance write-offs	(32,261)	(28,502)
Recoveries	24,053	34,728
Provision for bad debts	706,002	717,469
Balance, end of year	$ 23,417,049	$ 22,719,255

Net patient service revenue from third-party payors and uninsured patients is recorded when the health care services are provided. The Corporation records provision for bad debts related to receivables from third-party payors and uninsured patients as a deduction of net patient service revenue in the accompanying statements of revenues, expenses and changes in the net position, for accounts with balances over 365 days, for which collection efforts have been followed in accordance with the Corporation's policies.

At June 30, 2017 and 2016, 97% and 96%, respectively, of the amounts reserved as uncollectible are related to third-party payors, 3% and 4%, respectively, are related to self-pay patients, which includes deductibles and co-insurance which the Corporation accounts for as patient balance.

Note 4 - Cash and cash equivalents – custodial credit risk deposits

The Corporation is authorized to deposit funds only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico. Such deposits should be kept in separate accounts in the name of the Corporation. During the years ended June 30, 2017 and 2016, the Corporation invested its funds in bank accounts bearing interest. These deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, with the remaining balance collateralized with financial instruments held by a trust of the Commonwealth. Based on these provisions, deposits are not considered to be subject to custodial credit risk, which is the risk that in the event of a bank's failure, the Corporation's deposits may not be returned.

Note 4 - Cash and cash equivalents – custodial credit risk deposits – (continued)

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

Depository Accounts	Bank Balance at June 30, 2017	Bank Balance at June 30, 2016
Insured	$ 250,000	$ 250,000
Collateralized:		
Collateral held in the Corporation's name	8,979,251	7,127,020
Total deposits	$ 9,229,251	$ 7,377,020

The current amounts of deposits at June 30, 2017 and 2016, shown above are included in the Corporation's statements of net position under unrestricted cash and cash equivalents, and amounted to $7,602,527 and $5,704,115, respectively.

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Note 5 - Capital assets

Capital assets, additions, retirements and balances for the years ended June 30, 2017 and 2016 were as follows:

	2016	Additions	Retirements	2017
Land	$ 94,123	$ -	$ -	$ 94,123
Improvements to leased property	9,518,300	-	-	9,518,300
Fixed equipment	775,981		-	775,981
Movable equipment	28,728,608	1,685,270	-	30,413,878
Library	14,736		-	14,736
Vehicles	67,290	-	-	67,290
Works of art	8,849	-	-	8,849
Total cost	39,207,887	1,685,270	-	40,893,157
Less acummulated depreciation and amortization for:				
Improvements to leased property	3,046,084	334,459	-	3,380,543
Fixed equipment	775,981		-	775,981
Movable equipment	20,354,947	1,426,687	-	21,781,634
Library	6,509	-	-	6,509
Vehicles	67,290	-	-	67,290
Total accumulated depreciation and amortization	24,250,811	1,761,146	-	26,011,957
Capital assets, net	$ 14,957,076	$ (75,876)	$ -	$ 14,881,200

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Note 5 - Capital assets – (continued)

	2015	Additions	Retirements	2016
Land	$ 94,123	$ -	$ -	$ 94,123
Improvements to leased property	9,518,300	-	-	9,518,300
Fixed equipment	775,981	-	-	775,981
Movable equipment	27,844,579	884,029	-	28,728,608
Library	14,736	-	-	14,736
Vehicles	67,290	-	-	67,290
Works of art	8,849	-	-	8,849
Total cost	38,323,858	884,029	-	39,207,887
Less acummulated depreciation and amortization for:				
Improvements to leased property	2,711,625	334,459	-	3,046,084
Fixed equipment	775,981	-	-	775,981
Movable equipment	18,862,314	1,492,633	-	20,354,947
Library	6,509	-	-	6,509
Vehicles	67,290	-	-	67,290
Total accumulated depreciation and amortization	22,423,719	1,827,092	-	24,250,811
Capital assets, net	$ 15,900,139	$ (943,063)	$ -	$ 14,957,076

Note 6 - Compensated absences

Compensated absences at June 30, 2017 and 2016 are as follow:

Year ended June 30, 2017	Beginning Balance	Additions	Deductions	Ending Balance
Vacations	$ 1,701,451	$ 2,203,336	$ 2,167,427	$ 1,737,360
Sick leave	2,317,892	861,465	964,478	2,214,879
Total compensated absences	$ 4,019,343	$ 3,064,801	$ 3,131,905	$ 3,952,239

Note 6 - Compensated absences – (continued)

Year ended June 30, 2016	Beginning Balance	Additions	Deductions	Ending Balance
Vacations	$ 1,692,781	$ 2,277,172	$ 2,268,502	$ 1,701,451
Sick leave	2,214,879	1,088,068	985,055	2,317,892
Total compensated absences	$ 3,907,660	$ 3,365,240	$ 3,253,557	$ 4,019,343

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

Note 7 - Reserve for claim losses

A summary of the reserve for claim losses at June 30, 2017 and 2016 follows:

Year ended June 30, 2017	Beginning Balance	Additions	Payments	Ending Balance
Reserve for claim losses	$ 5,464,516	$ 283,875	$ 64,420	$ 5,683,971
Year ended June 30, 2016				
Reserve for claim losses	$ 5,333,259	$ 283,875	$ 152,618	$ 5,464,516

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Note 8 - Related party transactions

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

The accounts receivable of the Corporation include, at June 30, 2017 and 2016, the following amounts due from other governmental entities considered related parties:

	2017	2016
Patients accounts receivable	$ 1,098,358	$ 1,143,478
Other accounts receivable	1,986,516	1,892,540
Less: reserve for uncollectible accounts	1,979,501	923,648
Other accounts receivable, net	7,015	968,892
Total amounts due from related parties, net	$ 1,105,373	$ 2,112,370

The balance due to related parties as of June 30, 2017 and 2016 consists of the following:

	2017	2016
Autoridad de Energía Eléctrica (A.E.E.)	$ 11,641,256	$ 12,527,145
Autoridad de Acueductos y Alcantarillados de Puerto Rico (A.A.A.)	39,400	107,053
P.R. Public Building Authority	26,985,072	24,843,576
Accounts payable to other governmental entitties	1,358,602	1,397,593
Total	$ 40,024,330	$ 38,875,367

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

The balance due to A.E.E. and A.A.A. at June 30, 2017 and 2016 corresponds to electricity and water services, respectively. During the years ended June 30, 2017 and 2016, the Corporation incurred approximately $2,444,000 and $2,249,000, respectively, for electricity services. During the years ended June 30, 2017 and 2016, the Corporation incurred approximately $738,000 and $595,000, respectively, for water services.

Note 8 - Related party transactions – (continued)

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, 2017 and 2016 amounted to $2,218,171 and $3,689,104, 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, 2017 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 9 - Commitments and contingencies

Commitments

Operating leases

The Corporation leases equipment under cancellable operating leases, with terms ranging from one to five years, expiring at various dates through April 2022. Total rent expense for the years ended June 30, 2017 and 2016 for all operating leases was approximately $440,000 and $596,000, respectively. The rent commitment related to non-cancellable operating leases as of June 30, 2017 amounts to $375,065 and $93,766 for the fiscal years ending on June 30, 2018 and 2019, respectively.

Parking rental agreement

The Corporation subleases the parking facilities to Fontán Associates, Inc. for a five-year term which expires in February 2021. There is one renewal clause for an additional five years. Fontán Associates, Inc. will pay the Corporation a monthly rental fee, which will increase annually. Parking rent income for the years ended June 30, 2017 and 2016 was approximately $373,000 and $392,400, respectively.

Note 9 - Commitments and contingencies – (continued)

Commitments – (continued)

Parking rental agreement – (continued)

Future minimum parking rent income as of June 30, 2017, follows:

Years ending June 30,	Amount
2018	$ 387,842
2019	403,356
2020	419,490
2021	287,019
	$ 1,497,707

The Corporation record rent as income over the lease term as it becomes receivable according to the provisions of the underlying lease agreement. Accounting principles generally accepted in the United States of America require that income from leases with schedules rent increases be recognized on a straight-line basis over the lease term. However, the difference in methodology used does not have a material effect in the accompanying financial statements.

Food and nutrition service facility rental agreement

The Corporation subleased the food and nutrition services facilities to Metropolitan Food Services, Inc. on a one-year term agreement which expired on August 15, 2017. Under such agreement, Metropolitan Food Services, Inc. paid a monthly rental fee of $5,000, plus a 3% percent of the gross earnings for food sales and utilities. Total income related to this agreement for the years ended June 30, 2017 and 2016, was approximately $109,800 and $106,500, respectively.

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, 2017 and 2016 amounted to $84,000 in both periods.

Note 9 - Commitments and contingencies – (continued)

Commitments – (continued)

Other rental agreements

The Corporation leases space to various other unrelated parties under operating leases with average terms from three (3) to five (5) years. Rent income for the years ended June 30, 2017 and 2016 on the other rental agreements was approximately $740,700 and $692,200, respectively.

Future minimum rent income as June 30, 2017, follows:

Years ending June 30,	Amount
2018	$ 501,176
2019	481,688
2020	166,682
2021	100,051
2022	7,200
	$ 1,256,797

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.

Note 9 - Commitments and contingencies – (continued)

Contingencies – (continued)

Malpractice and legal claims – (continued)

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 $5,683,971 and $5,464,516 at June 30, 2017 and 2016, respectively.

The reserve for claim losses includes approximately $697,300 at June 30, 2017 and 2016, 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 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 Corporation believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Corporation will not be subject to governmental inquiries or actions.

Health Insurance Portability and Accountability Act

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

Note 9 - Commitments and contingencies – (continued)

Contingencies – (continued)

Health Insurance Portability and Accountability Act – (continued)

Also, in order to be in compliance with HIPAA provisions, the Corporation adopted the 10th revision of the International Statistical Classification of Diseases and Related Health Problems (ICD-10) during the fiscal year ended June 30, 2016. 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.

Implementation requirements of an Electronic Health Record System

The Health Information Technology for Economic and Clinical Health Act set meaningful use of interoperable Electronic Health Record (EHR) adoption in the health system as a critical national goal and incentivize the EHR adoption. Its goal is not adoption alone but meaningful use of EHRs, that is, their use by providers to achieve significant improvements in care.

The Centers for Medicare and Medicaid Services (CMS) manages and has implemented an incentive program for those hospitals that implement EHR and that also, comply with certain specific requirements. CMS EHR Incentive Programs provide incentive payments to eligible hospitals as they adopt, implement, upgrade or demonstrate meaningful use, as defined by CMS, of certified EHR technology. As of June 30, 2017 and 2016, the Corporation is under the implementation of its EHR system.

Pursuant to the Consolidated Act of 2016, the Puerto Rico hospitals become eligible under the Medicare EHR Incentive Program. This enables the hospitals to not only receive the incentive payments but also be subject to the Medicare negative payment adjustments. The hospitals may begin participation for EHR reporting periods in 2016 and would have to be successfully demonstrating meaningful use by 2020 in order to avoid a negative payment adjustment in 2022. The Puerto Rico hospitals could earn up to four consecutive years of Medicare EHR Incentive Program payments.

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Note 10 - Accrued pension costs

Accrued pension costs as of June 30, 2017 and 2016 consisted of:

June 30, 2017:

Description	Amount
Employer contributions	$ 5,150,781
Employees' contributions	536,662
	$ 5,687,443

June 30, 2016:

Description	Amount
Employer contributions	$ 1,119,135
Employees' contributions	421,358
	$ 1,540,493

Note 11 - Employees' retirement plan

Retirement system

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth. The Retirement System consists of different benefit structures, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 Program) and a defined contribution hybrid program.

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Note 11 - Employees' retirement plan – (continued)

Defined benefit program

Pursuant to Act No. 447 of May 15, 1951, as amended, all regular employees of the Corporation hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the Retirement System, under the Defined Benefit Program, as a condition of their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

The Defined Benefit Program provides retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits.

Members who have attained 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. The annuity for which the participant is eligible, is limited to a minimum of $500 per month and a maximum of 75% of the average compensation, as defined.

Participants who have completed 30 years of creditable service are entitled to receive the Merit Annuity. Under the Merit Annuity, participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary to the Defined Benefit Program.

Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the Retirement System effective April 1, 1990. These changes consist principally of an increase in the retirement date from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who have completed 30 years of creditable service.

Note 11 - Employees' retirement plan – (continued)

Defined benefit program – (continued)

On September 24, 1999, the Legislature enacted Act No. 305, which amended Act No. 447, to establish a new retirement program (System 2000 Program). In addition, on April 4, 2013, the Legislature enacted Act No. 3, which amended the provisions of the different benefit structures under the Retirement System, including the Defined Benefit Program.

System 2000 Program

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to create, among other things, the System 2000 Program, a new benefit structure, similar to a cash balance plan (defined contribution plan). All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Defined Benefit Program, received a refund of their contributions, and were rehired on or after January 1, 2000, became members of the System 2000 Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the Defined Benefit Program had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the Defined Benefit Program plus interest thereon to the System 2000 Program.

Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary to the System 2000 Program. Employee contributions are credited to individual accounts established under the System 2000 Program. Participants have three options to invest their contributions to the System 2000 Program. Investment income is credited to the participant's account semiannually.

Under the System 2000 Program, contributions received from participants are pooled and invested by the Retirement System, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program will be paid from the same pool of assets. As a different benefit structure, the System 2000 Program is not a separate plan and the Commonwealth does not guarantee benefits at retirement age.

Corresponding employers' contributions will be used by the Retirement System to reduce the unfunded status of the Defined Benefit Program.

The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined this plan on or after January 1, 2000.

Note 11 - Employees' retirement plan – (continued)

System 2000 Program – (continued)

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries. Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

Defined Contribution Hybrid Program

On April 4, 2013, the Legislature enacted Act No. 3, which amended Act No. 447, Act No. 1 and Act No. 305, to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants who as of June 30, 2013, have not reached the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Note 11 - Employees' retirement plan – (continued)

Defined Contribution Hybrid Program – (continued)

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under the Retirement System, including, but not limited to, the following:

1. Increased the minimum pension for current retirees from $400 to $500 per month.
2. The retirement age for the Act No. 447 participants will be gradually increased from age 58 to age 61.
3. The retirement age for the active System 2000 Program participants will be gradually increased from age 60 to age 65.
4. Eliminated the "Merit Annuity" available to participants who joined the Retirement System prior to April 1, 1990.
5. The retirement age for new employees was increased to age 67.
6. The employee contribution rate was increased from 8.275% to 10%.
7. For the System 2000 Program participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
8. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the Retirement System.
9. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
10. Survivor benefits were modified.

Employee contributions are credited to individual accounts established under the Defined Contribution Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty five percent (0.25%) is required for the purchase of disability insurance.

Note 11 - Employees' retirement plan – (continued)

Defined Contribution Hybrid Program – (continued)

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump sum or purchasing an annuity contract.

For the year ended June 30, 2014, the Corporation was required to contribute 12.275% of each participant's gross salary under the different benefit structures. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2014, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent (1.25%).

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300 4617 in order to convey to the Primary Government's agencies, public corporations and municipalities the new implementation procedures to adopt, effective, July 1, 2017, the new "pay as you go (PayGo}" mechanism for all of the Commonwealth's Retirement Systems. With the start of the fiscal year 2018, employers' contributions, contributions ordered by special laws and the Additional Uniform Contribution were all eliminated and replaced by a monthly PayGo charge that will be collected from the aforementioned government entities to pay retirees. The Commonwealth Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality. The PayGo charge must be submitted to the Treasury Department before the 15th day of each month along with the individual contributions withheld from active employees. As liquid retirement funds become depleted, the PayGo charge is expected to increase.

On June 23, 2017, the Legislative Assembly approved certain other assignment for fiscal year 2018 under Joint Resolution 188, which among other things, orders the Retirement System to liquidate its assets and pass the net proceeds to the Treasury Department.

Additional information on the Retirement System is provided on its standalone financial statements for the year ended June 30, 2016, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

Note 11 - Employees' retirement plan – (continued)

Defined Contribution Hybrid Program – (continued)

As of June 30, 2017 and 2016, the total unpaid employee and employer contributions, due to the Retirement System amounted to $5,687,443 and $1,540,493, respectively.

Note 12 - Net pension liability

The Commonwealth's net pension liability, from which an allocation was made to the Corporation's financial statements as of June 30, 2017 and 2016, was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations with beginning of years census data as of July 1, 2015 and 2014, respectively, that was updated to roll forward the total pension liability to June 30, 2016 and 2015, respectively, assuming no gains or losses.

Actuarial methods and assumptions

The following actuarial methods and assumptions were used in developing the estimate of the net pension liability of the Commonwealth of Puerto Rico's Retirement System, from which an allocation of the net pension liability was made to the Corporation and other instrumentalities of the Commonwealth of Puerto Rico.

The total pension liabilities in the June 30, 2016 and 2015 actuarial valuations were determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

	Actuarial valuations as of:	
	June 30, 2016	June 30, 2015
Actuarial cost method	Entry age normal	Entry age normal
Asset-valuation method	Market value of assets	Market value of assets
Actuarial assumptions:		
Inflation	2.5%	2.5%
Municipal bond index	2.85	3.8
Discount rate	2.85	3.8
Projected salary increases per annum	3.0% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3 of 2017, four year extension of the Act 66-2014 and the current general economy.	3.0% per annum. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66-2014 and the current general economy.
Cost-of-living adjustments	None assumed.	None assumed.

Note 12 - Net pension liability – (continued)

Actuarial methods and assumptions – (continued)

The mortality tables used in the June 30, 2016 actuarial valuations were as follows:

- Pre-retirement Mortality – For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year and projected forward using MP-2016 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year and projected forward using MP-2016 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. Also, 100% of deaths while in active service are assumed to be occupational only for members covered under Act No. 127.

- Post-retirement health mortality: rates, which vary by gender, are assumed for healthy retirees and beneficiaries based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the Uninsured Pensioner (UP) 1994 Mortality Table for Males and 95% of the rates from the UP 1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2016 on a generation basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Post-retirement disabled mortality: rates, which vary by gender, are assumed for disabled retirees based on a study of the plan's experience from 2007 to 2012 and updated expectation regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP 1994 Mortality Table for Males and 115% of the rates from the UP-Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generation basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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Note 12 - Net pension liability – (continued)

Actuarial methods and assumptions – (continued)

The mortality tables used in the June 30, 2015 actuarial valuations were as follows:

- Pre-retirement Mortality – For general employees not covered under Act No. 127, RP2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2015 from the 2006 base year and projected forward using MP2015 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2015 from the 2006 base year and projected forward using MP-2015 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. Also, 100% of deaths while in active service are assumed to be occupational only for members covered under Act No. 127.

- Post-retirement health mortality: rates, which vary by gender, are assumed for healthy retirees and beneficiaries based on a study of the plan’s experience from 2007 to 2012 equal to 92% of the rates from the Uninsured Pensioner (UP) 1994 Mortality Table for Males and 95% of the rates from the UP 1994 Mortality Table for Females. The rates are projected on a generational basis starting in 1994 using Scale AA. As a generational table, it reflects mortality improvements for both before and after the measurement date.

- Post-retirement disabled mortality: rates, which vary by gender, are assumed for disabled retirees based on a study of the plan’s experience from 2007 to 2012 equal to 105% of the rates from the UP 1994 Mortality Table for Males and 115% of the rates from the UP Mortality Table for Females. No provision was made for future mortality improvement for disabled retirees.

Long-term rate of return on investments

The long-term expected rate of return on pension benefit investments was determined in accordance with the portfolio asset allocation adopted by the corresponding boards of the Retirement Systems during December 2013 and the actuary’s capital market assumptions as of June 30, 2016. In addition, the assumption reflects that loans to members comprise approximately 50% of the portfolio and, have an approximate return of 9.1% with no volatility. The long-term expected rate of return on pension benefit investments of 6.55% as of June 30, 2016 is equal to the highest debt service of the senior pension funding bonds payable, which ranged from 5.85% per annum to 6.55% per year.

Note 12 - Net pension liability – (continued)

Long-term rate of return on investments – (continued)

The Retirement System's policy in regard to allocation of invested assets is established and may be amended by the Retirement System's Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the Retirement System's financial condition for the benefits provided through the pension programs. The following are the Retirement System Board's adopted asset allocation policy as of June 30, 2016 and 2015 (measurement dates):

Asset class	Target allocation	Long-term expected rate of return June 30, 2016	Long-term expected rate of return June 30, 2015
Domestic equity	25%	6.4%	6.4%
International equity	10%	6.7%	6.7%
Fixed income	64%	6.3%	6.3%
Cash	1%	3.0%	3.0%
	100%		

The long-term expected rates of return on pension benefit investments were determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Discount rate

The asset basis for the date of depletion projection is the Retirement System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the Employees Retirement System fiduciary net position became negative in the fiscal year 2015 and, accordingly, no projection of date of depletion is needed.

The System's fiduciary net position was not projected to be available to make all projected future benefits payments of current active and inactive employees. Therefore, the tax-free municipal bond index (Bond Buyer General Obligations 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 2.85% and 3.80% as of June 30, 2016 and July 1, 2015, respectively.

Note 12 - Net pension liability – (continued)

Discount rate – (continued)

The date of depletion projection in the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition does not improve in the near term.

Actuarial assumptions are revised periodically to more closely reflect both actual and anticipated future experience. Due to the change in census collection date to the beginning of the fiscal year rather that the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

The Corporation's proportion of the net pension liability of the ERS

The Corporation's proportionate share of the net pension liability of the ERS and the proportion percentage of the aggregate net pension liability of ERS allocated to the Corporation as of June 30, 2016 and 2015 (measurement rates) amounted to $166,822,798 and $151,603,594, respectively, and .44252% and .45475%, respectively.

The Corporation's proportion of the ERS's net pension liability was based on the actual required contributions of each of the participating employers that reflect each employer's projected long-term contribution effort. The contributions that reflect each employer's projected long-term contribution effort included in the proportionate share calculation are: (1) Act No. 116 of 2010 statutory payroll based contribution, (2) Act No. 3 of 2013 supplemental contribution, and (3) other special law contributions. Contributions from the Corporation to the ERS of approximately $2,936,000 were required during the period subsequent to the measurement date or during the period ended June 30, 2016. Other contributions to ERS that do not reflect an employer's projected long-term contribution effort, such as contributions that separately finance specific liabilities of an individual employer to ERS (i.e. local employer early retirement incentives), were excluded from the proportionate share calculation.

In addition, Act No. 32 of 2013 Additional Uniform Contribution (AUC), which is a contribution that reflects each employer's projected long-term contribution effort, was excluded from the proportionate share calculation because its collectability from various employers, including the Commonwealth, is uncertain at this moment. This prevents an overallocation of GASB Statement No. 68 amounts to the employers who have paid their AUC (or are expected to do so) and an under-allocation of GASB Statement No. 68 amounts to the employers who have not paid their AUC (or are not expected to do so).

Note 12 - Net pension liability – (continued)

The Corporation’s proportion of the net pension liability of the ERS – (continued)

Actuarial assumptions are revised periodically to more closely reflect both actual and anticipated future experience. Due to the change in census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

The components of the net pension liability of the Corporation’s proportionate share as of June 30, 2016 and 2015 (measurement dates) are as follows:

Corporation's proportionate share of:	2016	2015
Proportion of the net pension liability	0.44252%	0.45475%
Total pension liability	$ 161,221,062	$ 148,564,595
Plan fiduciary net position (deficiency)	(5,601,736)	(3,038,999)
Net pension liability	$ 166,822,798	$ 151,603,594
Plan's fiduciary net position as a percentage of the total pension liability	-3.47%	-2.05%
Covered payroll	$ 20,200,208	$ 20,729,536
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	12.11%	13.67%

The following table presents the Corporation’s proportionate share of the net pension liability as of June 30, 2016 for ERS calculated using the discount rate of 2.85%, as well as what the Corporation’s proportionate share of the net pension liability would be if it were calculated using a discount rate of 1% point lower (1.85%) or 1% point higher (3.85%) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
Corporation's proportionate share of net pension liability	$191,339,158	$ 166,822,798	$146,861,514

Note 12 - Net pension liability – (continued)

The Corporation's proportion of the net pension liability of the ERS – (continued)

The following table presents the Corporation's proportionate share of the net pension liability as of June 30, 2015 for ERS calculated using the discount rate of 3.80%, as well as what the Corporation's proportionate share of the net pension liability would be if it were calculated using a discount rate of 1% point lower (2.80%) or 1% point higher (4.80%) than the current rate:

	1% Decrease (2.80%)	Current Discount Rate (3.80%)	1% Increase (4.80%)
Corporation's proportionate share of net pension liability	$172,827,357	$ 151,603,594	$134,214,106

Pension expense and deferred outflows of resources and deferred inflows of resources from pension activities

Pension expense recognized by the Corporation for the years ended June 30, 2017 and 2016 related to the Retirement System amounts to $7,770,046 and $8,702,552, respectively.

Deferred outflows and deferred inflows of resources from pension activities reported in the Corporation's statements of net position as of June 30, 2017 and 2016 are as follows:

	Deferred outflows of resources	
	June 30, 2017	June 30, 2016
Differences between expected and actual experience in measuring total pension liability	$ 136,391	$ 175,204
Changes in assumptions	25,445,623	14,431,717
Changes in proportion and differences between actual contributions and proportionate share	9,035,944	14,798,227
Employer contributions made subsequent to the measurement date	6,483,005	3,683,549
	$ 41,100,963	$ 33,088,697

Note 12 - Net pension liability – (continued)

Pension expense and deferred outflows of resources and deferred inflows of resources from pension activities – (continued)

	Deferred inflows of resources	
	June 30, 2017	June 30, 2016
Net difference between projected and actual earnings on pension plan investments	$ 902,651	$ 871,758
Differences between expected and actual experience in measuring total pension liability	2,290,214	1,757,999
	$ 3,192,865	$ 2,629,757

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2017 will be recognized in the pension expense as follows:

Years ending June 30,	Amount
2018	$ 6,756,820
2019	6,756,820
2020	7,052,507
2021	7,128,406
2022	3,730,540
	$ 31,425,093

Deferred outflows of resources related to pensions resulting from the Corporation's required contributions subsequent to the measurement date of June 30, 2016 amounted to $6,483,005 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. This amount is not included in the table above.

Note 13 - Post-employment benefits other than pensions

The Corporation provided 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 consisted 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 included the basic coverage for hospitalization, ambulatory and pharmacy services. The employee retained the option to maintain a similar coverage he/she actually enjoyed and assumed the cost of any optional coverage such as major medical and dental services.

Act. No. 26 of 2017 eliminated this benefit for all active employees effective April 29, 2017.

Funding Policy – The required contribution was based on projected pay-as-you-go financing requirements. The contributions requirements of the plan were established and 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.

Annual Other Postemployment Benefit (OPEB) Cost – The annual OPEB cost was 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 cost, the amount actually contributed, and the changes in the net OPEB obligation:

	2016
Net OPEB obligation, beginning of year	$ 95,488
Annual OPEB cost (AOC):	
Annual required employer contribution (ARC)	20,951
Less amorization of net OPEB obligation	(2,247)
Plus interest on net OPEB obligation	147
Total annual OPEB cost	18,851
Actual contributions made	-
Net OPEB obligation, end of year	$ 114,339

Note 13 - Post-employment benefits other than pensions – (continued)

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
2014	$ 18,482	59%	$ 77,167
2015	$ 19,474	6%	$ 95,488
2016	$ 20,951	10%	$ 114,339

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%

Note 13 - Post-employment benefits other than pensions – (continued)

Actuarial methods and assumptions - 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 three (3) months after retirement.
Projected annual salaries increase	3.5%
Inflation rate	Included in the healthcare cost trend
Healthcare cost trend rate	7.50% for the year ended June 30, 2016, grading to an ultimate rate of 5% for the year ending June 30, 2023

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Note 14 - Note payable

Note payable as of June 30, 2017 consists of $450,000 payable to a supplier in thirty (30) monthly installments of $15,000, commencing in October 2016. The note payable is part of the purchase of medical equipment with original cost of $750,000, for which the Corporation paid $300,000 during the year ended June 30, 2017.

Note 15 - 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, 2017 and 2016 is as follows:

	2017	2016
Triple S	16%	19%
MMM Healthcare	13%	20%
Medical Card System	10%	13%
Medicare	5%	8%
Self Pay (mostly deductibles, non-covered charges and private patient accounts)	19%	17%
Other third-party payors	37%	23%
	100%	100%

Note 16 - 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, 2017 and 2016 are as follow:

	2017	2016
Health care services	$ 73,856,852	$ 69,835,821
General and administrative	24,034,088	21,026,520
	$ 97,890,940	$ 90,862,341

Note 17 - Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform them to the 2017 financial statements presentation.

Note 18 - Operations

The financial condition of the Corporation has weakened by high operating costs and recurring operating losses, which have affected its ability to pay its suppliers, governmental agencies and other creditors on a regular basis. As of June 30, 2017 and 2016, the Corporation has a total deficit of approximately $186 million and $169 million, respectively. The Corporation's operations will depend on the following critical factors to partially subsidize existing and future operating losses:

- Maximize collections from patients, medical plans and the rental agreements.
- A significant improvement in the economy of Puerto Rico and the Caribbean along with its current changes in the population.
- The financial support from the government of the Commonwealth of Puerto Rico and its agencies.
- Control of costs and maximization of the resources available.
- The acquisition of new technological medical equipment and devices such as Melody Transcatheter Pulmonary Valves (TPV), Micra Transcatheter Pacing System (TPS) and Left Ventricular Assist Devices (LVAD), in an effort towards innovation and competitiveness in times when cardiovascular diseases have increased.
- Continuous monitoring of services, procedures and patient census in order to identify areas of opportunity.

Note 19 - Subsequent events

The Corporation evaluated subsequent events through December 30, 2019, which is the date the financial statements were available to be issued. Except as described below, no events have occurred subsequent to the statement of net position date that would require additional adjustment to, or disclosure in the financial statements.

On August 23, 2017, the Governor signed into law Act No. 106 of 2017, which reformed the Retirement Systems, so that their active participants would deposit their individual contributions in a new Defined Contribution Plan that will be managed by a private entity. Act No. 106 of 2017 creates the legal framework so that the Commonwealth can guarantee payments of the pensioners through the PayGo system. Under the PayGo system, the Commonwealth makes pension payments from the General Fund, to the extent money is available, and municipalities and public corporations will reimburse the Commonwealth for any payments made on behalf of their employees. Approximately $2 billion was allocated for these purposes in the fiscal year 2018 budget. Act. No. 106 of 2017 also created a Defined Contribution Plan, similar to a 401 (k) plan, which guarantees the contributions of public servants, because future benefits will not be paid by the Retirement Systems.

Note 19 - Subsequent events – (continued)

On September 20, 2017, Hurricane María impacted Puerto Rico causing widespread infrastructure and other property damage, however, no significant property losses were experienced by the Corporation, as much of the damages suffered were covered by the property insurance policy.

On April 19, 2018, pursuant to Section 201 of PROMESA, the Oversight Board approved and certified the New Fiscal Plan for Puerto Rico.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Required Supplementary Information
Schedule of Proportionate Share of Net Pension Liability

For the Year Ended June 30, 2017

Corporation's proportionate share of:	2016	2015	2014
Proportion of the net pension liability	0.4425200%	0.45475%	0.42972%
Total pension liability	$ 161,221,062	$ 148,564,595	$ 129,860,380
Plan fiduciary net position (deficiency)	(5,601,736)	(3,038,999)	346,641
Net pension liability	$ 166,822,798	$ 151,603,594	$ 129,513,739
Plan's fiduciary net position as a percentage of the total pension liability	-3.47%	-2.05%	0.27%
Covered-employee payroll	$ 20,200,208	$ 20,729,536	$ 20,721,974
Administration's proportionate share of the net pension liability as a percentage of its covered-employee payroll	12.11%	13.67%	16.00%

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Required Supplementary Information
Schedule of Contributions

For the Year Ended June 30, 2017

Corporation's proportionate share of:	2016	2015	2014
Contractually required contribution (actuarially determined)	$ 2,936,488	$ 2,871,393	$ 2,603,449
Contributions in relation to the actuarially required contributions	3,683,549	3,057,673	2,603,449
Contribution deficiency (excess)	(747,061)	(186,280)	-
Covered-employee payroll	$20,200,208	$20,729,536	$20,721,974
Contribution as a percentage of its covered-employee payroll	18.24%	14.75%	12.56%