

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Financial Statements

June 30, 2009

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Cardiovascular Center Corporation of Puerto Rico and the Caribbean, a component unit of the Commonwealth of Puerto Rico, as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets (deficiency), and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of June 30, 2008, were audited by PKF, LLP, and whose report reissued and dated October 14, 2008 express an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of Cardiovascular Center Corporation of Puerto Rico and the Caribbean as of June 30, 2009, and changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in United States of America.

In accordance with Government Auditing Standards, we have also issued a separated report dated December 18, 2009 on our consideration of the Cardiovascular Center Corporation of Puerto Rico and the Caribbean's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Board of Directors  
Cardiovascular Center Corporation  
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The management's discussion and analysis on pages 3 to 8 is not a required part of the basic financial statements but it is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

2472831



*JPR & Adelin Romo*

San Juan, Puerto Rico  
December 18, 2009

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Management's Discussion and Analysis

June 30, 2009

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, 2009 and 2008. Please read it in conjunction with the Corporation's financial statements, which begin on page 9.

Using this Annual Report

The Corporation's financial statements consist of three statements: Balance Sheet (page 9), Statement of Revenues, Expenses and Changes in Net Assets (Deficiency) (page 10), and a Statement of Cash Flows (pages 11 to 12). These financial statements and related notes (pages 13 to 35) provide information about the activities of the Corporation, including resources held by the Corporation but restricted for specific purposes by enabling legislation.

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets (Deficiency)

The balance sheet and the statement of revenues, expenses and changes in net assets (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 assets and changes in them. You can think of the Corporation's net assets, the difference between assets and liabilities, as one way to measure the Corporation's financial health, or financial positions. Over time, increases or decreases in the Corporation's net assets are one indicator 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 health of the Corporation.

Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and 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.

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Management's Discussion and Analysis (Continued)

June 30, 2009

Condensed Financial Information

At June 30, 2009 and 2008 and for the years then ended the Corporation's financial information is summarized as follows:

	2009	2008	Variance	%
Current assets	\$ 32,636,426	\$ 30,140,820	\$ 2,495,606	8%
Capital assets	<u>16,191,688</u>	<u>15,673,686</u>	<u>518,002</u>	3%
Total assets	<u>48,828,114</u>	<u>45,814,506</u>	<u>3,013,608</u>	7%
Current liabilities	89,750,054	78,446,866	11,303,188	14%
Long-term liabilities under capital				
Lease	265,595	456,486	(190,891)	-42%
Other noncurrent liabilities	<u>1,593,500</u>	<u>235,765</u>	<u>1,357,735</u>	576%
Total liabilities	<u>91,609,149</u>	<u>79,139,117</u>	<u>12,470,032</u>	16%
Net assets invested in capital assets, net of related debt	16,191,688	15,673,686	518,002	3%
Net assets unrestricted	<u>(58,972,723)</u>	<u>(48,998,297)</u>	<u>(9,974,426)</u>	20%
Total net (deficiency)	<u>(42,781,035)</u>	<u>(33,324,611)</u>	<u>(9,456,424)</u>	28%
Operating revenues	85,085,293	76,315,210	8,770,083	11%
Operating expenses	(94,927,672)	(82,971,119)	(11,956,553)	14%
Non-operating income (expenses)	68,217	252,173	(183,956)	-73%
Contributions from the				
Commonwealth	<u>317,738</u>	<u>11,121,000</u>	<u>(10,803,262)</u>	-97%
Change in net assets (deficiency)	<u>( 9,456,424)</u>	<u>4,717,264</u>	<u>(14,173,688)</u>	-300%
Total net (deficiency)	<u>\$(42,781,035)</u>	<u>\$(33,324,611)</u>	<u>\$ (9,456,424)</u>	28%

Cardiovascular Center Corporation  
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Management's Discussion and Analysis (Continued)

June 30, 2009

Analysis of Financial Position and Results of Operations

Financial Position

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

Total assets increased by \$3,013,608 or 7% in comparison fiscal year 2007-2008. The reason for such increase relates principally to an increase in cash and cash equivalents directly related with the increase in accounts payable and the due to related parties.

At June 30, 2008, the Corporation and COSVI (the intermediary between Medicare and the healthcare organizations in Puerto Rico for the processing of reimbursement for healthcare services), reached a Mediation Agreement with the Medicare's Division of Hearing and Decisions (Provider's Reimbursement Board), in order to setting forth the basis for resolving certain issues regarding, the reopening of Medicare Cost Reports for years 2002 to 2005. In such fiscal years the Corporation did not claim for reimbursement the allowable costs incurred by the Corporation in providing direct graduate medical education (GME) and indirect medical education (IME) to full time equivalent resident (FTE) of the Corporation for that year. COSVI agreed to issue a revised Notice of Program Reimbursement applicable to such services provided by the Corporation for the years 2002-2005, in order to reimburse such costs to the Corporation, as eligible provider of GME and IME services to FTE. Reimbursements have been determined following the guidelines set forth in 42 USC applicable to Medicare regulations.

The Corporation's specialist in Medicare reimbursement's processing has reasonably estimated that at June 30, 2009 and 2008, the amounts due to the Corporation amounted to \$318,395 and \$1,632,956, respectively, and are disclosed in the accompanying balance sheets as estimated third party payor-Medicare.

The current liabilities of the Corporation increased by approximately \$11.3 million during the fiscal year ended June 30, 2009 principally because of the increase in the accounts payable due to the suppliers for purchases and services and the increase in the balance due to related parties mostly corresponding to rent payable to the Public Building Authority. Finally, the patient services increased during the year, and this resulted in a direct increase in the operational costs.

Cardiovascular Center Corporation  
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Management's Discussion and Analysis (Continued)

June 30, 2009

Results of Operations

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

During the year ended June 30, 2009, the Corporation reflected a net deficiency before contributions of \$9,774,162 net of \$68,217 of non-operating revenues. The non-operating activities of the Corporation relate to the relationship between interest income and expense. The effects of the capital contributions are recorded as increase in the net assets as per GASB Statement No. 34 (Basic Financial Statement and Management Discussion and Analysis). In comparison to fiscal year ended June 30, 2008, there was a increase in the net deficiency of \$9,456,424. This increase in the net deficiency was principally related to the decrease in the contributions from the Commonwealth of Puerto Rico by approximately \$10,800,000.

The following table presents comparative information of the significant operating indicators for the increase in operating revenues:

<u>Indicator Description</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Variance</u>	<u>%of Change</u>
Admissions	5,196	4,580	616	13%
Discharges	5,354	4,745	609	13%
Patient days	39,371	36,371	3,000	8%
Occupation percentage	81%	77%	4%	5%
Surgery procedures	3,672	3,756	-84	-2%
Invasive laboratory procedures	9,965	8,544	1,421	17%

The Corporation reflected an increase in the operating expenses of \$11,956,553 or 14%. This was principally associated to an increase in salaries and benefits, the consumption of supplies, food and drugs in direct services to patients and the provision for claim losses.

As part of its operations, the Corporation is subject to certain claims related principally to malpractice. With the assistance of the Corporation legal counsels and based on the evaluation of the merits of each legal case, the Corporation provided at June 30, 2009 with an additional reserve by approximately \$2,300,000.



Cardiovascular Center Corporation  
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Management's Discussion and Analysis (Continued)

June 30, 2009

Factors Affecting the Change in Net Assets 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 subsidized by the Puerto Rico Government for the payment of rent related to the Public Building Authority lease for the hospital facilities and parking. In the year 2000, the Central Government discontinued such subsidy to the Corporation resulting in an adverse effect in the Corporation's working capital.

In addition, and as part of the approval of the Law 27 (Health Reform), the Central Government changed its policy and became a purchaser of health insurance instead of a provider of healthcare services. The Corporation was no longer the exclusive provider of cardiovascular services for the medically indigent population. In addition, the situation deteriorated when licenses were approved to other hospitals in Puerto Rico to provide catheterization, angioplasty and cardiovascular surgery services. Finally, the Corporation lost almost all the patients from the Medicaid program. However, the Corporation is the only provider of services to patients with congenital diseases and the only that has a program of heart transplant and services to cardiovascular patients with acute conditions.

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

Capital Assets and Debt Administration

Capital Assets

At June 30, 2009, the Corporation had \$16,191,688 in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. In fiscal year 2008-2009, the Corporation made cash outlays for capital assets by \$2,204,780, including improvements to leased property, the acquisition of equipment and vehicles.

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Management's Discussion and Analysis (Continued)

June 30, 2009

Capital Lease Obligations

At year-end, the Corporation had \$456,488 in capital lease obligations outstanding. A detail of the capital lease obligations of the Corporation is presented in the notes to the financial statements.

Contacting the Corporation's Financial Management

The financial report is designed to provide our patients, suppliers and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Corporation's Finance Director Office at P.O. Box 366528, San Juan Puerto Rico 00936-6528, phone no. (787) 274-0151.

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Balance Sheets

June 30, 2009 and 2008

	2009	2008
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 8,379,781	\$ 3,078,369
Patients accounts receivable, net of estimated uncollectibles of \$13,685,550 in 2009 and \$12,295,811 in 2008	20,345,983	21,401,423
Estimated third-party payor - Medicare	318,395	1,632,956
Other accounts receivable, net of estimated uncollectibles of \$258,726 in 2009 and nil in 2008.	972,277	1,100,275
Inventory of supplies	2,325,155	2,433,526
Prepaid expenses and other current assets	294,835	494,271
Total current assets	32,636,426	30,140,820
 Capital assets, net of depreciation and amortization	16,191,688	15,673,686
Total assets	48,828,114	45,814,506
<b>LIABILITIES AND NET ASSETS (DEFICIENCY)</b>		
<b>Current liabilities</b>		
Current portion of capital lease obligations	190,893	178,273
Due to related parties	60,009,852	53,829,473
Accounts payable	24,457,177	20,163,015
Accrued payroll and other expenses	4,717,132	4,276,105
Reserve for claim losses	375,000	-
Total current liabilities	89,750,054	78,446,866
 Capital lease obligations, net of current portion	265,595	456,486
Reserve for claim losses	1,593,500	235,765
Total liabilities	91,609,149	79,139,117
 <b>Net assets (deficiency)</b>		
Investment in capital assets, net of related debt (Deficiency)	15,735,200	15,038,927
Total net assets (deficiency)	(42,781,035)	(48,363,538)
Total liabilities and net assets (deficiency)	\$48,828,114	\$45,814,506

See notes to financial statements

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

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

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues		
Net patient service revenue	\$ 81,721,348	\$ 73,976,082
Other revenue	<u>3,363,945</u>	<u>2,339,128</u>
Total operating revenues	<u>85,085,293</u>	<u>76,315,210</u>
 Operating expenses		
Salaries and wages	24,137,682	22,523,134
Employee benefits	8,107,351	7,545,972
Professional fees and contracted services	5,519,063	5,302,316
Supplies, food and drugs	37,106,902	31,434,813
Repairs and maintenance	2,537,900	2,135,630
Utilities	3,619,681	3,513,325
Provision for bad debts	1,654,677	1,210,504
Depreciation and amortization	1,547,274	1,304,600
Insurance	281,125	135,493
Provision for claim losses	2,307,736	-
Rent and other	<u>8,108,281</u>	<u>7,865,332</u>
Total operating expenses	<u>94,927,672</u>	<u>82,971,119</u>
 Operating (loss)	<u>(9,842,379)</u>	<u>(6,655,909)</u>
 Non-operating income (expenses)		
Interest income	104,803	275,373
Interest expense	<u>(36,586)</u>	<u>(23,200)</u>
Total non-operating income (expenses)	<u>68,217</u>	<u>252,173</u>
 (Deficiency) of revenues over expenses, before contributions	(9,774,162)	(6,403,736)
Contributions from the Commonwealth of Puerto Rico	<u>317,738</u>	<u>11,121,000</u>
(Decrease) increase in net assets (deficiency)	<u>(9,456,424)</u>	<u>4,717,264</u>
 Net assets (deficiency), at beginning of year (as previously reported)	(33,324,611)	(37,896,308)
Prior period adjustment	<u>-</u>	<u>(145,567)</u>
	<u>(33,324,611)</u>	<u>(38,041,875)</u>
 Net assets (deficiency), at end of year	<u>\$ (42,781,035)</u>	<u>\$ (33,324,611)</u>

See notes to financial statements

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Receipts from patient services	\$ 82,707,201	\$ 70,707,145
Other receipts	3,372,870	2,752,377
Payments to suppliers	(46,402,556)	(48,579,550)
Payments to employees and employee benefits	(31,804,006)	(29,973,252)
Payments on malpractice claims	<u>(575,001)</u>	<u>(503,999)</u>
Net cash provided by (used in) operating activities	<u>7,298,508</u>	<u>(5,597,279)</u>
 Cash flows from capital and related financing activities		
Cash outlays for capital assets	(2,204,780)	(5,834,403)
Payments of interest on capital lease obligations	(36,586)	(50,123)
Contribution received from the Commonwealth of Puerto Rico	317,738	5,500,000
Principal paid on capital lease obligations	<u>(178,271)</u>	<u>(245,721)</u>
Net cash (used in) capital and related financing activities	<u>(2,101,899)</u>	<u>(630,247)</u>
 Cash flows from non capital financing activities		
Contribution received from the Commonwealth of Puerto Rico	<u>-</u>	<u>5,621,000</u>
 Cash flows from investing activities		
Retirement of investment in assets with limited use	-	500,000
Receipts of interest	<u>104,803</u>	<u>275,373</u>
Net cash provided by investing activities	<u>104,803</u>	<u>775,373</u>
 Increase in cash and cash equivalents	5,301,412	168,847
Cash and cash equivalents, at beginning of year	<u>3,078,369</u>	<u>2,909,522</u>
Cash and cash equivalents, at end of year	<u>\$ 8,379,781</u>	<u>\$ 3,078,369</u>

(continue)

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Statements of Cash Flows (Continued)

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of operating (loss) to net cash (used in) operating activities		
Operating (loss)	\$ (9,842,379)	\$ (6,655,909)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities		
Depreciation and amortization	1,547,274	1,304,600
Loss on capital assets disposition	139,502	384,076
Provision for bad debts	1,654,677	1,210,504
Provision for claim losses	2,307,736	-
Changes in assets and liabilities		
(Increase) in patient accounts receivable	(340,510)	(1,750,343)
(Increase) decrease in other accounts receivable	(130,728)	29,173
Decrease in inventory of supplies	108,372	204,781
(Increase) decrease in prepaid expenses and other current assets	199,437	(75,256)
(Increase) decrease in estimated third-party payor - Medicare	1,314,561	(1,518,695)
Increase (decrease) in accounts payable	(6,346,159)	2,561,775
Increase (decrease) in amount due to related parties	16,820,699	(883,840)
(Decrease) in reserve for claim losses	(575,001)	(503,999)
Increase in accrued payroll and other expenses	<u>441,027</u>	<u>95,854</u>
Total adjustments	<u>17,140,887</u>	<u>1,058,630</u>
Net cash provided by (used in) operating activities	<u>\$ 7,298,508</u>	<u>\$ (5,597,279)</u>
Supplementary disclosure of non cash capital related financing activities:		
Retirement of capital assets	<u>\$ 852,765</u>	<u>\$ 3,840,763</u>

See notes to financial statements

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements

June 30, 2009 and 2008

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

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

Reporting entity

Cardiovascular Center Corporation of Puerto Rico and the Caribbean is a public corporation created by Act No. 51 (the Act) of June 30, 1986, to provide treatment for cardiovascular diseases in Puerto Rico and the Caribbean. The Corporation operates as hospital facility with 192 certified beds as an independent and separate unit from any agency or instrumentality of the Commonwealth of Puerto Rico.

Use of estimates

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

Basis of accounting and measurement focus

The Corporation uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis of accounting, using the economic resources measurement focus. Based on GASB Statement No. 20, as amended, the Corporation has elected to apply the provisions of all relevant pronouncements of the FASB, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

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

Cash and cash equivalents

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

Valuation of accounts receivable

The Corporation makes judgments as to the collectability of accounts receivables based on historical trends and future expectations. Management estimates an allowance for doubtful accounts, which represents the collectability of patient service accounts receivables. This allowance adjusts gross patient service accounts receivable downward to their estimated net realizable value. To determine the allowance for doubtful accounts, management reviews specific customer risk for accounts over 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 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. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.



Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

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

Net assets (deficiency)

Net assets of the Corporation are classified in three components. Net assets invested in capital assets net of related debt, consist of capital assets net of accumulated depreciation and reduced by the spent portion of outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. Unspent related debt proceeds at year are not included in the determination of amount invested in capital assets.

Restricted net assets are non-capital net assets that must be used for a particular purpose, as specified by contributor external to the Corporation. Unrestricted net assets are the remaining net assets component that do not meet the definition of invested in capital assets net of related debt or restricted.

Deficiency is the deficiency in net assets that does not meets the definition of invested in capital assets net of related debt or restricted.

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

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

Operating revenues and expenses

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

Compensated absences

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

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 estimates retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimates basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Risk management

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

Cardiovascular Center Corporation  
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Notes to Financial Statements (Continued)

June 30, 2009 and 2008

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

Risk management – (continued)

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

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform them to the 2009 financial statements presentation.

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 2006. The cost reports for 2007, 2008 and 2009 are subject to the Medicare fiscal intermediary examination. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Cardiovascular Center Corporation  
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Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 2 - Net patient service revenue – (continued)

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 gross and net patient service revenue for the years ended June 30, 2009 and 2008, follows:

	2009	2008
Gross patient service revenue	\$136,074,740	\$128,016,240
Less provisions for:		
Contractual adjustments under third party reimbursement programs, charity allowance and policy discounts	( 54,353,392)	( 54,040,158)
Net patient service revenue	<u>\$ 81,721,348</u>	<u>\$ 73,976,082</u>

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

The Corporation is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico. Such deposits should be kept in separate accounts in the name of the Corporation. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. The Corporation's policies regarding deposits consist in opening all bank accounts which are approved by its Board of Directors. During the years ended June 30, 2009 and 2008, the Corporation invested its funds in bank accounts bearing interest.

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

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 3 - 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.

<u>Depository Accounts</u>	<u>Bank Balance at June 30, 2009</u>	<u>Bank Balance at June 30, 2008</u>
Insured	\$ 250,000	\$ 100,000
Collateralized:		
Collateral held in the Corporation's name	<u>8,764,876</u>	<u>4,075,827</u>
Total deposits	<u>\$9,014,876</u>	<u>\$4,175,827</u>

The carrying amounts of deposits at June 30, 2009 and 2008, shown above are included in the Corporation's balance sheets an amounted to \$8,379,781 and \$3,078,369, respectively.

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 4 - Capital assets

Capital assets, additions, retirements and balances for the years ended June 30, 2009 and 2008 were as follows:

	<u>2008</u>	Additions (Reclasifications)	<u>Retirements</u>	<u>2009</u>
Land	\$ 94,123	\$ -	\$ -	\$ 94,123
Improvements to leased property	6,095,687	878,560	-	6,974,247
Fixed equipment	775,981	-	-	775,981
Movable equipment	17,900,127	1,319,857	(809,210)	18,410,774
Movable equipment under capital lease	913,901	-	-	913,901
Library	14,736	-	-	14,736
Vehicles	112,726	47,851	(43,555)	117,022
Works of art	<u>8,849</u>	<u>-</u>	<u>-</u>	<u>8,849</u>
Total cost	<u>25,916,130</u>	<u>2,246,268</u>	<u>(852,765)</u>	<u>27,309,633</u>
Less accumulated depreciation and amortization for:				
Improvements to leased property	548,512	251,939	-	800,451
Fixed equipment	775,981	-	-	775,981
Movable equipment	9,176,472	1,295,335	(677,996)	9,793,811
Library	6,509	-	-	6,509
Vehicles	<u>97,518</u>	<u>-</u>	<u>(35,265)</u>	<u>62,253</u>
Total accumulated depreciation and amortization	<u>10,604,992</u>	<u>1,547,274</u>	<u>(713,261)</u>	<u>11,439,005</u>
	15,311,138	698,994	(139,504)	15,870,628
Construction in progress	<u>362,548</u>	<u>837,072</u>	<u>(878,560)</u>	<u>321,060</u>
Capital assets, net	<u>\$15,673,686</u>	<u>\$1,536,066</u>	<u>(\$1,018,064)</u>	<u>\$16,191,688</u>

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 4 - Capital assets – (continued)

	<u>2007</u>	Additions (Reclassifications)	Retirements	<u>2008</u>
Land	\$ 94,123	\$ -	\$ -	\$ 94,123
Improvements to leased property	928,652	5,167,035	-	6,095,687
Fixed equipment	1,376,146	-	(600,165)	775,981
Movable equipment	15,512,176	6,602,797	(4,214,846)	17,900,127
Movable equipment under capital lease	1,818,873	(904,972)	-	913,901
Library	14,736	-	-	14,736
Vehicles	112,726	-	-	112,726
Works of art	<u>8,849</u>	<u>-</u>	<u>-</u>	<u>8,849</u>
Total cost	<u>19,866,281</u>	<u>10,864,860</u>	<u>(4,815,011)</u>	<u>25,916,130</u>
Less accumulated depreciation and amortization for:				
Improvements to leased property	336,769	211,743	-	548,512
Fixed equipment	775,981	-	-	775,981
Movable equipment	10,653,355	1,092,857	(2,569,740)	9,176,472
Library	6,509	-	-	6,509
Vehicles	<u>97,518</u>	<u>-</u>	<u>-</u>	<u>97,518</u>
Total accumulated depreciation and amortization	<u>11,870,132</u>	<u>1,304,600</u>	<u>(2,569,740)</u>	<u>10,604,992</u>
	7,996,149	9,560,260	(2,245,271)	15,311,138
Construction in progress	<u>4,921,373</u>	<u>608,210</u>	<u>(5,167,035)</u>	<u>362,548</u>
Capital assets, net	<u>\$12,917,522</u>	<u>\$10,168,470</u>	<u>\$(7,412,306)</u>	<u>\$15,673,686</u>

Depreciation and amortization expenses for the years ended June 30, 2009 and 2008 amounted to \$1,547,124 and \$1,304,600, respectively.

At June 30, 2009, a construction contract for approximately \$390,500 existed for the remodeling of certain facilities of the Corporation.

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 5 - Compensated absences

Compensated absences at June 30, 2009 and 2008 are as follow:

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Year ended June 30, 2009</u>				
Vacations	\$1,545,485	\$2,367,518	\$(2,302,030)	\$1,610,973
Sick Leave	<u>1,167,170</u>	<u>1,590,257</u>	<u>(1,437,780)</u>	<u>1,319,647</u>
Total compensated absences	<u>\$2,712,655</u>	<u>\$3,957,775</u>	<u>\$(3,739,810)</u>	<u>\$2,930,620</u>
<u>Year ended June 30, 2008</u>				
Vacations	\$1,373,774	\$2,151,141	\$(1,979,430)	\$1,545,485
Sick Leave	<u>1,099,845</u>	<u>1,210,073</u>	<u>(1,142,748)</u>	<u>1,167,170</u>
Total compensated absences	<u>\$2,473,619</u>	<u>\$3,361,214</u>	<u>\$(3,122,178)</u>	<u>\$2,712,655</u>

Compensated absences amounts are included in accrued payroll and other expenses.



Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 6 - Capital lease obligations and other non-current liabilities

A summary of capital lease obligations and other non-current liabilities follows:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2009</u>	<u>Amounts of principal due within one year</u>
Capital lease obligation, at average rate of 6.00% for medical equipment in the amount of \$155,775, payable in monthly installments of \$3,012, including interest until April 2011.	\$91,749	\$ -	\$31,645	\$60,104	\$33,608
Capital lease obligation, at average rate of 5.75% for medical equipment in the amount of \$139,304, payable in monthly installments of \$2,677, including interest until December 2010.	74,893	-	28,699	46,194	30,377

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 6 - Capital lease obligations and other non-current liabilities – (continued)

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2009</u>	<u>Amounts of principal due within one year</u>
Capital lease obligation, at average rates of 6% for medical equipment in the amount of \$262,782 payable in monthly installments for \$5,106, including interest until July 2011.	\$172,182	\$ -	\$ 52,270	\$ 119,912	\$ 55,700
Capital lease obligation, at average rate of 7.25% for medical equipment in the amount of \$356,040, payable in monthly installments of \$7,110, including interest until June 2012.	<u>295,935</u>	<u>-</u>	<u>65,657</u>	<u>230,278</u>	<u>71,208</u>
Total capital lease obligations	634,759	-	178,271	456,488	190,893
Other liabilities: Reserve for claim losses	<u>235,765</u>	<u>2,307,736</u>	<u>575,001</u>	<u>1,968,500</u>	<u>375,000</u>
Total capital lease obligations and other non-current liabilities	<u>\$870,524</u>	<u>\$2,307,736</u>	<u>\$753,272</u>	<u>\$2,424,988</u>	<u>\$565,893</u>

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 6 - Capital lease obligations and other non-current liabilities – (continued)

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2008</u>	<u>Amounts of principal due within one year</u>
Capital lease obligation, at average rate of 4.75% for medical equipment in the amount of \$904,881, payable in monthly installments of \$27,019, including interest until October 2007.	\$107,064	\$ -	\$107,064	\$ -	\$ -
Capital lease obligation, at average rate of 6.00% for medical equipment in the amount of \$155,775, payable in monthly installments of \$3,012, including interest until April 2011.	121,432	-	29,683	91,749	31,646
Capital lease obligation, at average rate of 5.75% for medical equipment in the amount of \$139,304, payable in monthly installments of \$2,677, including interest until December 2010.	101,915	-	27,022	74,893	28,699

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 6 - Capital lease obligations and other non-current liabilities – (continued)

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2008</u>	<u>Amounts of principal due within one year</u>
Capital lease obligation, at average rate of 6% for medical equipment in the amount of \$262,782 payable in monthly installments for \$5,106, including interest until July 2011.	\$ 221,023	\$ -	\$ 48,841	\$172,182	\$ 52,270
Capital lease obligation, at average rate of 7.25% for medical equipment in the amount of \$356,040, payable in monthly installments of \$7,110, including interest until June 2012.	<u>356,040</u>	<u>-</u>	<u>60,105</u>	<u>295,935</u>	<u>65,658</u>
Total capital lease obligations	907,474	-	272,715	634,759	178,273
Other liabilities: Reserve for claim losses	<u>739,764</u>	<u>-</u>	<u>503,999</u>	<u>235,765</u>	<u>-</u>
Total capital lease obligations and other non-current liabilities	<u>\$1,647,238</u>	<u>\$ -</u>	<u>\$776,714</u>	<u>\$870,524</u>	<u>\$ 178,273</u>

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 6 - Capital lease obligations and other non-current liabilities – (continued)

Scheduled payments on capital lease obligations at June 30, 2009 are as follows:

Year ended June 30,	Capital Lease Obligations	
	Principal	Interest
2010	\$190,893	\$23,965
2011	178,201	11,559
2012	<u>87,394</u>	<u>3,031</u>
	<u>\$456,488</u>	<u>\$38,555</u>

Note 7 - Related party transactions

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

The accounts receivable of the Corporation include at June 30, 2009 and 2008 the following amounts due from other governmental entities considered related parties:

	<u>2009</u>	<u>2008</u>
Patients accounts receivable	\$3,552,270	\$4,245,360
Other accounts receivable	<u>717,692</u>	<u>628,136</u>
Total	<u>\$4,269,962</u>	<u>\$4,873,496</u>

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 7 - Related party transactions (continued)

The balance due to related parties as of June 30, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Autoridad de Energía Eléctrica (A.E.E.)	\$ 10,887,251	\$ 9,205,895
Autoridad de Acueductos y Alcantarillados de Puerto Rico (A.A.A.)	892,054	798,130
Public Building Authority	47,576,092	43,189,153
Accounts payable to other governmental entities	<u>654,455</u>	<u>636,295</u>
Total	<u>\$60,009,852</u>	<u>\$53,829,473</u>

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

The balance due to A.E.E. and A.A.A. at June 30, 2009 and 2008 corresponds to electricity and water services, respectively. During the years ended June 30, 2009 and 2008, the Corporation incurred approximately \$2,991,700 and \$2,978,400, respectively, for electricity. During the years ended June 30, 2009 and 2008, the Corporation incurred approximately \$487,600 and \$377,600, respectively, for water services.

Due to the Public Building Authority

Since 1992, the Corporation maintains an agreement with the 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, 2009 and 2008 amounted to \$4,386,939.

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 7 - Related party transactions (continued)

Due to the Public Building Authority – (continued)

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. As a result from a bond refinancing made by the Authority, the rent imputed to the Corporation for the annual lease amount was adjusted to \$4,386,939. Rent commitment for fiscal years subsequent to June 30, 2009 will be determined by the Authority's annual calculation of the portion corresponding to the Corporation's share of the resolution of the bond issuance applicable to the building and parking facilities.

Note 8 - Commitments and contingencies

Commitments

Operating leases

The Corporation leases equipment under operating leases expiring at various dates through March 2012. Total rent expense for the years ended June 30, 2009 and 2008 for all operating leases was approximately \$540,200 and \$488,800, respectively.

Future minimum rental expense as of June 30, 2009, follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 655,976
2011	574,826
2012	<u>335,063</u>
	<u>\$ 1,565,865</u>

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 8 - Commitments and contingencies – (continued)

Commitments – (continued)

Parking rental agreement

The Corporation subleases the parking facilities to Fontán Associates, Inc. for a five-year term which expires on February 28, 2011. There are three renewal clauses for additional five years of each clause. Fontán Associates, Inc. will pay the Corporation a monthly rental fee which will increase annually. Parking rent income for the years ended June 30, 2009 and 2008 was approximately \$295,300 and \$289,600, respectively.

Future minimum parking rent income as of June 30, 2009, follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 301,256
2011	<u>203,497</u>
	\$ <u>504,753</u>

Food and nutrition service facility rental agreement

The Corporation subleased the food and nutrition services facilities to Metropolitan Food Services, Inc. on a five-year term agreement which expires on August 31, 2013, plus an additional five-year term option, at the discretion of the Corporation. Metropolitan Food Services, Inc. will pay a monthly rental fee of \$5,000, plus a 3% percent of the gross earnings for food sales and utilities. Billings to patients and employees is based on an established rate for meals served. Total income related to this agreement for the years ended June 30, 2009 and 2008, was approximately \$434,900 and \$48,000, respectively.



Cardiovascular Center Corporation  
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Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 8 - Commitments and contingencies – (continued)

Commitments – (continued)

Fourth floor facilities rental agreement

The Corporation subleased the fourth floor facilities to Hostales de Puerto Rico, Inc. on a twenty-year term agreement which expires on August 31, 2027. Hostales de Puerto Rico, Inc. will pay a staggered monthly rental fee of \$5,000 up to \$8,500 between 2008 and 2027. Total income related to the agreement for the years ended June 30, 2009 and 2008, was approximately \$50,000 and \$362,500, respectively. Income for 2008 includes amounts charged by the Corporation related to improvements made to the subleased facility.

Other rental agreements

The Corporation leases space to various other unrelated parties under operating leases with average terms of three (3) years. Rent income for the years ended June 30, 2009 and 2008 on the other rental agreements was approximately \$960,200 and \$889,000, respectively. Future minimum rent income as June 30, 2009, follows:

<u>Year</u>	<u>Approximate amount</u>
2010	\$1,030,000
2011	802,000
2012	283,000
2013	277,000
2014	<u>265,000</u>
	<u>\$2,657,000</u>

Contingencies

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.

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 8 - Commitments and contingencies – (continued)

Contingencies – (continued)

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

Based on a review of current facts and circumstances management has provided for what 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 \$1,968,500 and \$235,765 at June 30, 2009 and 2008, of which \$375,000 and nil are presented as current liability, respectively. Provision for claim losses for the years ended June 30, 2009 and 2008 was \$2,307,736 and nil, respectively.

Regulatory issues

The healthcare industry is subject to numerous laws and regulations which include, among other things, matters such as government healthcare participation requirements, various license and accreditations, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statues and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be excluded from participating in government healthcare programs, subjected to fines or penalties or required to repay amounts received from government for previously billed patient services. While management of the Corporation believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Corporation will not be subject to governmental inquires 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.

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 9 - Retirement system

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

Commonwealth legislation required employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Corporation is required by the same statute to contribute 9.275% of the participants' gross salary. Total employer contributions during the years ended June 30, 2009 and 2008 were approximately \$1,792,100 and \$1,743,100, respectively.

The financial statements of the Corporation do not include any provision related to the deficiency that might result from actuarial reports up to June 30, 2009.

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

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employees' salary up to a maximum of 10%) will be invested in an account which either; (1) earn a fixed rate based on the two year Constant Maturity Treasury Note or (2) earn a rate equal to 75% of the return of the System investment portfolio (net of management fees), or (3) earn a combined of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 9 - Retirement system – (continued)

For the years ended June 30, 2009 and 2008, total covered payroll for employees was approximately \$19,321,800 and \$18,793,500, respectively. Covered payroll refers to all compensation paid by the Corporation to employees covered by the ERS on which contributions to the pension are based.

The amount of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. For those employees covered after March 31, 1990, the annuity shall be equal to one and one-half percent of the average compensation multiplied by the number of years of creditable service. In no case shall the annuity be less than \$2,400.

Additional information of the Retirement System is available in their financial statement for the year ended June 30, 2009, which copy is available at the Retirement System, Minillas Station, Box 42003, San Juan, Puerto Rico 00940.

Note 10 - Concentration of credit – 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, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Medicare	6%	4%
Humana Healthcare	10%	9%
Triple S	30%	23%
Others	<u>54%</u>	<u>64%</u>
	<u>100%</u>	<u>100%</u>

Cardiovascular Center Corporation  
of Puerto Rico and the Caribbean

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

Note 11- 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, 2009 and 2008 are as follow:

	<u>2009</u>	<u>2008</u>
Health care services	\$76,897,303	\$59,688,809
General and administrative	<u>18,030,369</u>	<u>23,282,310</u>
	<u>\$94,927,672</u>	<u>\$82,971,119</u>

Note 12 - Prior period adjustments

The beginning net assets (deficiency) for fiscal year ended June 30, 2008 have been restated to reflect the correction of the following errors:

	<u>2008</u>
To correct capital assets balance and the related accumulated depreciation	\$(789,398)
Depreciation expense	259,914
Loss on retirement of assets	<u>383,917</u>
	<u>\$(145,567)</u>