

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Center for Investigation, Educational and Medical Service for Diabetes of Puerto Rico (Diabetes Center) a component unit of the Commonwealth of Puerto Rico, as of June 30, 2011 and 2010, and for the year then ended, listed in the table of contents. These financial statements are the responsibility of the management of the Diabetes Center. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center for Investigation, Educational and Medical Service for Diabetes of Puerto Rico as of June 30, 2011 and 2010, and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as whole. The supplementary information on pages 14 through 16 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Fernández Valdivia & Company, PSC

December 13, 2011

Stamp number
affixed to original



MANAGEMENT DISCUSSION ANALYSIS

The Center for the Diabetes for Puerto Rico (The Diabetes Center) is a public corporation and a component unit of the Commonwealth of Puerto Rico, created by Law No. 166 approved on August 12, 2000. The purposes of the Diabetes Center are to perform studies, provide medical training, education, as well as outpatient and other related medical services to the diabetic population around the island and the neighbor countries. The Diabetes Center offers to the financial statements readers this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011 and 2010.

Financial Highlights

- The total liabilities of the Diabetes Center at the close of the fiscal years ended June 30, 2011 and 2010 amounted to \$225,558 and \$239,456 each one, comprised of the accruals required under GASB No. 34 for payables, payroll taxes, rent payable, vacations and unearned in the amounts of \$74,918, \$2,319, \$105,319 and \$43,001, for 2011 and \$61,684, \$152, \$21,016, \$113,603 and \$43,001, for 2010. The assets exceeded its liabilities by \$2,882,628 and \$\$2,595,674, as reflected from the above analysis the Diabetes Center has the resources to meet its ongoing obligations.
- The Diabetes Center's total net change in assets increased by \$286,954 for 2011 and \$251,581 for 2010, the principal concept for the increase on 2011 is attributable to the control over expenditures, specifically over salaries and professional services.
- The Diabetes Center received a subsidy (legislature appropriation) by the Commonwealth of Puerto Rico of \$1,000,000 if those monies are not received the Center will operates with recurring losses and deficits.
- The Diabetes Center no longer maintains Certificates of Deposits with any financial institutions. Previous monies were used for their daily operations and acquisition of medical equipment.
- The Diabetes Center recognized intergovernmental transactions between the Medical Science School and the Center for monthly lease obligations in the amount of \$10,507, to the School Campus. At June 30, 2011 and 2010 the total outstanding debt of such commitment amounted to nothing in 2011 and \$21,016, for 2010. At the same time it recognized a receivable balance from the Medical Science School of \$4,115 for 2011 and \$65,463 for 2010, related to the rental of some space on the Diabetes Center facilities.
- Overall operating expenses reflect a decrease in relation to the last year and basically relates to the company new approach to reduce expenses an example of these are advertising accounts, continued education program and general and administrative.

Overview of the Financial Statements

This Management's Discussion and Analysis document is intended to serve as an introduction to the Diabetes Center's basic financial statements. The Diabetes Center's basic financial statements comprises of four components: 1) statement of net assets, 2) statements of activities and changes in net assets, 3) cash flows and 4) notes to the financial statements.

Statement of net assets summarizes the financial position of the Diabetes Center as of June 30, 2011 and 2010. The financial position includes its economic resources (assets), obligations (liabilities) and net assets and their relationships to each other at a moment of time. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Diabetes Center is improving or deteriorating as a result of the year's operations.

The statement of activities and changes in net assets presents information showing how the Diabetes Center's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows provides information about Diabetes Center's cash receipts and cash payments during an accounting period. It also provides information about the cash effects of an entity's operating, investing and financing activities during an accounting period.

The statement of Net Assets, Statements of Activities and Changes in Net Assets and Cash Flows of the Diabetes Center's finances can be found on pages 4 to 6 of this annual report.

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 7 to 12 of this report.

A supplementary information have been included in addition to the basic financial statements and basically consist of an Operating Expense – General and Administrative schedule detailing of all expenses not presented on the Statements of Activities and Changes in Net Assets. Finally, there is a Donation – Grants Schedule detailing all grants received and their respective activities thru the years.

Financial Analysis

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Diabetes Center is accounted for as a discretely presented component unit of the Commonwealth of Puerto Rico.

Financial Analysis - continued

The financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when incurred. As allowed by Government Accounting Standard Board ("GASB") Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting".

Capital Assets

The capital assets of the Diabetes Center are those assets that are used in the performance of its functions. The investment in capital assets for the fiscal year ended June 30, 2011 amounts to \$4,318. Major capital asset events during the prior fiscal year included the following:

- Additions of Equipment to Center's facilities in the amount of \$4,318.

REQUEST OF INFORMATION

This financial report is designed to provide a general overview of the Diabetes Center's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Division of the Diabetes Center of Puerto Rico, Centro Medico Mail Station, P.O. Box 70344, PMB-87, San Juan, Puerto Rico 00936.

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

Statements of Net Assets

June 30, 2011 and 2010

Assets:		
Unrestricted cash (notes 1 and 2)	\$ 2,274,889	\$ 1,895,907
Restricted cash (notes 1 and 2)	43,001	43,001
Account receivable, net (note 3)	5,624	104,046
Restricted donations receivable (note 4)	77,837	77,837
Inventory (note 1)	5,577	11,465
Prepaid expenses	7,738	11,903
Capital assets, net		
Property and equipment (note 5)	<u>648,564</u>	<u>690,971</u>
Total assets	<u>3,063,230</u>	<u>2,835,130</u>
Liabilities:		
Accounts payable, trade	\$ 74,918	\$ 61,684
Accrued payroll taxes	2,319	152
Accrued rent payable (notes 6)	-	21,016
Non-current liabilities - accrued vacations (note 1)		
Due within one year	46,583	39,107
Due after one year	58,737	74,496
Unearned restricted revenue (notes 4 and 10)	<u>43,001</u>	<u>43,001</u>
Total liabilities	<u>225,558</u>	<u>239,456</u>
Net Assets:		
Investment in capital assets	648,564	690,971
Unrestricted (note 11)	<u>1,970,773</u>	<u>1,686,368</u>
	2,619,337	2,377,339
Restricted	<u>218,335</u>	<u>218,335</u>
Total net assets	<u>\$ 2,837,672</u>	<u>\$ 2,595,674</u>

See notes to financial statements.

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

Statements of Activities and Changes in Net Assets

Years ended June 30, 2011 and 2010

Revenues:		
Patient service revenues, net (note 8)	\$ 101,027	\$ 60,462
Other operating revenues (note 10)	<u>52,328</u>	<u>49,733</u>
Total revenues	<u>153,355</u>	<u>110,195</u>
Operating expenses:		
Salaries and employee benefits	438,196	426,282
Depreciation expense	46,725	46,725
Rent (note 6)	94,665	126,093
Professional services:		
Accounting	34,268	38,220
Legal	-	9,900
Professional services	20,800	-
Medical	101,285	17,317
Programmers	19,505	22,485
Otros	22,961	45,090
Medical insurance expense	31,399	26,189
Insurance expense	20,987	23,815
Cost of sales - nutristore	17,546	10,062
Continued Education Programs	1,049	2,071
Bad debts expenses	-	7,023
General and administrative	<u>105,449</u>	<u>100,845</u>
Total expenses	<u>954,835</u>	<u>902,117</u>
Operating (loss) before non-operating revenues	(801,480)	(791,922)
Non-operating revenues:		
Legislature appropriations by the Commonwealth of Puerto Rico (notes 1 and 9)	1,000,000	1,000,000
Legislature special fund resolution (notes 1 and 9)	-	-
Rent income	43,305	43,305
Interest income	<u>173</u>	<u>198</u>
Total non-operating revenue	<u>1,043,478</u>	<u>1,043,503</u>
Net income	241,998	251,581
Net assets, beginning of year (note 11)	<u>2,377,339</u>	<u>2,125,758</u>
Net assets, end of year	<u>\$ 2,619,337</u>	<u>\$ 2,377,339</u>

See notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2011 and 2010

Cash flows from operating activities		
Operating (loss) before government subsidies, rent and interest income	\$ (758,002)	\$ (773,543)
Adjustments to reconcile operating (loss) before government subsidies and interest income to net cash used in operating activities:		
Depreciation	46,725	46,725
Bad debts expenses	-	-
(Increase)/decrease in receivables	98,421	(39,310)
Decrease in restricted receivables	-	3,233
Decrease in inventory	5,888	(3,134)
Decrease in prepaid expenses	4,166	(174)
(Decrease)/Increase in accounts payable	13,234	15,081
Increase/(decrease) in rent payable	(21,016)	-
Increase in accrued payroll taxes	2,168	152
(Decrease) in accrued vacations	(8,284)	18,858
(Decrease)/Increase in unearned restricted donations	-	2,848
Total adjustments	<u>141,302</u>	<u>44,279</u>
Net cash used in operating activities	<u>(616,700)</u>	<u>(729,264)</u>
Cash (used) in investing activities:		
Acquisition of property and equipment	<u>(4,318)</u>	<u>(7,819)</u>
Cash flows from non-capital financing activities:		
Legislature appropriations	<u>1,000,000</u>	<u>1,000,000</u>
Net (decrease) increase in cash and cash equivalents	378,982	262,917
Cash and cash equivalents at beginning of year	<u>1,938,908</u>	<u>1,675,991</u>
Cash and cash equivalents at end of year	<u>\$ 2,317,890</u>	<u>\$ 1,938,908</u>

See notes to financial statements.

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

Notes to Financial Statements
June 30, 2011 and 2010

Note 1 – Organization and Summary of Significant Accounting Policies

Organization

The Center for Investigative, Educational & Medical Service for Diabetes of Puerto Rico (the "Diabetes Center") is a public corporation and a component unit of the Commonwealth of Puerto Rico, created by Act No. 166 approved on August 12, 2000. The purposes of the Diabetes Center are to perform studies, provide medical training, education, as well outpatient and other related medical services to the diabetic population around the island, the neighbor countries.

The Financial Reporting Entity

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Diabetes Center is accounted for as a discretely presented component unit of the Commonwealth.

The Diabetes Center adopted the provision of GASB Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" (GASB No. 34), GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus" (GASB No. 37) and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" (GASB No. 38) effective July 1, 2002. GASB No. 34 established financial and reporting standards for all state and local governments and related entities. The most important effects of the adoption of GASB No. 34 relates to the inclusion of management's discussion and analysis in the Diabetics Center's financial statements, a change required by GASB No. 34. The adoption of GASB No. 38 modifies, rescinds and establishes certain financial statement disclosure requirements.

Measurement Focus, Basis of Accounting and Financial Presentation

The financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when incurred. As allowed by Governmental Accounting Standard Board ("GASB") Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting".

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

Notes to Financial Statements (continued)
June 30, 2011 and 2010

Risk Financing

The Diabetes Center carried commercial insurance to cover for casualty, theft, tort claims and other losses. Current insurance policies have not been cancelled or terminated. Also pays premiums for workmen compensation insurance to another component unit of the Commonwealth of Puerto Rico.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash on banks and short-term investments with maturities of three months or less. The Diabetes Center is restricted by law to deposits in banks qualified as depository of public funds by the Puerto Rico Treasury Department.

Inventories

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

Capital Assets

Capital assets, which include property and equipment, are stated at cost, except for contributions of property received from the Commonwealth of Puerto Rico and others, which are recorded at the appraised value at the date of contribution. Provision for depreciation of property and equipment is computed using the straight-line-method over their estimated useful lives of assets. Maintenance and repairs are charged to expenses as incurred. Expenditures for major renewals and betterments that extended the useful live of the assets are capitalized.

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

Notes to Financial Statements (continued)
June 30, 2011 and 2010

Impairment of Long-Lived Assets

Management reviews property and equipment for possible impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If there is an indication of impairment, management prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset until its eventual disposition.

If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the assets to its estimated fair value. No indications of impairment are evident as a result of such review.

Compensated Absences

Compensated absences are accrued when earned by the employees. Employees may carry-forward their compensated absences as permitted by statute and may settle them in a cash payment from the Diabetes Center, if employment has ceased.

Legislature Appropriations

The Commonwealth of Puerto Rico granted to the Diabetes Center annual appropriations of \$1,000,000 for their fiscal year ended on June 30, 2011 and 2010. For their operations and capital expenses as a subsidy for their actual deficit operations. Such appropriations are recorded as revenue as realized in the period stated in the grant.

Recent Accounting Developments

GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units" provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. The impact of this statement on the Diabetes Center's financial statements has not yet been determined.

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

Notes to Financial Statements (continued)
June 30, 2011 and 2010

Note 2 – Deposits

This year the Diabetes Center adopted GASB Statement No. 40 “Deposit and Investment Risk Disclosures” an amendment of GASB Statement No. 3.

Custodial credit risk for deposits is the risk that in the event of bank failure, the Diabetes Center may not be able to recover deposits that are in the possession of an outside party. The carrying amount of deposits as of June 30, 2011 and 2010 are \$2,382,903 and \$2,023,909 respectively, from the bank statements balance, is not insured or collateralized because such amounts are over the Federal Deposit Insurance Corporation insured amount of \$250,000, which is the collateral requirement of the Commonwealth’s banking regulations. But such financial institutions are highly respectable financial institution with strong credit rating and management believes that credit risk related to these deposits is minimal.

Concentration of credit risk – the Diabetes Center has deposits amounting to \$2,374,039 and \$2,015,147 in one financial institution, representing more than 5% of total deposits as of June 30, 2011 and 2010 respectively. The Diabetes Center’s deposit guidelines specify that no more than 5% of a manager’s assets at market shall be deposited in one single institution.

Note 3 – Account Receivable

Accounts receivable at June 30, 2011 and 2010 are as follows:

Patients and third-party payers	\$ 133,018	\$ 124,120
Less: allowance for doubtful accounts	<u>(86,562)</u>	<u>(86,562)</u>
	46,456	37,558
Other receivable	<u>4,124</u>	<u>66,488</u>
Accounts receivable, net	<u>\$ 50,580</u>	<u>\$ 104,046</u>

Note 4 – Account Receivable from Restricted Donation Grants

The Diabetes Center receives during the year several donations or grants directed to a specific propose. Many of them are for the investigation in diabetic patients of these funds the Diabetes Center have a gain of an approximately of 10% after incurring in the payment of the laboratories, medical studies and professional service personnel in charge of the investigation monitories. As of June 30, 2011 and 2010 the account receivable from restricted donation grants amounted to \$77,837.

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

Notes to Financial Statements (continued)
June 30, 2011 and 2010

Note 5 – Property and Equipment

Property and equipment at June 30, 2011 and 2010:

	<u>Estimated Useful Lives</u>		
Furniture and equipment	3 to 10 yrs	\$ 832,742	\$ 828,424
Automobiles	5 to 10 yrs	20,993	20,993
Leasehold Improvements	30 yrs	<u>903,214</u>	<u>903,214</u>
		1,756,949	1,752,631
Less accumulated depreciation		(852,095)	(835,477)
Less accumulated amortization – leasehold		<u>(256,290)</u>	<u>(226,183)</u>
Total		<u>\$ 648,564</u>	<u>\$ 690,971</u>

Note 6 – Rent Payable

The Diabetes Center rents its facilities through operating lease agreement in which the latest expires in March 2011, with an auto-renewal clause for five (5) more years. As of June 30, 2011 the agreement has not being renewed and is on a monthly basis. Rent expense under such lease agreements for the year ended June 30, 2011 and 2010 amounted to approximately \$94,700 and \$126,100, respectively.

As of June 30, 2010 it has an outstanding balance payable to the landlord of \$21,016. Future minimum lease payments as of June 30, 2011 are as follows:

<u>Year ending June 30,</u>	<u>Amounts</u>
2012	<u>\$10,508</u>

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

Notes to Financial Statements (continued)
June 30, 2011 and 2010

Note 7 – Retirement Plan

The Diabetes Center participates in a defined contribution plan which covers all full-time employees who have one year of service and are age twenty-one or older. The employees contribute up to the lesser of 10% of their pretax annual compensation or \$11,000. The Diabetes Center matching contribution to the plan equal 50% of employee contributions up to 3% of the base compensation for all eligible employees. As of June 30, 2011 and 2010 the Diabetics Center made contribution to the plan or charged to pension cost in the amount of \$4,856 and \$3,909, respectively.

Note 8 – Patient Service Revenue, net

Patient service revenue is recorded at established rates and is reduced by contractual adjustments, charity allowances and policy discounts to arrive at patient service revenue, net. Contractual adjustments that are subject to retroactive calculation arising under reimbursement agreements with third-party payors are accrued as estimated in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Patient service revenues as of June 30, 2011 and 2010, net are as follows:

Gross patient service revenue	\$ 163,299	\$ 79,807
Less provision for contractual adjustments under third-party reimbursement programs	(17,316)	(19,345)
Patient service revenues, net	\$ <u>145,983</u>	\$ <u>60,462</u>

Note 9 – Government Subsidy

The Commonwealth of Puerto Rico government granted for the fiscal years ended on 2011 and 2010 to the Diabetes Center appropriations to subsidize its operations in the amount of \$1,000,000.

Note 10 – Other Operating Revenues

Other operating revenues for the year ended June 30, 2011 and 2010 consisted of:

Nutritional-store sales	\$ <u>52,328</u>	\$ <u>49,733</u>
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CENTER OF DIABETES FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)
June 30, 2011 and 2010

Note 11 - Prior Period Adjustment

Certain error, resulting in the both the overstatement and understatement of previously reported assets, liabilities and expenses of prior years, were corrected during 2010 resulting in the following changes to retained earnings as of December 31, 2010:

Retained earnings as previously reported	\$2,150,882
Understatement of several operating expenses	<u>(25,124)</u>
Retained earnings as adjusted	<u>\$2,125,758</u>

Note 12 – Disclosures about Fair Value of Financial Instruments

The Diabetics Center has determined the fair value of its financial instruments in accordance with Disclosures about Fair Value of Financial Instruments Topic of the FASB Accounting Standards Codification.

Debt instruments – The carrying amount of the fixed rate debt instruments approximate their fair value because the underlying interest rates approximate current market rates. The carrying amount of other debt instruments approximates their fair value based on the borrowing rates currently available for borrowings with similar terms and maturities.

Other financial instruments – For all other financial instruments including cash, accounts receivable, accounts payable and other accrued liabilities, the carrying amounts approximate fair value because of the short maturity of these instruments.

Note 13 – Subsequent Events

The Diabetics Center evaluated subsequent event through December 13, 2011, which is the date the financial statements were available to be issued. No events have occurred subsequent to the balance sheet date and to the date the financial statements were available to be issued, that would require adjustments to, or disclosure in, the financial statements.

SUPPLEMENTARY INFORMATION

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

Operating Expenses - General and Administrative

Years ended June 30, 2011 and 2010

Medical supplies	\$ 31,113	\$ 23,318
Credit Cards Payments	2,234	1,720
Office expenses	3,570	4,535
Telephone expenses	6,075	7,916
Postage and mailing expenses	295	494
Auto expenses	220	149
Equipment rental expense	3,807	7,710
Maintenance expense	7,353	40,204
Pension plan expense	4,856	3,909
Parking of employees	6,811	6,426
Auditor Fees	30,000	-
Miscellaneous expenses	<u>9,195</u>	<u>4,464</u>
 Total general and administrative expenses	 <u>\$ 105,529</u>	 <u>\$ 100,845</u>

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

Donation - Grants Schedule

Years ended June 30, 2011 and 2010

<u>Description</u>	<u>Grant Amount</u>	<u>Amount Received</u>	<u>Amount Expense</u>	<u>Unearned Amount</u>	<u>Account Receivable</u>
Dra. Perez Investigation	\$ 274,650	\$ 274,650	\$ 255,607	\$ 19,043	\$ -
Abbott - Protocol M03-599	12,946	12,946	11,476	1,470	-
Britol Myers - Protocol MB 102-008-134	6,886	6,886	102	6,784	-
Merck & Co Investigation	2,842	2,842	-	2,842	-
Eli Lilly - Protocol F3Z-US-100V	44,536	25,009	16,010	8,999	19,527
Eli Lilly - Protocol - F3Z-MC-1001	11,816	11,816	9,453	2,363	-
Abbott Lab - Protocol - M05-749	64,400	6,090	6,648	-	58,310
Abbott - Investigation - ABT-335	1,500	1,500	-	1,500	-
Novo Nordisk	<u>64,615</u>	<u>64,615</u>	<u>64,615</u>	<u>-</u>	<u>-</u>
	<u>\$ 484,191</u>	<u>\$ 406,354</u>	<u>\$ 363,911</u>	<u>\$ 43,001</u>	<u>\$ 77,837</u>

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**The Board of Directors
Center for Investigation, Educational and Medical Service for
Diabetics of Puerto Rico**

Dear Sirs:

In planning and performing our audit of the financial statements of the Center for Investigation, Educational and Medical Service for Diabetics of Puerto Rico (the Center) for the year ended June 30, 2011, on which we have issued our report dated December 13, 2011, we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurances on the internal control. However, we noted certain matters involving the internal control and its operations that we consider being reportable conditions under standards establish by American Institute of Certified Public Accountants. Reportable conditions involve matters coming to attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Corporation's ability to record, process, summarize, and report financial data consistent with the assertion of management in the financial statements. The reportable conditions that we noted are described in exhibit 1.

Our consideration of the internal control would not necessarily disclose all matters in the internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relative low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Of the reportable conditions, the following are, in our judgment, material weaknesses:

a) Failure to maintain an accurate and reliable accounting system:

1 – Receivables from patients and third-party payors.

EXHIBIT 1

1. Condition

The Center has not established systematic collection procedures for account receivable balances (private patients and third party payors).

Cause of Condition

They have not in place a systematic collection policy to be followed for the collections of outstanding account receivable balances.

Effect of Condition

Accounts receivable not properly valued and recorded at their net realizable value at year end.

Recommendation

Systematic collection procedures should be established specifying procedures to be followed in connection with past due receivables and collections efforts to third party payors.

2. Condition

The Center has implemented a medical / billing software to improve service, data gathering, billing of service and recordkeeping; however, during the course of our audit we have noted the following items that indicate a strong need for increased management attention regarding the collection process, recordkeeping and aging of accounts receivable.

- Year-end account receivable balance is not reconciled with accounting records and general ledger.
- System doesn't provide appropriate information for audit trail and recordkeeping of patients' outstanding balance.
- System does not provide information of contractual allowance adjustment for each patient service transaction. Neither provides a year-end balance or reconciliation process of contractual allowance.
- Collection efforts prior to writing off account receivables varied greatly from account to account.
- A policy to determine an adequate allowance for doubtful accounts or credit adjustments based on historic data and current status of the accounts receivable aging does not exist.
- An analysis to evaluate the appropriate allowance for doubtful accounts or credit adjustments is not performed on a regular basis.

Cause of Condition

Collection process, recordkeeping and aging of accounts receivable are not properly followed and recognized on Center financial records.

Effect of Condition

- Year-end account receivable balance not reconciled with accounting records and general ledger.
- No appropriate information for audit trail and recordkeeping of patients' outstanding balance.
- System does not provide information of contractual allowance adjustment for each patient service transaction. Neither provides a year-end balance or reconciliation process of contractual allowance.
- Collection efforts prior to writing off account receivables varied greatly from account to account.
- No policy to determine an adequate allowance for doubtful accounts or credit adjustments.
- No analysis to evaluate appropriate allowance for doubtful accounts or credit adjustments.

Recommendation

We recommend to strengths the account receivable accounting information and collection process the following:

- Service orders numbers should be required for each service provided, without respect of a recurrence service or continuance process from previous visit.
- System should provide for audit trail and examination each service provided by fiscal year, monthly period, insurance carrier, patient accounting balance record, etc.
- Systematic collection procedures should be established based on dollar amount and age of the receivable. Collection efforts should begin as quickly after the due date as is practical.
- Correspondence with customers should be documented and customer difference should be resolved or reconciled as quickly as possible.

3. Condition

The Center's patient accounts receivable is significantly aged, resulting in higher collection delinquency.

Cause of Condition

No proper procedures of collections, analysis and follow-up of outstanding balances.

Effect of Condition

No proper accounting system and unreliable aging of accounts receivable.

Recommendation

To improve collections, we recommend the following:

- Close attention should be given to collection of past- due accounts. Proper follow-up should be given to collection efforts after services are provided and insurance carries determine deductible payment for medical services.
- Consideration should also be given to implement insurance carriers negotiate rates, as well as contractual allowance adjustment implemented to identify patient deductibles and proper outstanding balance for collections efforts.

4. Condition

The Center's accounting software system does not have the capability of accumulating accounts receivable by customer, nor retaining information relating to payment history, unusual credit adjustments or terms, or historical services by patient tie-in with billing amounts and outstanding balance. Significant time is spent by accounting personnel to manually accumulate this information.

Cause of Condition

No proper accounting system software in place, specifically one used for a health care institution.

Effect of Condition

Significant time spent by accounting personnel to manually accumulate this information and risk of misstatements.

Recommendation

The Center should enhance their current accounting software system or acquire a new more accounting oriented system, to aforementioned capabilities should be considered and included.

We recommend the possible evaluation of subcontracting the billing and collection functions to an outsider with extensive experience and knowledge in the field of healthcare system and third-party payors insurance plans.

5. Condition

The financial information supplied to the Board of Directors should be improved.

Cause of Condition

No finance director or controller in place, as well as to the misunderstanding of the accounting and financial information importance.

Effect of Condition

Lack of financial information and understanding by the Board of Directors members.

Recommendation

We recommend that the following information be included in the Board package at least quarterly.

- Trend analysis of receivable aging and discussion of significant past due amounts.
- Trended schedule of inventories by category, related reserves and results of cycle counts.
- Schedule of marketable securities and cash account reconciliations.
- Trended schedule of significant accrued liabilities.
- Summarized status information on significant open professional service contracts, including explanations for significant changes.
- Consolidated balance sheet and income statement, both trended by month and comparative year to date.

5. Condition – continued

Recommendation – continued

- Consolidated income statement with budget comparisons for month (or quarter) and year, including explanations for significant changes.

Sincerely,

Fernandez Valdivia & Company, PSC
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