

Puerto Rico Medical Services Administration
a Component Unit of the
Puerto Rico Department of Health

Financial Statements

June 30, 2010

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Management's Discussion and Analysis

Puerto Rico Medical Services Administration
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Management's Discussion and Analysis

The following discussion and analysis of the Puerto Rico Medical Services Administration (the Administration) financial performance provides an overview of the Administration's financial performance during the year ended June 30, 2010. Please read it in conjunction with the basic financial statements, which follow this section.

Financial Highlights

1. The Administration's deficit as of June 30, 2010 amounted to approximately \$182 million.
2. During the year ended June 30, 2010 the Administration experienced an operating loss of approximately \$95 million.
3. During the year ended June 30, 2010, the Administration received approximately \$16 million in contributions from governmental agencies, for payment of recruitment, payroll contributions and operating expenses.

Required Financial Statements

The required basic financial statements of the Administration consist of:

1. Statement of net assets (deficit) – The statement of net assets (deficit) includes all of the Administration's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the net assets structure of the Administration and assessing its liquidity and financial flexibility.
2. Statement of revenues, expenses and changes in net assets (deficit) – This statement measures the results of the Administration's operations and can be used to determine whether the Administration has successfully recovered operating costs and expenses through services revenues, contributions, and other non-operating income.
3. Statement of cash flows – This statement reports cash receipts, cash payments, and net changes resulting from operating, investing, and capital and non-capital related financing activities.

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Management's Discussion and Analysis (Continued)

Statement of Net Assets (Deficit)

The Administration's statements of net assets (deficit) as of June 30, 2010 and 2009, consisted of (in thousands):

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>%</u>
Current assets	\$ 32,689	\$ 100,729	\$ (68,040)	-68%
Non-current assets:				
Capital assets, net	60,947	66,816	(5,869)	-9%
Restricted cash	<u>2,450</u>	<u>1,852</u>	<u>598</u>	<u>32%</u>
	<u>63,397</u>	<u>68,668</u>	<u>(5,271)</u>	<u>23%</u>
	<u>\$ 96,086</u>	<u>\$ 169,397</u>	<u>\$ (73,311)</u>	<u>-43%</u>
Current liabilities	\$ 270,547	\$ 252,768	\$ 17,779	7%
Non-current liabilities	<u>7,481</u>	<u>7,781</u>	<u>(300)</u>	<u>-4%</u>
	278,028	260,549	17,479	7%
Net asset (deficit)	<u>(181,942)</u>	<u>(91,152)</u>	<u>(90,790)</u>	<u>100%</u>
	<u>\$ 96,086</u>	<u>\$ 169,397</u>	<u>\$ (73,311)</u>	<u>-43%</u>
Net asset (deficit):				
Investment in capital asset, net of related debt	\$ 60,687	\$ 66,525		
Restricted	2	3		
Unrestricted deficit	<u>(242,631)</u>	<u>(157,680)</u>		
	<u>\$ (181,942)</u>	<u>\$ (91,152)</u>		

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Management's Discussion and Analysis (Continued)

The decrease in current assets as of June 30, 2010, consisted of (in thousands):

	2010	2009	Increase (Decrease)	%
Cash	\$ 7	\$ -	\$ 7	100%
Receivable from member institutions and private insurances	26,661	93,712	(67,051)	-72%
Accounts Receivable from Government				
Development Bank of Puerto Rico	2,010	2,010	-	0%
Accounts receivable others	699	733	(34)	-5%
Inventories	2,284	3,496	(1,212)	-35%
Prepaid expenses	<u>1,028</u>	<u>778</u>	<u>250</u>	<u>32%</u>
	<u>\$ 32,689</u>	<u>\$ 100,729</u>	<u>\$ (68,040)</u>	<u>-68%</u>

The decrease in accounts receivable from member institutions and private insurance, consisted of the following activity during the year ended June 30, 2010 (in thousands):

	Member Institutions	Private Insurance	Other	Total
Gross services revenues	\$ 99,647	\$ 120,929	\$ -	\$ 220,576
Contractual adjustments	-	(95,901)	-	(95,901)
Provision for bad debt expense	(17,164)	(20,513)	-	(37,677)
Collections	<u>(128,519)</u>	<u>(25,530)</u>	<u>-</u>	<u>(154,049)</u>
	<u>\$ (46,036)</u>	<u>\$ (21,015)</u>	<u>\$ -</u>	<u>\$ (67,051)</u>

As a result of specialized and unique services not covered by medical plans, the Administration incurred in significant contractual adjustments that were not recorded on prior periods. Contractual allowance applicable to private medical insurance plans amounted to 79% of gross service revenues during the year ended June 30, 2010.

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Management's Discussion and Analysis (Continued)

Non-Current Assets

Capital Assets

Description	Balance June 30, 2009	Increase	Decrease	Balance June 30, 2010
Capital assets not being depreciated	\$ 28,261	\$ 611	\$ -	\$ 28,872
Capital assets being depreciated	140,196	1,521	(2,956)	138,761
Accumulated depreciation	<u>(101,641)</u>	<u>(7,352)</u>	<u>2,307</u>	<u>(106,686)</u>
Capital assets being depreciated, net	<u>38,555</u>	<u>(5,831)</u>	<u>(649)</u>	<u>32,075</u>
	<u>\$ 66,816</u>	<u>\$ (5,220)</u>	<u>\$ (649)</u>	<u>\$ 60,947</u>

The decrease in capital assets during the year ended June 30, 2010, is mainly due to the fact that current year depreciation exceeded the current year acquisitions of equipment and the cost of building improvements.

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Management's Discussion and Analysis (Continued)

Restricted Cash

The \$2.5 million in restricted cash represents the amounts received from a Federal Government Program for the acquisition of an emergency medical vehicle for the Field Medical Unit and some contributions from the Legislature of the Commonwealth of Puerto Rico for permanent leasehold improvement.

Liabilities

Current Liabilities

The increase in current liabilities consisted of (in thousands):

	2010	2009	Increase (Decrease)	%
Bank overdraft	\$ 1,953	\$ -	\$ 1,953	100%
Accounts payable	86,969	93,422	(6,453)	-7%
Accrued expenses	99,002	93,125	5,877	6%
Accrued pension costs	77,738	61,747	15,991	3%
Current portion of obligations under capital leases	184	151	33	22%
Liabilities payable from restricted assets	<u>4,701</u>	<u>4,323</u>	<u>378</u>	<u>9%</u>
	<u>\$ 270,547</u>	<u>\$ 252,768</u>	<u>\$ 17,779</u>	<u>7%</u>

The increases in accrued expenses and accrued pension costs were caused by the operating loss experienced by the Administration during the year ended June 30, 2010, due to decrease of the governmental contribution which has significantly affected the Administration's cash flow. This situation has not permitted the Administration to submit to the Retirement System employees' and employer's contributions of pension costs, and pay to the Puerto Rico Treasury Department income tax withheld to employees.

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Management's Discussion and Analysis (Continued)

Revenues, Expenses and Changes in Net Assets (Deficit)

The Administration's statements of revenue, expenses, and changes in net assets (deficit) for the years ended June 30, 2010 and 2009, consisted of (in thousands):

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Services revenue	\$ 124,675	\$ 150,120	\$ (25,445)
Operating costs and expenses:			
Cost of services	165,084	170,023	(4,939)
General and administrative	9,318	10,233	(915)
Depreciation and amortization	7,352	7,931	(579)
Provision for doubtful accounts	<u>37,677</u>	<u>24,576</u>	<u>13,101</u>
	<u>219,431</u>	<u>212,763</u>	<u>6,668</u>
Operating loss	<u>(94,756)</u>	<u>(62,643)</u>	<u>(32,113)</u>
Non-operating income (expenses):			
Contributions from the Commonwealth of Puerto Rico	15,689	40,177	(24,488)
Interest income and other	1,011	133	878
Tax assesment by the Treasury Department	-	(6,238)	6,238
Interest expenses	(12,696)	(4,068)	(8,628)
Loss on disposition of capital assets	<u>(38)</u>	<u>(21)</u>	<u>(17)</u>
	<u>3,966</u>	<u>29,983</u>	<u>(26,017)</u>
Net change (deficit)	(90,790)	(32,660)	<u>\$ (58,130)</u>
Deficit, at beginning of year	<u>(91,152)</u>	<u>(58,492)</u>	
Deficit, at end of year	<u>\$ (181,942)</u>	<u>\$ (91,152)</u>	

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Management's Discussion and Analysis (Continued)

Service Revenues

The decrease in service revenues for the year ended June 30, 2010, consisted of (in thousands):

	<u>2010</u>	<u>2009</u>	Increase (Decrease)	%
Member institutions	\$ 99,647	\$ 100,253	\$ (606)	-0.6%
Private and insurance	25,028	48,942	(23,914)	-49%
Other	<u>-</u>	<u>925</u>	<u>(925)</u>	<u>-100%</u>
	<u>\$ 124,675</u>	<u>\$ 150,120</u>	<u>\$ (25,445)</u>	<u>-17%</u>

Approximately over 80% of the Administration's service revenues are derived from services rendered to member institutions. The decrease in service revenue is not a direct effect on current billings, otherwise the decrease come from the increase of contractual adjustment previously explained on the account receivable change.

Operating Costs and Expenses

This increase in operating costs and expenses for the year ended June 30, 2010, consisted of (in thousands):

	<u>2010</u>	<u>2009</u>	Increase (Decrease)	%
Payroll and fringe benefits	\$ 123,827	\$ 127,039	\$ (3,212)	-3%
Costs of materials and services	41,180	43,458	(2,278)	-5%
Depreciation and amortization	7,352	7,931	(579)	-7%
Provision for Doubtful accounts	37,677	24,576	13,101	53%
Utilities	<u>9,395</u>	<u>9,759</u>	<u>(364)</u>	<u>-4%</u>
	<u>\$ 219,431</u>	<u>\$ 212,763</u>	<u>\$ 6,668</u>	<u>3%</u>

The decrease in cost of materials and services and general and administrative expenses come from the cost control plan established by management.

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Management's Discussion and Analysis (Continued)

Non-Operating Income (Expenses)

The decrease in non-operating income (expenses) for the year ended June 30, 2010, consist of (in thousands):

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Governmental contributions	\$ 15,689	\$ 40,177	\$ (24,488)
Interest income and other	1,011	133	878
Interest expense	(12,696)	(4,068)	(8,628)
Tax assesment by the Treasury Department in connection with unpaid income tax withheld	-	(6,238)	6,238
Loss on disposition of capital assets	<u>(38)</u>	<u>(21)</u>	<u>(17)</u>
	<u>\$ 3,966</u>	<u>\$ 29,983</u>	<u>\$ (26,017)</u>

The governmental contributions consisted of the following activity during the year ended June 30, 2010:

- \$529 thousand received in connection with Joint Resolution No. 4533 approved by the Legislature of the Commonwealth of Puerto Rico on August 12, 2004, assigning \$40.5 million to the Administration for the construction of new Trauma facilities, the establishment of Gamma Knife Center, a Flood Fort, improvement to the Emergency Room and purchase of equipment.
- \$15.1 million received in connection with Joint Resolution No. 68 approved by the Legislature of the Commonwealth of Puerto Rico on July 2, 2010, to reimburse the Administration for payment of the recruitment, payroll contributions and operating expenses made during year ended June 30, 2010.

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Management's Discussion and Analysis (Continued)

Interest expense consisted of the following activity during the year ended on June 30, 2010:

Interest of approximately \$12,696 million billed by the Administration for the Retirement Systems of the Commonwealth of Puerto Rico and the Puerto Rico Treasury Department in connection with unpaid contributions. Also includes overdraft bank charges.

Contacting the Administration's Financial Management

The financial report is designed to provide our suppliers and creditors with a general overview of the Administration's finances and to show the Administration's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Administration's Finance Director Office at P.O. Box 2129 San Juan Puerto Rico 00936, phone no. (787) 777-3535 Ext. 2903.