

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

Financial Statements

June 30, 2011 and 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) provides an overview of the Administration's financial performance during the years ended June 30, 2011 and 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, 2011 and 2010 amounted to approximately \$183 million and \$182 million, respectively.
2. During the years ended June 30, 2011 and 2010 the Administration experienced operating losses of approximately \$51 million and \$95 million, respectively.
3. During the years ended June 30, 2011 and 2010, the Administration received approximately \$19 million and \$16 million, respectively, in contributions from governmental agencies, for payment of new recruitments, payroll contributions and other 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, 2011 and 2010, consisted of (in thousands):

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>%</u>
Current assets	\$ 74,685	\$ 32,689	\$ 41,996	128%
Non-current assets:				
Capital assets, net	55,605	60,947	(5,342)	-9%
Restricted cash	<u>10,996</u>	<u>2,450</u>	<u>8,546</u>	<u>349%</u>
	<u>66,601</u>	<u>63,397</u>	<u>3,204</u>	<u>340%</u>
	<u>\$ 141,286</u>	<u>\$ 96,086</u>	<u>\$ 45,200</u>	<u>47%</u>
Current liabilities	\$ 118,517	\$ 270,547	\$ (152,030)	-56%
Non-current liabilities	<u>205,233</u>	<u>7,481</u>	<u>197,752</u>	<u>2643%</u>
	323,750	278,028	45,722	16%
Net asset (deficit)	<u>(182,464)</u>	<u>(181,942)</u>	<u>(522)</u>	<u>0%</u>
	<u>\$ 141,286</u>	<u>\$ 96,086</u>	<u>\$ 45,200</u>	<u>47%</u>
Net asset (deficit):				
Investment in capital asset, net of related debt	\$ 55,425	\$ 60,687	(5,262)	-9%
Restricted	2	2	-	0%
Unrestricted deficit	<u>(237,891)</u>	<u>(242,631)</u>	<u>4,740</u>	<u>-2%</u>
	<u>\$ (182,464)</u>	<u>\$ (181,942)</u>	<u>\$ (522)</u>	<u>0.3%</u>

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Management's Discussion and Analysis (Continued)

Statement of Net Assets (Deficit) – (continued)

The increase in current assets as of June 30, 2011, consisted of (in thousands):

	2011	2010	Increase (Decrease)	%
Cash	\$ 2,871	\$ 7	\$ 2,864	40914%
Receivable from member institutions and private insurances	67,946	26,661	41,285	155%
Accounts Receivable from Government Development Bank of Puerto Rico (B6F)	1	2,010	(2,009)	-100%
Accounts receivable others	706	699	7	1%
Inventories	2,271	2,284	(13)	-1%
Prepaid expenses	890	1,028	(138)	-13%
	<u>\$ 74,685</u>	<u>\$ 32,689</u>	<u>\$ 41,996</u>	<u>128%</u>

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

As of June 30, 2011:

	Member Institutions	Private Insurance	Total
Gross services revenues	\$ 104,720	\$ 103,625	\$ 208,345
Contractual adjustments	-	(60,552)	(60,552)
Provision for bad debt expense	(6,537)	(17,493)	(24,030)
Collections	(69,731)	(12,747)	(82,478)
	<u>\$ 28,452</u>	<u>\$ 12,833</u>	<u>\$ 41,285</u>

As of June 30, 2010:

	Member Institutions	Private Insurance	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	(127,899)	(26,184)	(154,083)
	<u>\$ (45,416)</u>	<u>\$ (21,669)</u>	<u>\$ (67,085)</u>

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Management's Discussion and Analysis (Continued)

Statement of Net Assets (Deficit) – (continued)

As a result of specialized and unique services not covered by commercial health insurance, the Administration incurred in significant contractual adjustments during 2011 and 2010. Contractual allowance applicable to commercial health insurance amounted to 64% and 79% at June 30, 2011 and 2010, respectively.

Non-Current Assets

Capital Assets

As of June 30, 2011:

Description	Balance June 30, 2010	Increase	Decrease	Balance June 30, 2011
Capital assets not being depreciated	\$ 28,872	\$ -	\$ (22,000)	\$ 6,872
Capital assets being depreciated	138,761	23,271	(1,581)	160,451
Accumulated depreciation	<u>(106,686)</u>	<u>(6,393)</u>	<u>1,361</u>	<u>(111,718)</u>
Capital assets being depreciated, net	<u>32,075</u>	<u>16,878</u>	<u>(220)</u>	<u>48,733</u>
	<u>\$ 60,947</u>	<u>\$ 16,878</u>	<u>\$ (22,220)</u>	<u>\$ 55,605</u>

As of June 30, 2010:

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 years ended June 30, 2011 and 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)

Statement of Net Assets (Deficit) – (continued)

Restricted Cash

The \$11 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 decrease in current liabilities consisted of (in thousands):

	2011	2010	Increase (Decrease)	%
Bank overdraft	\$ -	\$ 1,953	\$ (1,953)	-100%
Accounts payable	67,604	86,969	(19,365)	-22%
Accrued expenses	19,018	99,002	(79,984)	-81%
Accrued pension costs	29,036	77,738	(48,702)	-63%
Current portion of obligations under capital leases	180	184	(4)	-2%
Liabilities payable from restricted assets	<u>2,679</u>	<u>4,701</u>	<u>(2,022)</u>	<u>-43%</u>
	<u>\$ 118,517</u>	<u>\$ 270,547</u>	<u>\$ (152,030)</u>	<u>-56%</u>

The decreases in accrued expenses and accrued pension costs are mainly due to the fact that such costs were paid by the Administration during the year ended June 30, 2011, from proceeds of loan provided by the BGF to the Administration.

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Management's Discussion and Analysis (Continued)

Statement of Net Assets (Deficit) – (continued)

Non-Current Liabilities

The increase in non-current liabilities as of June 30, 2011, consisted of (in thousands):

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>%</u>
Obligations under capital leases	\$ -	\$ 76	\$ (76)	100%
Government Development Bank of Puerto Rico line of credit in connection with Law #66 of June 22, 1978, as amended	198,238	-	198,238	100%
Liabilities payable from restricted assets-Self Insurance Fund	<u>6,995</u>	<u>7,405</u>	<u>(410)</u>	<u>-6%</u>
	<u>\$ 205,233</u>	<u>\$ 7,481</u>	<u>\$ 197,752</u>	<u>2643%</u>

The decrease in liabilities payable from restricted assets was caused by the fact that claims for malpractice were paid during the year ended June 30, 2011. During the year ended on June 30, 2011, no provision was made to cover additional claims under the Administration's self insurance fund since the amount of the estimated accrued liability of \$7.0 million was considered adequate. The increase in notes payable, was caused by the loan provided by the BFG.

The following is the activity of long-term debt for the years ended June 30, 2011 and 2010 (in thousands):

As of June 30, 2011:

<u>Description</u>	<u>Balance June 30, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2011</u>
Capital lease obligations	\$ 260	\$ -	\$ (80)	\$ 180
Self-insurance fund	7,405	-	(410)	6,995
Government Development Bank of Puerto Rico line of credit in connection with Law #66 of June 22, 1978 as amended	-	198,239	-	198,239
	<u>\$ 7,665</u>	<u>\$ 198,239</u>	<u>\$ (490)</u>	<u>\$ 205,414</u>

As of June 30, 2010:

<u>Description</u>	<u>Balance June 30, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2010</u>
Capital lease obligations	\$ 307	\$ -	\$ (47)	\$ 260
Self-insurance fund	7,641	-	(236)	7,405
	<u>\$ 7,948</u>	<u>\$ -</u>	<u>\$ (283)</u>	<u>\$ 7,665</u>

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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, 2011 and 2010, consisted of (in thousands):

	2011	2010	Increase (Decrease)
Services revenue	\$ 147,793	\$ 124,675	\$ 23,118
Operating costs and expenses:			
Cost of services	158,105	165,084	(6,979)
General and administrative	10,484	9,318	1,166
Depreciation and amortization	6,393	7,352	(959)
Provision for doubtful accounts	24,029	37,677	(13,648)
	199,011	219,431	(20,420)
Operating loss	(51,218)	(94,756)	43,538
Non-operating income (expenses):			
Contributions from the Commonwealth of Puerto Rico	18,566	15,689	2,877
Interest income and other	784	1,011	(227)
Interest expenses	(11,375)	(12,696)	1,321
Gain on debt forgiveness	42,830	-	42,830
Loss on disposition of capital assets	(107)	(38)	(69)
	50,698	3,966	46,732
Net change (deficit)	(520)	(90,790)	90,270
Deficit, at beginning of year	(181,942)	(91,152)	(90,790)
Deficit, at end of year	\$ (182,462)	\$ (181,942)	\$ (520)

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Management's Discussion and Analysis (Continued)

Revenues, Expenses and Changes in Net Assets (Deficit) – (continued)

Service Revenues

The increase in service revenues for the year ended June 30, 2011, consisted of (in thousands):

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>%</u>
Member institutions	\$ 104,720	\$ 99,647	\$ 5,073	5.1%
Private and insurance	<u>43,073</u>	<u>25,028</u>	<u>18,045</u>	<u>72%</u>
	<u>\$ 147,793</u>	<u>\$ 124,675</u>	<u>\$ 23,118</u>	<u>19%</u>

Approximately over 71% of the Administration's service revenues are derived from services rendered to member institutions. The increase in service revenue comes from the decrease of contractual adjustment previously shown on the account receivable change.

Operating Costs and Expenses

This decrease in operating costs and expenses for the year ended June 30, 2011, consisted of (in thousands):

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>%</u>
Salaries payroll taxes and fringe benefits	\$ 103,048	\$ 114,479	\$ (11,431)	-10%
General and administrative	10,484	9,318	1,166	13%
Costs of materials and services	44,917	41,210	3,707	9%
Depreciation and amortization	6,393	7,352	(959)	-13%
Provision for bad debts	24,030	37,677	(13,647)	-36%
Utilities	<u>10,140</u>	<u>9,395</u>	<u>745</u>	<u>8%</u>
	<u>\$ 199,012</u>	<u>\$ 219,431</u>	<u>\$ (20,419)</u>	<u>-9%</u>

The decrease in salaries payroll is caused by the cost control plan established by management. The decrease in doubtful accounts is caused by the control over the billings and is caused by the collection process.

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Management's Discussion and Analysis (Continued)

Revenues, Expenses and Changes in Net Assets (Deficit) – (continued)

Non-Operating Income (Expenses)

The increase in non-operating income (expenses) for the year ended June 30, 2011, consist of (in thousands):

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	
Governmental contributions	\$ 18,566	\$ 15,689	\$ 2,877	18%
Interest income and other	784	1,011	(227)	-22%
Gain from debt forgiveness	42,830	-	42,830	100%
Interest expense	(11,375)	(12,696)	1,321	-10%
Loss on disposition of capital assets	<u>(107)</u>	<u>(38)</u>	<u>(69)</u>	<u>182%</u>
	<u>\$ 50,698</u>	<u>\$ 3,966</u>	<u>\$ 46,732</u>	<u>1178%</u>

The governmental contributions consisted of the following activity during the year ended June 30, 2011:

- \$387 thousand received in connection with Joint Resolution No. 4533 approved by the Commonwealth's Legislature Assembly 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.
- \$18.1 million received in connection with Joint Resolution No. 68 approved by the Commonwealth's Legislature Assembly on July 2, 2010, for payment of the new recruitments, payroll contributions and operating expenses made during year ended June 30, 2011.

Puerto Rico Medical Services Administration  
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Management's Discussion and Analysis (Continued)

Revenues, Expenses and Changes in Net Assets (Deficit) – (continued)

Non-Operating Income (Expenses)

Interest expense consisted of the following activity during the year ended on June 30, 2011:

Interest of approximately \$11.4 million billed by the Employee's Retirement System and 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.