

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE**  
**OF EXPENDITURES OF FEDERAL AWARDS**

**JUNE 30, 2014 AND 2013**

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component unit of the Commonwealth of Puerto Rico)**

June 30, 2014 and 2013

---

**TABLE OF CONTENTS**

	<b>PAGES</b>
<b>FINANCIAL SECTION:</b>	
Independent Auditors' Report	1 - 2
Management and Discussion Analysis	3 - 10
Statements of Net Position	11 - 12
Statements of Revenue, Expenses and Changes in Net Position	13
Statements of Cash Flows	14 - 15
Statements of Assets and Liabilities – Agency Fund	16
Notes to the Financial Statement	17 - 34
<b>SUPPLEMENTARY INFORMATION:</b>	
Schedule of Expenditures of Federal Awards	35
Notes to Schedule of Expenditures of Federal Awards	36
<b>COMPLIANCE SECTION:</b>	
Report on internal control over financial reporting and on Compliance and other matters based on an audit of the Statement of cash receipts and disbursements performed in accordance with Government Auditing Standards	37 - 38
Report on compliance with requirements applicable to each Major program and on internal control over compliance in Accordance with OMB Circular A-133	39 - 40
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	<b>41 - 42</b>
<b>SCHEDULE OF PRIOR YEARS AUDIT FINDINGS</b>	<b>43</b>

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the  
Puerto Rico Health Insurance Administration  
San Juan, Puerto Rico

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the **Puerto Rico Health Insurance Administration** (the "Administration"), a component unit of the Commonwealth of Puerto Rico as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

San José Building, Suite 500  
1250 Ponce de León Ave.  
Santurce, PR 00907  
Telephone (787) 522.0300  
Fax (787) 522.0301

Puerto Rico Health Insurance Administration  
Page 2

---

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the **Puerto Rico Health Insurance Administration** as of June 30, 2014 and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Prior Period Financial Statements**

The financial statements of Puerto Rico Health Insurance Administration as of and for the year ended June 20, 2013, were audited by other auditors whose report dated September 30, 2013, expressed an unmodified opinion on those statements.

**Other Matters**

Our audit was conducted for the purpose of forming an opinion on the Financial Statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations", and is not a required part of the Statement of Cash Receipts and Disbursements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is also not a required part of the basic financial statements.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014 on our consideration of PRHIA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

  
NEXIA CARDONA & CO. CPA, P.S.C.

San Juan, Puerto Rico  
September 30, 2014



**PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014 and 2013**

---

This section of the financial statements is classified by the Governmental accounting Standards Board (GASB) as required supplementary information. It is intended to provide an objective and easily readable analyses of the government's financial activities. Along with the notes to the financial statements, the management's discussion and analysis should provide the user with the most relevant information regarding the financial condition of the **Puerto Rico Health Insurance Administration** (the "Administration") as of June 30, 2014 and 2013.

**Overview of the Financial Statements**

The annual report includes the management's discussion and analysis report, the independent auditors' report, and the basic financial statements. The financial statements also include notes that explain in more detail the information contained in the financial statements. The discussion will focus on major components of the financial statements. These statements and information represent the actual financial condition of the Administration. Below, you will find a brief explanation of these statements and notes.

**Financial Analysis of the Administration as a Whole**

The Statement of Net Position and Statement of Revenue, Expenses and Changes in Net Position present the net position and its changes. Net position—the difference between assets and liabilities is one way to measure financial health or financial position. Increase or a decrease in net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other nonfinancial factors such as changes in economic conditions and new or changes in government legislation.

The Statements of Net Position presents the Administration's total assets and liabilities at the end of the years. The difference between, the two is reported as net position (negative or positive), which represents the Administration's net worth, in its total assets, as opposed to the creditor's interest or total liabilities. Any changes in net position (negative or positive) are used as a useful indicator as to whether the Administration's financial health is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position shows how the Administration's net position changed during the fiscal years. The changes in net position are reported on an accrual basis of accounting, which reports the events as they occur.

The Statement of Cash Flows shows how the Administration's cash and cash equivalents increased or decreased during the years. It also shows how cash and cash equivalents were provided by and used in the Administration's operating, non-capital financing, capital and related financing, and investing activities. The net increase or decrease in the Administration's cash and cash equivalents is added to the beginning balance at the beginning of the years to arrive at cash and cash equivalents balance at the end of the years. This statement is presented on a cash basis and only presents cash receipts and cash disbursements information. The Administration uses the direct method of presenting cash flows, which includes a reconciliation of operating loss (accrual basis) to operating activities (cash basis).

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014 and 2013**

The Notes to the Financial Statements are an integral part of the financial statements, in which information is disclosed that is essential for a full understanding of the Administration's financial health.

**Financial Highlights**

The current year financial statements reflect that the Administration has incurred in an operating deficit while providing essential services. As a result, the net position has decreased by **\$59.1 million**, for the fiscal year ended June 30, 2014. Our analysis below focuses on the Administration's net position and changes in net position during the year.

The condensed net position information is presented as follows:

	June 30, 2014	June 30, 2013	Change	
			In dollars	Percentage
Current assets	\$ 422,087,226	\$ 310,666,844	\$ 111,420,382	36%
Capital assets, net	<u>654,356</u>	<u>210,651</u>	<u>443,705</u>	<u>211%</u>
Total assets	<u>\$ 422,741,582</u> =====	<u>\$ 310,877,495</u> =====	<u>\$ 111,864,087</u> =====	<u>36%</u> =====
Current liabilities	\$ 447,769,371	\$ 277,315,162	\$ 170,454,209	62%
Non-current liabilities	<u>204,767,547</u>	<u>204,264,978</u>	<u>502,569</u>	<u>0.2%</u>
Total liabilities	<u>652,536,918</u>	<u>481,580,140</u>	<u>170,956,778</u>	<u>36%</u>
Net position:				
Invested in capital assets, net of related debt	654,356	210,651	443,705	211%
Net Position	<u>(230,449,692)</u>	<u>(170,913,296)</u>	<u>(59,536,396)</u>	<u>35%</u>
Total net position	<u>(229,795,336)</u>	<u>(170,702,645)</u>	<u>(59,092,691)</u>	<u>35%</u>
Total liabilities and net position	<u>\$ 422,741,582</u> =====	<u>\$ 310,877,495</u> =====	<u>\$ 111,864,087</u> =====	<u>36%</u> =====

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2014 and 2013**

**Net Position at June 30, 2014 and 2013**

As of June 30, 2014 the Administration's total assets were **\$423 million** which represent a net increase of 36% from total assets as of June 30, 2013 which amounted to **\$311 million**. The increase is mostly reflected in the current assets section, which is the result of an increase in accounts receivable as of June 30, 2014. Accordingly, current assets also increased by 36% compared to 2013.

During 2014, the Administration's total liabilities exceeded its total assets by **\$230**. Approximately, **\$205 million** represent non-current liabilities, which decreased by .2 percent (.2%) from 2013. Current liabilities increased by **\$171 million** mostly due to an increase of **\$83 million** in the revolving line of credit and an increase of **\$132 million** corresponding to the change in liability for Incurred but Unpaid Claims netted by a decrease in all other current Liabilities of **\$44 million**. Changes in the Administration's net position showed a decrease of **\$59 million** for 2014. This decrease for 2014 mainly responds to an increase in premiums and claims reflected at the end of the fiscal year.

The Administration's investment in capital assets as of June 30, 2014 and 2013 amounted to **\$654,356** and **\$210,651**, respectively, net of accumulated depreciation. Capital assets include equipment, furniture, leasehold improvements, and vehicles. During the years ended June 30, 2014 and 2013, the Administration invested **\$548,347** and **\$136,943** in capital assets, respectively. Depreciation and amortization expense for the years ended June 30, 2014 and 2013 amounted to **\$104,462** and **\$74,238**, respectively. During fiscal year 2013-2014 investment in capital assets corresponds to hardware and software. This responds to management efforts to enhance information technology systems,

	June 30, 2013	June 30, 2012	Change In dollars	Percentage
Current assets	\$ 310,666,844	\$ 371,855,910	\$ (61,189,066)	(16%)
Capital assets, net	<u>210,651</u>	<u>147,947</u>	<u>62,704</u>	<u>42%</u>
Total assets	\$ 310,877,495	\$ 372,003,857	\$ (61,126,362)	(16%)
	=====	=====	=====	=====
Current liabilities	\$ 277,315,162	\$ 296,522,280	\$ (19,207,118)	(6%)
Non-current liabilities	<u>204,264,978</u>	<u>229,461,539</u>	<u>(25,196,561)</u>	<u>(11%)</u>
Total liabilities	<u>481,580,140</u>	<u>525,983,819</u>	<u>(44,403,679)</u>	<u>(8%)</u>
Net position:				
Invested in capital assets, net of related debt	210,651	147,947	62,704	42%
Net Position	<u>(170,913,296)</u>	<u>(154,127,909)</u>	<u>(16,785,387)</u>	<u>11%</u>
Total net position	<u>(170,702,645)</u>	<u>(153,979,962)</u>	<u>(16,722,683)</u>	<u>11%</u>
Total liabilities and net position	\$ 310,877,495	\$ 372,003,857	\$ (61,126,362)	(16%)
	=====	=====	=====	=====

PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014 and 2013

---

Net Position at June 30, 2013 and 2012

Total negative net position of **\$171 million** is composed of **\$210,651**, invested in capital assets, net of related debt; and a negative net position of **\$171 million**. Total negative net position increased from **\$154 million** to **\$171 million**, a change of approximately **\$17 million** or 11%, corresponding to an increase in operating expenses of **\$190 million**.

Current assets decreased from **\$372 million** to **\$311 million**, a decrease of **\$61 million** or 16% mainly due to a decrease in cash and cash equivalents of **\$153 million**, and a net increase of **\$90 million** in accounts receivable from the federal government, municipalities and others.

Current liabilities decreased from **\$296 million** to **\$277 million** or approximately **\$19 million** or 6% due to a net decrease in claims and premiums payable of **\$18 million**.

The Administration's investment in capital assets as of June 30, 2013 and 2012 amounted to **\$210,651** and **\$147,947**, respectively, net of accumulated depreciation. Capital assets include equipment, furniture, leasehold improvements, and vehicles. During the years ended June 30, 2013 and 2012, the Administration invested **\$136,943** and **\$83,171** in capital assets, respectively. Depreciation and amortization expense for the years ended June 30, 2013 and 2012 amounted to **\$74,239** and **\$102,158**.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2014 and 2013**

The condensed changes in net position information are presented below:

	Year ended June 30,		Change	
	2014	2013	In dollars	Percentage
Operating revenue:				
Contributions from Department of Health of Puerto Rico, Municipalities, employers and rebates	\$ 1,575,705,371	\$ 1,406,189,589	\$ 169,515,782	12%
Contributions from the Commonwealth of Puerto Rico	<u>885,000,000</u>	<u>882,139,000</u>	<u>2,861,000</u>	<u>.32%</u>
	<u>2,460,705,371</u>	<u>2,288,328,589</u>	<u>172,376,782</u>	<u>7%</u>
Non-operating revenue:				
Interest income and transfers	<u>50,383,979</u>	<u>67,422,072</u>	<u>(17,038,093)</u>	<u>(.25%)</u>
Total revenues	<u>2,511,089,350</u>	<u>2,355,750,661</u>	<u>155,338,689</u>	<u>7%</u>
Operating expenses:				
Medical premiums and claims	2,494,805,333	2,335,196,086	159,609,247	7%
General and administrative	75,272,067	37,203,019	38,069,048	102%
Depreciation and amortization	<u>104,642</u>	<u>74,239</u>	<u>30,403</u>	<u>41%</u>
Total operating expenses	<u>2,570,182,042</u>	<u>2,372,473,344</u>	<u>197,708,698</u>	<u>8%</u>
Decrease (increase) in net position	(59,092,692)	(16,722,683)	(42,370,009)	
Net position, beginning of year	<u>(170,702,645)</u>	<u>(153,979,962)</u>	<u>(16,722,683)</u>	<u>11%</u>
Net position, end of year	<u>\$ (229,795,337)</u>	<u>\$ (170,702,645)</u>	<u>\$ 959,092,692</u>	<u>35%</u>

**Results of Operations for the years ended June 30, 2014 and 2013**

Operating revenues reflect a 7% increase mostly due to an increase in contributions from the Federal Government thru the Puerto Rico Department of Health.

Operating expenses increased **\$198 million** (8%) mainly due to an increase in medical premiums and claims expenses and an increase in the allowance for doubtful accounts related to contributions receivable from municipalities which increased by approximately **\$40 million**.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014 and 2013**

The condensed changes in net position information are presented below:

	Year ended June 30,		Change	
	2013	2012	In dollars	Percentage
Operating revenue:				
Contributions from Department of Health of Puerto Rico, Municipalities, employers and rebates	\$ 1,406,189,589	\$ 1,360,124,160	\$ 46,065,429	3%
Contributions from the Commonwealth of Puerto Rico	<u>882,139,000</u>	<u>945,030,000</u>	<u>(62,891,000)</u>	<u>(6%)</u>
	<u>2,288,328,589</u>	<u>2,305,154,160</u>	<u>(16,825,571)</u>	<u>(.7%)</u>
Non-operating revenue:				
Interest income and transfers	<u>67,422,072</u>	<u>1,205,755</u>	<u>66,216,317</u>	<u>0%</u>
Total revenue	<u>2,355,750,661</u>	<u>2,306,359,915</u>	<u>49,390,746</u>	<u>2%</u>
Operating expenses:				
Medical insurance premiums	1,072,214,089	1,362,709,939	(290,495,850)	(21%)
Claims incurred and health care costs	1,262,981,997	775,761,309	487,220,688	63%
General and administrative	37,203,019	43,438,190	(6,235,171)	(14%)
Depreciation and amortization	<u>74,239</u>	<u>102,158</u>	<u>(27,919)</u>	<u>(27%)</u>
Total operating expenses	<u>2,372,473,344</u>	<u>2,182,011,596</u>	<u>190,461,748</u>	<u>9%</u>
Decrease (increase) in net position	(16,722,683)	124,348,319	(141,071,002)	(113%)
Net position, beginning of year	<u>(153,979,962)</u>	<u>(278,328,281)</u>	<u>124,348,319</u>	<u>(45%)</u>
Net position, end of year	<u>\$ (170,702,645)</u>	<u>\$ (153,979,962)</u>	<u>\$ (16,722,683)</u>	<u>11%</u>

**Results of Operations for the years ended June 30, 2013 and 2012**

Operating revenues reflect a .7% increase mostly due to an increase in contributions from employers and pharmacy rebates.

Operating expenses increased **\$190 million (9%)** mainly due to an increase in insured population and the increase in claims received and paid based on the third party administrator (TPA) structure for the previous regions managed by MCS Health Management Options, Inc. (MCS) as explained under the economic factors section included below. This increase accounts for the increase in deficit of **\$17 million** for the years end.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2014 and 2013**

---

Economic Factors

**Debt Administration**

On March 14, 2011, the Administration entered into a Credit Agreement with the Government Development Bank for Puerto Rico in order to meet its obligations incurred prior to fiscal year 2009-2010 to insurers. As of June 30, 2014 and 2013, the principal outstanding balance amounted to **\$183,251,298** and **\$171,080,000**, respectively and the accrued interest amounted to **\$11,105,033** and **\$12,281,253**, respectively. The Administration will pay the principal and interest with the appropriations to be received from the Legislature of Puerto Rico. During fiscal year 2013, the Office of Management and Budget ("OMB") paid interest amounting to **\$11,160,000** on behalf of the Administration. No payments were made by OMB during fiscal year 2014.

On October 18, 2011, the Legislature approved Law Number 205. This Law authorizes the Administration to open a revolving line of credit either with the Government Development Bank or with a commercial bank for the sole purpose of paying health insurance premiums and health services providers. The bank will make credit advances to the Administration which will be used to fund premiums expenses and will be reimbursed with federal funds. The amount of the line of credit will be limited to and guaranteed by the amount of federal funds to be received by the Commonwealth of Puerto Rico from the Federal Government's Medicaid Program as certified by the Administration's Board of Directors and by the Puerto Rico Medicaid Program. The Administration will be obliged to use any federal funds received to pay the line of credit. The Government of Puerto Rico (the Government) will guarantee and will make the necessary appropriations to cover any balance of the line of credit in excess of federal funds received.

According to Law Number 205, the Government Development Bank offered an interim revolving line of credit. Effective March 7, 2012, the Administration signed the Credit Agreement with Banco Bilbao Vizcaya Argentaria (BBVA), today Oriental Bank, Banco Popular de Puerto Rico (BPPR), Firstbank Puerto Rico, and Banco Santander Puerto Rico. This group of Banks, led by BBVA, offered a line of credit of up to **\$250 million**. With the proceeds from this revolving line of credit, the Administration repaid the interim line of credit. The line of credit is up to the lesser of **\$250 million** and 85% of undisbursed federal grant awards. The Government of Puerto Rico guarantees this revolving line of credit.

Effective November 29, 2012, this agreement was amended and the commitment was reduced to **\$100 million**. As of June 30, 2014 and 2013, the Administration had an outstanding balance under this line of credit of **\$82,999,274** and **\$ -0-**, respectively.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2014 and 2013**

---

**Direct Contracting Project**

Starting on July 1, 2003 and through June 30, 2013, the Administration has entered into direct contracting projects in different regions. Effective October 1, 2010, in compliance with the Government plan, a new integrated health model named "Mi Salud" was developed.

Effective October 1, 2011, the Administration decided to expand the direct contracting project to cover (in addition to Vieques and Guaynabo) the West, the Metro north, the North, the San Juan, the Northeast and the Virtual Regions. These regions, previously covered by MCS Health Management Options, Inc. (MCS) under coverage for premium arrangement, are now managed by Triple -S Salud, Inc. (Triple-S) as a third party administrator (TPA) starting on November 1, 2011.

In July 2013, the Executive Director of the Administration announced the cancellation of Humana's contract effective September 30, 2013. Humana administered three regions, with approximately 515,000 insured, of the "Mi Salud" program. On July 1, 2013, the Administration and Triple-S entered into an agreement pursuant to which Triple-S will administer the provision of healthcare services to insured in the eight regions previously administered by MCS (five regions) and Humana (remaining three regions). Pursuant to the agreement, Triple-S has acted as a third party administrator and has been compensated based on a per member per month (pmpm) administrative fee. In contrast to the agreement with MCS and Humana, the commonwealth has been financially responsible and bears the risk for the provision of services to insured in the eight regions administered by Triple-S.

**Projections for fiscal year 2014-2015**

The budget for fiscal year 2014-2015 estimates that revenue will cover all projected costs. The most relevant assumptions are as follows:

- \$ 885,000,000 of revenues from legislative appropriations
- \$ 1,110,479,000 of revenues from federal funds
- \$ 221,100,000 of revenues from municipalities, rebates and employers
- \$ 7,329,000 of revenues from legislative appropriations to pay operational expenses of the Administration

**Contacting the Administration Financial Management**

This financial report is designed to provide our customers and creditors with a general overview of the Administration's finances and to demonstrate the Administration's accountability for the money it receives. If you have questions about this report or need additional information, contact the Puerto Rico Health Insurance Administration, PO Box 195661, San Juan, PR 00926-2706.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF NET POSITION**  
**June 30, 2014 and 2013**

ASSETS	2014	2013
Current assets:		
Cash and cash equivalents	\$ 23,093,100	\$ 62,442,656
Certificates of deposit	<u>6,491,863</u>	<u>7,138,577</u>
Total Cash and certificates of deposit	<u>29,584,963</u>	<u>69,581,233</u>
Accounts receivable:		
Puerto Rico Department of Health	251,704,833	68,610,693
Municipalities – net allowance for doubtful accounts of \$51,007,246 in 2014 and \$11,239,611 in 2013	38,079,973	66,351,540
Pharmacy rebates program	28,667,495	25,867,693
Legislature appropriations and others – net of allowance for doubtful accounts of \$744,520 in 2014 and \$744,765 in 2013	30,019,963	44,609,567
Due from Employers – net of allowance for doubtful accounts of \$4,454,578 in 2014 and \$25,607,458 in 2013	<u>40,676,521</u>	<u>31,356,199</u>
Total accounts receivable	<u>389,148,785</u>	<u>236,795,692</u>
Restricted deposits	1,100,000	1,100,000
Prepaid expenses	<u>2,253,478</u>	<u>3,189,919</u>
Total current assets	422,087,226	310,666,844
Capital assets – net	<u>654,356</u>	<u>210,651</u>
Total assets	<u>\$ 422,741,582</u> =====	<u>\$ 310,877,495</u> =====

(continues)

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF NET POSITION (CONTINUED)**  
**June 30, 2014 and 2013**

<b>LIABILITIES AND NET POSITION</b>		
	<b>2014</b>	<b>2013</b>
<b>Current liabilities:</b>		
Premiums and pharmacy rebates payable	\$ 58,053,828	\$ 115,231,042
Revolving line of credit	82,999,274	-
Estimated liability for claims incurred but not reported	192,448,000	90,973,784
Claims payable	89,266,046	59,031,000
Due to other governmental agencies	7,239,104	7,239,104
Accounts payable and accrued expenses	8,732,438	3,964,167
Accrued termination benefits	536,583	391,573
Accrued compensated absences	730,745	484,492
Premium payable current	<u>7,763,354</u>	<u>-</u>
<b>Total current liabilities</b>	<b><u>447,769,371</u></b>	<b><u>277,315,162</u></b>
<b>Non-current liabilities:</b>		
Obligation payable Governmental Development Bank	183,251,298	171,080,000
Interest payable	11,105,033	12,281,253
Premium payable	5,992,194	16,237,334
Accrued termination benefits	3,951,825	4,343,397
Accrued compensated absences	<u>467,197</u>	<u>322,994</u>
<b>Total non-current liabilities</b>	<b><u>204,767,547</u></b>	<b><u>204,264,978</u></b>
<b>Total liabilities</b>	<b><u>652,536,918</u></b>	<b><u>481,580,140</u></b>
<b>Net position:</b>		
Invested in capital assets, net of related debt	654,356	210,651
Net position	<u>(230,449,692)</u>	<u>(170,913,296)</u>
<b>Total net position</b>	<b><u>(229,795,336)</u></b>	<b><u>(170,702,645)</u></b>
<b>Total liabilities and net position</b>	<b><u>\$ 422,741,582</u></b>	<b><u>\$ 310,877,495</u></b>
	=====	=====

See accompanying notes to financial statements.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
**For the years ended June 30, 2014 and 2013**

	2014	2013
Operating revenue:		
Contributions from:		
Puerto Rico Department of Health	\$ 1,283,747,024	\$ 1,093,733,430
Commonwealth of Puerto Rico	885,000,000	882,139,000
Municipalities	158,831,750	151,135,177
Employers	31,299,180	78,686,527
Pharmacy rebate program – net	<u>101,827,417</u>	<u>82,634,455</u>
Total operating revenue	<u>2,460,705,371</u>	<u>2,288,328,589</u>
Operating expenses:		
Medical premiums and claims	2,494,805,333	2,335,196,086
General and administrative	20,846,175	19,899,155
Interest expenses	14,509,503	12,029,554
Depreciation	104,641	74,239
Bad debts	<u>39,916,389</u>	<u>5,274,310</u>
Total operating expenses	<u>2,570,182,041</u>	<u>2,372,473,344</u>
Loss from operations	<u>(109,476,670)</u>	<u>(84,144,755)</u>
Non-operating revenue:		
Other Transfers from the Commonwealth of Puerto Rico	9,657,000	5,585,800
Interest income and other	<u>40,726,979</u>	<u>61,836,272</u>
Total non-operating revenue	<u>50,383,979</u>	<u>67,422,072</u>
Decrease in net position	(59,092,691)	(16,722,683)
Net position at beginning of year	<u>(170,702,645)</u>	<u>(153,979,962)</u>
Net position at end of year	\$ (229,795,336)	\$ (170,702,645)
	=====	=====

See accompanying notes to financial statements.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF CASH FLOWS**  
**For the years ended June 30, 2014 and 2013**

	2014	2013
Cash flows from operating activities:		
Cash receipts from contributions	\$ 2,201,705,231	\$ 2,265,187,480
Cash receipts from pharmacy rebate program	99,027,615	73,789,942
Cash payments of premiums, health care organizations and third party administrators	(2,420,527,055)	(2,378,772,826)
Cash payments to employees	3,195,912	(2,207,993)
Cash payments to vendors for goods and services	<u>(56,232,879)</u>	<u>(38,233,985)</u>
Net cash used in operating activities	<u>(172,831,176)</u>	<u>(180,237,382)</u>
Cash flows from non-capital and related financing activities:		
Transfers from the Commonwealth of Puerto Rico	9,657,000	5,585,800
Collections of other income	40,622,343	21,232,819
Proceeds from line of credit net	82,999,274	-
Purchase of capital assets and net cash used in capital and related financing activities	<u>(548,347)</u>	<u>(136,943)</u>
Net cash provided by non-capital and related financing activities	<u>132,730,270</u>	<u>26,680,676</u>
Cash flows from investing activities:		
Interest collected	104,636	397,202
Certificates of deposit collected	7,138,577	-
Investment in certificates of deposit	<u>(6,491,863)</u>	<u>(7,138,577)</u>
Net cash provided by (used in) investing activities	<u>751,350</u>	<u>(6,741,375)</u>
Net (decrease) increase in cash and cash equivalents	<u>(39,349,556)</u>	<u>(160,297,081)</u>
Cash and cash equivalents, at beginning of year	<u>62,442,656</u>	<u>222,739,737</u>
Cash and cash equivalents, at end of year	\$ 23,093,100	\$ 62,442,656
	=====	=====

(continues)

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**For the years ended June 30, 2014 and 2013**

	2014	2013
Reconciliation of operating loss to net cash used in operating activities:		
Loss from operations	\$ (109,476,670)	\$ (84,144,755)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	104,642	74,239
Bad debt expense	39,916,389	5,274,310
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable:		
Puerto Rico Department of Health	(183,094,140)	46,569,578
Municipalities	(11,496,068)	(18,440,867)
Pharmacy rebate	(2,799,802)	(8,844,513)
Legislature appropriations and others	25,584,227	(42,405,525)
Due from employers	(9,469,321)	(31,504,150)
Restricted Deposits	(1,100,000)	-
Prepaid expenses	2,036,441	(2,142,020)
Increase (decrease) in:		
Premiums and pharmacy rebates payable	(59,659,000)	(3,915,419)
Liability for claims incurred but no reported and claims payable	131,709,262	(63,168,029)
Accounts payable and accrued expenses	4,768,970	20,944,873
Interest payable	-	(164,922)
Accrued termination benefits	(246,562)	1,999,148
Accrued compensated absences	390,456	(99,330)
Net cash used in operating activities	\$ (172,831,176)	\$ (180,237,382)
	=====	=====

See accompanying notes to financial statements.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF ASSETS AND LIABILITIES – AGENCY FUND**  
**For the years ended June 30, 2014 and 2013**

---

	<b>ASSETS</b>	
	2014	2013
Cash	<u>\$ 1,321,142</u>	<u>\$ 1,321,142</u>
Total assets	<u>\$ 1,321,142</u> =====	<u>\$ 1,321,142</u> =====
	<b>LIABILITIES</b>	
Accounts payable	<u>\$ 1,321,142</u>	<u>\$ 1,321,142</u>
Total liabilities	<u>\$ 1,321,142</u> =====	<u>\$ 1,321,142</u> =====

See accompanying notes to financial statements.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the years ended June 30, 2014 and 2013**

---

**1. REPORTING ENTITY**

The Puerto Rico Health Insurance Administration (the Administration) is a governmental entity and a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created by Act No. 72 (the Act), as amended, of the Legislature of the Commonwealth on September 7, 1993. The Administration commenced operations on February 1, 1994 and is considered a public corporation with full autonomy.

The Administration is responsible for implementing, administering and negotiating a health insurance system, through contracts with health insurers, mental health organizations, pharmacy benefit managers, third party administrators, Medicare advantage organizations, among others. The purpose is to eventually give all Puerto Rico residents access to qualify medical and hospital care, regardless of their financial condition and capacity to pay.

The Administration is the Sub-Grantee of federal funds provided by the Medicaid Program under Title XIX of the Social Security Act and Title XXI of the State Children's Health Insurance Program (CHIP). The Single State Medicaid Agency is the Puerto Rico Department of Health (the Department). Within the Department, the Medicaid Program administers the eligibility program of federal and Commonwealth beneficiaries and is responsible for administering or supervising the administration of, and is the primary grantee of federal funds while delegating the administration of the Commonwealth's managed health care structure to the Administration pursuant to a Memorandum of Understanding.

A regionalization system was implemented to establish a network of participating provider's throughout the Island and ensure the closest possible service to beneficiaries. The Administration pays a monthly premium to such insurance underwriters based on a contracted premium and the number of members subscribed in the health plan. Funds to pay for such premiums are requested from the commonwealth net of funds available for such purposes from all other sources. The Administration is exempt from taxation on taxes imposed by the Commonwealth of Puerto Rico.

Under the provisions of Act no. 105 of July 19, 2002, which amends Act No. 72 of 1993, the Administration was authorized to negotiate directly with health providers under a pilot program. The Administration has, since then, entered into different direct contracts to cover the insured population of different regions and municipalities. Since November 1, 2006 through September 1, 2010, the Administration directly contracted providers that served approximately 190,000 lives from the metro-north region. Since June 30, 2011, the Administration has direct contracting projects with the Municipalities of Vieques and Guaynabo.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the years ended June 30, 2014 and 2013**

---

**1. REPORTING ENTITY (CONTINUED)**

Effective October 1, 2010, in compliance with the Government plan, a new integrated health care model named MI SALUD was developed with the following changes:

- 1) Set up a standard premium per region as established by the Administration.
- 2) Eliminate the referrals when the beneficiary needs the service of a specialist.
- 3) Better access to prescribed medicines without the authorization of the primary health care provider.
- 4) Extended hours for health care providers of basic services.
- 5) Tele-emergency services available 24 hours.
- 6) Integration of the physical and mental health care in one place.
- 7) The risk of the primary health provider in relation to medicines, emergency and preventive health care test was decreased and was transferred to the health care insurance companies.
- 8) Increase the coverage to include the middle class working force.
- 9) Set up a ceiling in relation to administrative expenses and gains of the health care insurance companies.

Effective October 1, 2011, the Administration decided to expand the direct contracting project to cover, in addition to Vieques and Guaynabo, the West, the Metro-north, the North, the San Juan, the Northeast and the Virtual Regions. These regions, previously covered by MCS Health Management Options, Inc. (MCS) under coverage for premium arrangement are now managed by Triple-S Salud, Inc. (Triple-S) as third party administrator (TPA) which started on November 1, 2011. Under this arrangement, Triple-S receives a per member per month (pmpm) for performing administrative services and the Administration bears the risk for the provision of services to beneficiaries. In addition, the Administration implemented certain cost containment strategies to control costs. Among these strategies are establishing a co-payment that applies for the unjustified use of emergency rooms, detection and control of prescription drug overuse, implementation of disease management program for respiratory conditions, modification in provider fees and better coordination of benefits for the population having other medical insurance.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the years ended June 30, 2014 and 2013**

---

**1. REPORTING ENTITY (CONTINUED)**

Effective July 2013, the Administration announced the cancellation of Humana's contract effective September 30, 2013. Humana administered three regions (East, Southeast, Southwest), with approximately 515,000 beneficiaries of the Mi Salud Program. On July 1, 2013, the Administration and Triple-S entered into an agreement pursuant to which Triple-S will administer the provision of healthcare services to beneficiaries in the eight regions previously administered by MCS (five regions) and Humana (remaining three regions). Pursuant to the agreement, Triple-S has acted as a third party administrator and has been compensated based on a per member per month administrative fee. In contrast to the agreement with MCS and Humana, the Commonwealth has been financially responsible and bears the risk for the provision of services to beneficiaries in the eight regions administered by Triple-S.

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned, regardless of when received, and expenses when incurred, regardless of when paid.

Basis of presentation

The financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB No 34), Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB No. 34, as amended, establishes standards for external financial reporting for all state and local governmental entities, which includes a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

The Administration applied the provisions Governmental Accounting Standards Board Statement No. 20 (GASB No. 20), Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting. In applying GASB No. 20, the Administration applied all Statements and Interpretations of the Financial Accounting Standards Board (ASC), Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued before and after November 30, 1989, unless these pronouncements conflict with, or contradict, GASB pronouncements.

Cash and Cash equivalents

The Administration considers all highly liquid investments with maturities of three months or less to be cash equivalents.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the years ended June 30, 2014 and 2013**

---

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Allowance for doubtful accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable, prior credit loss experience because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Transfers from the Commonwealth of Puerto Rico

Transfers from the Commonwealth represent legislative appropriations for the payment of administrative expenses and premiums.

Contributions from the Puerto Rico Department of Health

Contributions received from Puerto Rico Department of Health represent payments to the Administration by the Medicaid Program which consist of a determined monthly amount of the funds allocated to Puerto Rico under Title XIX of the Social Security Act and State Plan. In order to comply with the match of received federal funds, the Administration is assigned funds from the Commonwealth. The Medicaid Program is the recipient of CHIPS and Prescription Drugs funds which are in whole transfers to the Administration of health care services for the eligible population of these funds.

Contributions from municipalities

Contributions from Municipalities represent the budgetary appropriations of the municipal governments for direct health services in areas covered by health insurance plans. The charges made by the Administration are based on established percentages applied to the corresponding Municipalities' operational budget for the lesser of current fiscal year or fiscal year 2004-2005 as set forth in Act No. 72 of September 7, 1993, as amended. These contributions are withheld by the Municipal Revenue Collection Center from money assigned to the municipalities and remitted to the Administration on a monthly basis.

Fund accounting

The Commonwealth reports its financial position and results of operations in funds, which are considered separate accounting entities and discrete presentations of those component units which are not required to be blended. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions. The new model as defined in GASB No. 34 establishes criteria for the determination of major funds. The Administration reports the following major funds:

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the years ended June 30, 2014 and 2013**

---

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

Fund accounting

i. Proprietary fund

This fund accounts for those activities for which the intent of management is to recover, primarily through premiums, the cost of providing health insurance services to the general public.

ii. Agency fund

Agency fund are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. This Agency fund pertains to an Intelligent Card program for beneficiaries and the balance shown is the remainder of the funds established for said purposes.

Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily related to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from those estimates.

Revenue recognition

The Administration distinguishes operating revenue from non-operating revenue. Revenue associated with the Puerto Rico Department of Health, Municipalities, Employers and Pharmacy Rebate Programs are recorded as operating revenue. Revenue associated with transfers from the Commonwealth of Puerto Rico and interest are recorded as non-operating revenue.

Capital assets

Capital assets are stated at cost. Donated property is reported at estimated fair value at the date received. When assets are retired or otherwise disposed of, the cost and accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recorded in the operations for the period.

Expenditures for repairs and maintenance that do not extend the useful lives of the assets are charged to operations in the year incurred.

PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE FINANCIAL STATEMENTS  
For the years ended June 30, 2014 and 2013

---

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

Depreciation and amortization

Depreciation is provided over the estimated useful life of each class of depreciable asset which range from four to ten years and is computed using the straight-line method.

Compensated absences

The employees of the Administration are granted thirty (30) days of vacation and eighteen (18) days of sick leave annually. Vacation time accumulated is fully vested to the employees from the first day of work. In the event of resignation, an employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation except that, in the event of retirement, an employee is reimbursed for accumulated sick leave days up to the maximum allowed of ninety (90) days.

According to the Administration's personnel protocol, the employee has the right to accumulate the excess of sixty (60) days in vacation and ninety (90) days in sick leave until December 31 of each year. The excess should be paid to the employee before March 31 of the following year.

Compensated absences are accrued when incurred using the pay or salary rates in effect at the date of balance sheet.

Risk management

The Administration is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters, and other losses. Commercial insurance coverage is obtained for claims arising from such matters.

The commercial insurance coverage is negotiated by the Department of Treasury of the Commonwealth of Puerto Rico and the cost is billed to the Administration.

Statement of cash flows

The accompanying statements of cash flows are presented in accordance with the provisions of Governmental Accounting Standards Board Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the years ended June 30, 2014 and 2013**

---

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

Pharmacy rebate program

The Administration established a governmental pharmacy rebate program which consists of agreements negotiated for the purpose of obtaining pharmaceutical rebates and discounts with respect to the utilization of prescription branded drugs dispensed to beneficiaries. The Administration contracted a private corporation for the implementation and pharmacy program administration. The Administration retains 100% of the income derived from this program based on a Puerto Rico Department of Justice Ruling.

Accounting for pension costs

The Administration accounted for pension costs in accordance with the provisions of Governmental Accounting Standards Board Statement (GASB) No. 27, Accounting for Pensions by States and Local Government Employers.

The GASB No. 27 establishes standards of accounting and financial reporting for pension liabilities, pension assets, note disclosures, and required supplementary information in the financial reports of state and local governmental employers. The statement defines that the pension expense is equal to the statutory required contribution to the employees' retirement system. A pension liability or asset is reported equal to the cumulative difference between statutory required and actual contributions.

Claims liabilities

Claims liabilities represent the estimated amount of claims incurred but unpaid to providers based on experience and accumulated statistical data under Mi Salud Program. The estimates of medical claims incurred but not reported and other medical expense payments are developed by an independent actuary using assumptions based upon payment patterns for medical, pharmacy and dental claims, inflation of medical costs, historical developments and other relevant factors.

The above liabilities are necessarily based on estimates and while management believes that the amounts are adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in the statement in the statement of revenues and expenses for the current year.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the years ended June 30, 2014 and 2013**

---

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

Medical cost recognition

Medical costs include claim payments, capitation payments, and other costs incurred to provide health care to beneficiaries as well as estimates of future payments for health care provided prior to the date of the statement of net assets. Capitation payments represent monthly prepaid fees disbursed to participating primary care physicians and other providers who are responsible for providing health care to beneficiaries. Risks related to catastrophic or high-risk conditions are assumed by the Administration.

Reclassifications

Certain prior year's amounts have been reclassified to conform to the current year presentation.

Subsequent events

The Administration has evaluated the impact of subsequent events through September 30, 2014, which is the date these financial statements were issued. There are no significant subsequent events to report.

**3. MANAGEMENT PLANS**

As reflected in the accompanying basic financial statements, the Administration has a negative net position of approximately **\$230 million** which increased by approximately **\$59 million** during the fiscal year ended June 30, 2014.

The revised budget for fiscal year 2014-2015 projects that revenues will cover all projected costs. The most relevant assumptions are as follows:

- \$ 885,000,000 of revenues from legislative appropriations
- \$ 1,110,479,000 of revenues from federal funds
- \$ 221,100,000 of revenues from municipalities, rebates and employers
- \$ 7,329,000 of revenues from legislative appropriation to pay operational expenses of the Administration

On March 14, 2011 the Administration requested a **\$186 million** non-revolving line of credit from the Government Development Bank of Puerto Rico (GDB). On that same date, a Fiscal Oversight Agreement (FOA) was subscribed between the Administration and the GDB in order to provide assistance and monitoring of the Administration's finances. The FOA authorizes the GDB to assist the Administration to adopt a fiscal stabilization plan and to take measures it deems necessary to ensure the Administration's financial self-sufficiency.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the years ended June 30, 2014 and 2013**

---

**3. MANAGEMENT PLANS (CONTINUED)**

The Fiscal Stabilization Plan for fiscal year 2014-2015 includes the following measures:

- Maximization of discounts or rebates with respect to prescription drugs dispensed to beneficiaries.
- Implementation of a monitoring program with all insurance companies through audits and imposition of penalties and fines for noncompliance
- Maximization of proves of petitions of federal funds through more efficient segregation of Commonwealth and Federal beneficiaries.
- Improvement and implementation of an effective accounts receivables collections process.

Medical cost recognition

Medical costs include claim payments, capitation payments, and other costs incurred to provide health care to beneficiaries as well as estimates of future payments for health care provided prior to the date of the statement of net assets. Capitation payments represent monthly prepaid fees disbursed to participating primary care physicians and other providers who are responsible for providing health care to beneficiaries. Risks related to catastrophic or high-risk conditions are assumed by the Administration.

Reclassifications

Certain prior year's amounts have been reclassified to conform to the current year presentation.

**4. CUSTODIAL CREDIT RISK - DEPOSITS**

Custodial credit risk is the risk that, in an event of a bank failure, the Administration deposits 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 coverage. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits at the Government Development Bank of Puerto Rico and the Economic Development Bank of Puerto Rico are uninsured and uncollateralized, as these entities, which are component units of the Commonwealth, are exempt from compliance with the collateralization requirement.

For the year ended June 30, 2014 and 2013, the custodial risk of the administration amounted to **\$58 million** and **\$75 million**, respectively, which is the bank balance of cash and cash equivalents deposited at the Government Development Bank for Puerto Rico. These deposits are exempt from the collateral requirement established by the Commonwealth.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE FINANCIAL STATEMENTS**  
For the years ended June 30, 2014 and 2013

**5. ACCOUNTS RECEIVABLE**

Accounts receivable and the allowance for doubtful accounts as of June 30, 2014 and 2013 consist of the following:

	2014	2013
Puerto Rico Department of Health	\$ 251,704,833	\$ 68,610,693
Municipalities	89,087,219	77,591,151
Pharmacy rebate program	28,667,495	25,867,693
Legislature appropriations and others	30,764,483	45,354,332
Due from employers	<u>45,131,099</u>	<u>56,963,657</u>
	445,355,129	274,387,526
Allowance for doubtful accounts	<u>(56,206,344)</u>	<u>(37,591,834)</u>
Account receivable, net	<u>\$ 389,148,785</u>	<u>\$ 236,795,692</u>
	=====	=====

Allowance for doubtful accounts is divided in three sections. The first section of the reserve is related to municipalities amounting to approximately **\$51 million** and **\$11 million** for 2014 and 2013, respectively. The second section is related to governmental agencies for employer contributions for the medical health plan amounting to approximately **\$4.5 million** and **\$25 million** for 2014 and 2013, respectively. The third one represents mainly uncollected premiums amounting to **\$745,000** and **\$745,000** for 2014 and 2013.

**6. CAPITAL ASSETS**

The activities of the capital assets accounts of the Administration for the fiscal years ended June 30, 2014 and 2013 was as follows:

	June 30, 2014			
	Beginning Balance	Additions	Retirements	Ending Balance
Equipment, computer and software	\$ 1,387,339	\$ 457,663	\$ (88,301)	\$ 1,756,501
Vehicles	78,459	40,983	(25,370)	94,072
Leasehold improvements	121,545	-	-	121,545
Furniture and others	<u>293,070</u>	<u>49,701</u>	<u>(58,910)</u>	<u>283,861</u>
	1,880,413	548,347	(172,781)	2,255,979
Accumulated depreciation	<u>(1,669,762)</u>	<u>(104,642)</u>	<u>172,781</u>	<u>(1,601,623)</u>
Capital assets, net	<u>\$ 210,651</u>	<u>\$ 443,705</u>	<u>\$ -</u>	<u>\$ 654,356</u>
	=====	=====	=====	=====

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the years ended June 30, 2014 and 2013**

**6. CAPITAL ASSETS (CONTINUED)**

	June 30, 2013			Ending Balance
	Beginning Balance	Additions	Retirements	
Equipment, computer and software	\$ 1,271,369	\$ 136,943	\$ (20,973)	\$ 1,387,339
Vehicles	78,459	-	-	78,459
Leasehold improvements	121,545	-	-	121,545
Furniture and others	294,031	-	961	293,070
	1,765,404	136,943	(21,934)	1,880,413
Accumulated depreciation	(1,617,457)	(74,239)	21,934	(1,669,762)
Capital assets, net	\$ 147,947	\$ 62,704	\$ -	\$ 210,651
	=====	=====	=====	=====

**7. OBLIGATION WITH GOVERNMENT DEVELOPMENT BANK**

On March 14, 2011, the Administration entered into a Credit Agreement with the Government Development Bank for Puerto Rico in order to pay its obligations to insurers incurred prior to fiscal year 2009-2010. The aggregate principal amount of the non-revolving line of credit was **\$186,000,000** and will be payable in nine payments of **\$20,666,667** each due on March 14 of the years 2015 through 2023. Interests are accrued at a fluctuating annual rate of interest equal to the greater of (i) 1.5% over prime rate, and (ii) 6%. As of June 30, 2014 and 2013, the outstanding principal balance amounted to **\$183,251,298** and **\$171,080,000**, respectively and the accrued interest amounted to **\$11,105,033** and **\$12,281,253**, respectively. The Administration will pay the principal and interest with the appropriate to be received from the Legislature of Puerto Rico pursuant to Act No. 173.

During fiscal year 2013, the Office of Management and budget (OMB) paid interest amounting to **\$11,160,000** on behalf of the Administration. No payments were made by OMB during fiscal year 2014.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
 (A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE FINANCIAL STATEMENTS  
 For the years ended June 30, 2014 and 2013**

**8. REVOLVING LINE OF CREDIT WITH COMMERCIAL BANKS**

On October 18, 2011, the Legislature approved Act No. 205. This Law authorized the Administration to open a revolving line of credit either with the Government Development Bank or with a commercial bank for the sole purpose of paying health insurance premiums and health services providers.

As provided by Act No. 205, the Government Development Bank offered an interim revolving line of credit through March 7, 2012 exclusively for payment of health care services by insurance companies and health care providers of Mi Salud Program. Effective March 7, 2012, the Administration signed the Credit Agreement with Banco Bilbao Vizcaya Argentaria (BBVA), today Oriental Bank, Banco Popular de Puerto Rico (BPPR), Firstbank Puerto Rico, Banco Santander Puerto Rico and Oriental Bank and Trust. This group of Banks, led by BBVA, offered a line of credit up to **\$250 million**. With the proceeds from this revolving line of credit, the Administration repaid the interim line of credit. The line of credit cannot exceed the lesser of **\$250 million** and 85% of the remaining amount of federal funds available for future disbursement under Available medical Grants. The Government of Puerto Rico guarantees this revolving line of credit. The revolving line of credit bears interest on the unpaid principal amount at an interest rate per annum of (i) the higher of, LIBOR as in effect from time to time or an interest rate equal to fifty basis points (.050%), plus (ii) 250 basis points per annum (2.50%).

Effective November 29, 2012, this agreement was amended whereas the total commitment of the lenders was decreased and reduced to the aggregate sum of **\$100 million** and each lender's commitment was modified to 25% or **\$25 million** equally among Oriental Bank (as successor in merger to BBVA), Banco Popular de Puerto Rico, Firstbank Puerto Rico and Banco Santander Puerto Rico.

As of June 30, 2014 and 2013, the Administration had an outstanding balance under this line of credit of **\$82,999,274** and **\$ -0-**, respectively.

This revolving line of credit has a final availability date of October 31, 2014 and a termination date of November 30, 2014. It is management's intention to renew this revolving line of credit.

**9. PREMIUM PAYABLE**

During the fiscal year 2013, the Administration signed loan agreements with three insurance companies renegotiating payment terms of recorded liabilities up to September 2010. Maturities of premium payable at June 30, 2014 are as follows:

Year ending June 30,	Amount
2015	\$ 7,763,354
2016	<u>5,992,194</u>
	\$ 13,755,548
	=====

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the years ended June 30, 2014 and 2013**

---

**10. LIABILITY FOR INCURRED BUT UNPAID CLAIMS**

The claims liability for incurred but unpaid claims is based on historical claims experience data, assumptions, and projections as to future events, including claims frequency, persistency and inflationary trends determined by an independent actuarial study. The assumptions used in estimating and establishing the liability is reviewed annually based on current circumstances and trends. The actuarial study considered the experience of the Administration from the date Triple-S began administering Mi Salud Program, November 2011 through June 30, 2014 including the amount paid in July 2014 for claims incurred in the period of November 1, 2011 to June 30, 2014 and amounts incurred but not reported as of June 30, 2014. Any resulting adjustments are considered to be a change in an accounting estimate and accounted for as an increase (decrease) to current period expenses.

The Administration has established a liability or both, reported and unreported claims, which includes estimates of future payments of claims and claims adjustments expenses. The liability for incurred but unpaid claims expenses as of June 30, 2014 for Mi Salud Program consist of:

**10. LIABILITY FOR INCURRED BUT UNPAID CLAIMS (CONTINUED)**

	2014	2013
Incurred but not reported (IBNR)		
Medical and Dental Claims	\$ 185,722,000	\$ 80,525,000
Pharmacy	<u>6,726,000</u>	<u>10,448,784</u>
Total Incurred but not reported	\$ 192,448,000 =====	\$ 90,973,784 =====
Claims paid by July 2014 incurred June 2013 and Prior		
Medical and Dental Claims	72,719,529	55,169,000
Pharmacy	<u>16,546,517</u>	<u>3,862,000</u>
Total	\$ 89,266,046 =====	\$ 59,031,000 =====

As of June 30, 2013, historical claims experience data only comprised an eight month period by which the method to estimate the liability for incurred but unpaid claims was based on variable assumptions and therefore, not comparable with current year.

PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE FINANCIAL STATEMENTS  
For the years ended June 30, 2014 and 2013

---

11. RETIREMENT SYSTEM

Defined benefit pension plan

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. All regular employees of the Administration hired before January 1, 2000 and less than fifty-five (55) years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten (10) years of plan participation. Disability benefits are available to members for occupational and non-occupational disability benefits.

Members who have attained at least fifty-five (55) years of age and have completed at least twenty-five (25) years of creditable service or members who have attained fifty-eight (58) years of age and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty (20) years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of twenty (20) years. In no case will the annuity be less than \$400 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation, as defined; otherwise they will receive 75% of the average compensation.

Commonwealth legislation requires employees hired on or before March 31, 1990 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. Employees hired on or after April 1, 1990 are required to contribute 8.275% of their monthly salary. The Administration is required by the same statute to contribute 11.52% of the participants' gross-salary.

PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE FINANCIAL STATEMENTS  
For the years ended June 30, 2014 and 2013

---

11. RETIREMENT SYSTEM (CONTINUED)

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act no. 305 on September 24, 1999, which amends Act No. 447, to establish, among others, a defined contribution savings plan program (the Program) to be administered by the retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contribution and are rehired on or after January 1, 2000, become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined benefit pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act no. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant account semi-annually.

The Administration is required by Act No. 305 to contribute 10.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

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

Total employee contributions to the above mentioned plans during the year ended June 30, 2013 amounted to approximately \$332,000, respectively.

PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE FINANCIAL STATEMENTS  
For the years ended June 30, 2014 and 2013

---

11. RETIREMENT SYSTEM (CONTINUED)

Furthermore, on April 4, 2013 the Governor of Puerto Rico signed into Law Act No. 3 of 2013 which represents a comprehensive reform of the Employee Retirement System (ERS). Act No. 3 became effective on July 1, 2013 and amends the provisions of the different structures under the ERS, including, but not limited, the following:

- For active participants of the contributory defined benefits program under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- Increases the minimum pension for current retirees from **\$400** to **\$500** per month.
- The retirement age for Act No. 447 participants will be gradually increased from age 58 to 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to 65.
- Eliminates the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- The employee contribution rate will increase from 8.275% to 10%.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from **\$600** to **\$200** and is eliminated for future retirees. The summer bonus will be eliminated.
- Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits will be notified.

Additional information on the Retirement System is provided in its financial statements, a copy of which can be obtained from the retirement System Administration, PO Box 42003, San Juan, PR 00949.

Total employee contributions to the aforementioned plan during the year ended June 30, 2014 amounted to approximately **\$449,000**.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the years ended June 30, 2014 and 2013**

**12. EARLY TERMINATION BENEFITS**

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Administration. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. In this early retirement benefit program, the Administration will pay the employer contributions to the Retirement System and the corresponding pension until the employee complies with the age requirements and 30 years of creditable services applicable to the Retirement System. Economic incentives are available to eligible employees that qualify for retirement benefits. Economic incentives consist of a payment ranging from one to six months of salary. Additionally, eligible employees that choose to participate in this program, other than those qualifying for retirement benefits, are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth of Puerto Rico.

At June 30, 2014 and 2013, unpaid long-term benefits granted on this program were discounted 3%. Total accrued terminations benefits as of June 30, 2014 and 2013 amounted to **\$4,488,408** and **\$4,734,970**, respectively.

**13. COMMITMENT AND CONTINGENCIES**

Commitments

The Administration conducts its operations in a leased facility under a long-term operating lease agreement expiring on June 30, 2014. Rent expense for the years ended June 30, 2014 and 2013 amounted to **\$257,974** and **\$255,408**, respectively. On July 1, 2014 the Administration moved its operations to a new facility and a new lease agreement was obtained for five years from July 1, 2014 through June 30, 2019 and they have also agreed on a further extension for another five years from July 1, 2019 through June 30, 2024. This extension can be cancelled by the Administration by written communication no later than 180 days before the automatic renewal but are subject to a penalty of **\$950,000** if not renewed at the end of the five year term.

Total future minimum lease payments on this operating lease as of June 30, 2014, is as follows:

2015	\$ 377,475
2016	377,475
2017	377,475
2018	388,799
2019	<u>388,799</u>
	\$ 1,910,023
	=====

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the years ended June 30, 2014 and 2013**

---

**13. COMMITMENT AND CONTINGENCIES (CONTINUED)**

Contingencies

The Administration is defendant and/or co-defendant in legal proceedings pertaining to matters incidental to the performance of its operations. With respect to the pending and threatened litigations, the Administration, in consultation with legal counsel, has advised that at this stage of the proceedings they cannot offer an opinion as to the probable outcome. Accordingly, management does not consider necessary making any provision in its books for these cases and intends to contest them vigorously.

The Administration has been requested to repay the Puerto Rico Treasury Department approximately **\$103 million** representing additional transfers of money from the central government during the fiscal years 2001-2003. After consultation with external legal counsel, the Administration is of the opinion that the money does not have to be repaid and believes that the likelihood of an unfavorable outcome is remote. Therefore, no reserve has been recorded in the Administration financial statements.

Federal grants

The Administration receives as a sub-grantee financial assistance from the federal government corresponding to Medicaid Program passed through the Puerto Rico Department of Health, the grantee. Federal grants are subject to financial and compliance audits by grantor agencies in order to determine the Administration's compliance with the regulations and conditions of such grants. It is management's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to be performed.

**14. SUBSEQUENT EVENTS**

The Administration has evaluated all events subsequent to the financial statement date of June 30, 2014 through September 30, 2014, which is the date these financial statements were available to be issued, and has determined that there are no subsequent events that require recognition or disclosure under FASB ASC 885-10 Subsequent Events.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended June 30, 2014**

---

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Expenditures
<b><u>U.S. Department of Health and Human Services</u></b>		
Major Programs:		
Passed through the Puerto Rico Department of Health		
Medical Assistance Program (Medicaid; Title XIX)	93.778	\$ 1,044,426,566
Children Health Insurance Program (CHIP)	93.767	<u>136,844,887</u>
Total Expenditures		\$ 1,181,271,453 =====

See accompanying notes to Schedule of Expenditures of Federal Awards.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended June 30, 2014**

---

**1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Puerto Rico Health Insurance Administration and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**2. PASS-THROUGH ENTITY IDENTIFYING NUMBER**

State or Local government redistribution of federal awards to the Administration, known as "pass-through awards", should be treated by the Administration as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned to the pass-through entity for the federal awards received.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE STATEMENTS OF  
CASH RECEIPTS AND DISBURSEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Puerto Rico Health Insurance Administration

We have audited, in accordance with the 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, the financial statements of the governmental activities of Puerto Rico Health Insurance Administration (the Administration), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements and have issued our report thereon dated September 30, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit on the financial statements, we considered Administration's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Administration's internal control. Accordingly, we do not express an opinion on the effectiveness of Administration's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatement on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

San José Building, Suite 500  
1250 Ponce de León Ave.  
Santurce, PR 00907  
Telephone (787) 522.0300  
Fax (787) 522.0301

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of  
Puerto Rico Health Insurance Administration

**Report on Compliance for Each Major Federal Program**

We have audited the **Puerto Rico Health Insurance Administration's** compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Administration's major federal programs for the year ended June 30, 2014. The Administration's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned cost.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Administration's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Administration's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Administration's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Puerto Rico Health Insurance Administration complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

San José Building, Suite 500  
1250 Ponce de León Ave.  
Santurce, PR 00907  
Telephone (787) 522.0300  
Fax (787) 522.0301

Puerto Rico Health Insurance Administration

Page 2

---

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the financial statements of the Administration is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Administration's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Nexia Cardona*  
NEXIA CARDONA & CO. CPA, P.S.C.

San Juan, Puerto Rico  
September 30, 2014



## Puerto Rico Health Insurance Administration

Page 2

---

**Report on Internal Control over Compliance**

The management of the Administration's is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Administration's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Administration's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Nexia Cardona & Co.*  
NEXIA CARDONA & CO. CPA, P.S.C.

San Juan, Puerto Rico  
September 30, 2014



**PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2014**

**SECTION 1 – SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financing reporting:

- |   |    |
|---|----|
| 1. Material weakness identified?  | No |
| 2. Significant deficiencies that are not considered to be material weakness | No |

Noncompliance material to financial statement noted? No

Federal awards:

Internal control over major programs:

- |  |    |
|--|----|
| 1. Material weaknesses identified?   | No |
| 2. Significant deficiencies that are not considered to be material weaknesses? | No |

Type of auditors' report issued on compliance for major program? Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a) No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.778	Medical Assistance Program (Medicaid; Title IXI)
93.767	Children's Health Insurance Program (CHIP)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 3,543,000

Auditee qualified as a low-risk auditee? No

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2014**

---

**SECTION 2 – FINANCIAL STATEMENTS FINDINGS**

There are no significant deficiencies or other findings for the period ended June 30, 2014.

**PUERTO RICO HEALTH INSURANCE ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**SCHEDULE OF PRIOR YEARS AUDIT FINDINGS**  
**For the year ended June 30, 2014**

---

**FINDING NO. 13-01 – NET POSITION**

**Condition**

The Administration has a negative net position for the fiscal year ended June 30, 2013.

**Status**

Though the Administration increased its negative net position during the year ended June 30, 2014 there is a management plan in place that after review relieves the Administration from the going concern.

**FINDING NO. SA-2013-01**

Program CFDA No. 93.778  
Program CFDA No. 93.767

CFDA program title: Medical Assistance Program  
CFDA program title: Children's Health Insurance Program

**Condition**

The Administration does not perform a review for its (ADP) system and does not have a report on its biennial ADP system reviews.

**Status**

Corrected. During our audit procedures we observed ADP reviews for the audit period.