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Certified Public Accountants & Consultant

Puerto Rico Medical Services Administration

A Component Unit of the Puerto Rico Department of Health

Basic Financial Statements and Management's Discussion and Analysis
June 30, 2009



PUERTO RICO MEDICAL SERVICES ADMINISTRATION
A Component Unit of the Puerto Rico Department of Health

**BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION & ANALYSIS**
June 30, 2009

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Section I

Independent Auditors' Report

RSM! ROC & Company

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To: The Secretary of the Puerto Rico Department of Health
and Board of Member Institutions of
Puerto Rico Medical Services Administration

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Puerto Rico Medical Services Administration (the Administration), a component unit of the Puerto Rico Department of Health (Department of Health), as of June 30, 2009, which collectively comprise the Administration's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Administration's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Administration's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Puerto Rico Medical Services Administration as of June 30, 2009, and the changes in its net assets (deficit) and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 9, the Administration derives a substantial portion of its revenues from services rendered to member institutions. In addition, the Administration provides services to the medical indigent population, some of them uninsured which do not have formal means of repayment. Amounts due from member institutions and medical indigent population may be subject to periodic revisions and/or adjustments, based on the availability of funds from the member institutions and/or the Commonwealth of Puerto Rico governmental agencies.

As described in Note 12, the financial condition of the Administration has been weakened by high operating costs and recurring operating losses, which has affected its ability to pay its suppliers, governmental agencies and other creditors on a regular basis. In addition, the Administration has been affected by the delay in the collection of billings for services rendered to member institutions. As of June 30, 2009, the Administration has a total deficit of \$91,152,068 and a deficiency in working capital of \$152,038,929. The Administration's operations will depend on obtaining additional contributions from the Commonwealth of Puerto Rico to partially subsidize existing and future operating losses, resulting from high operating costs and services provided to the medical indigent population not covered under any private health insurance or non-participating in the Health Reform Program Administered by the Puerto Rico Health Insurance Administration (ASES). The Administration has made formal requests to various Commonwealth's agencies, including the Office of Management and Budget, requesting additional funds to subsidize its operating deficit and improve its existing financial condition.

As explained in Note 13, the accompanying financial statements include accounts receivable aggregating \$22,774,697 from the Hospital of the Municipality of San Juan, related to medical services rendered by the Administration to the Municipality of San Juan, covering inpatient and outpatient services, laboratory, pharmacy, general services and other ancillary services billed to the Municipality. The ultimate collectibility of this account receivable is dependent upon future review and acceptance between the Administration and the Municipality of San Juan, and as such, cannot be determined as this time. No provision to cover the uncollectibility of this receivable has been made in the accompanying financial statements.

The Management's Discussion and Analysis on Section II is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurements and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

San Juan, Puerto Rico
December 15, 2009.

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Stamp No. 2473016 was affixed to
the original of this report.

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Section II

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

The following discussions and analysis of the Puerto Rico Medical Services Administration (the Administration) financial performance provide an overview of the Administration's financial performance during the year ended June 30, 2009. Please read it in conjunction with the basic financial statements, which follow this section.

OVERVIEW OF THE ADMINISTRATION

The Puerto Rico Medical Center is a public corporation, created by Law Number 66 of June 22, 1978, as amended, and a component unit of the Department of Health of the Commonwealth of Puerto Rico (Department of Health). The Administration's principal functions are to provide medical services to patients through its Emergency Room, Trauma Hospital and Out Patient Clinics. In addition, the Administration provides a variety of different services such as laboratory, dietary, radiology, operating room, medicines, laundry and others to participating entities, among them Adult's and Pediatrics' University Hospitals, City of San Juan Municipal Hospital, Industrial Hospital and others. The Administration also provides medical services to non-participating entities such as health insurance plans, Medicare and other private plans, and to the general public. The facilities of the Administration are also used as a teaching center for the medicine career.

As a result of recurring high operating costs and losses, the financial condition of the Administration has been significantly weakened, which has affected its ability to pay its suppliers, governmental agencies and other creditors on a regular basis. The most significant factors affecting the Administration's operations and financial condition are as follows:

1. As a tertiary and supratertiary hospital care facility, the Administration provides various specialized services, and in some cases unique, like neurology surgery, orthopedic surgery, endovascular surgery, trauma hospital and hyperbaric medicine, with high operating costs, which in most cases cannot be recovered in their entirety from medical insurance plans and/or the patients themselves. As a result, significant contractual adjustments are recorded by the Administration.
2. The use of the Administration's facilities as a teaching center has an implicit cost that is not recovered by the Administration. This cost becomes part of the total operational cost that is absorbed in full by the Administration.
3. Services provided to the medical indigent population (including specialized services) with no economic resources to repay for them and/or without the medical insurance coverage provided by the Puerto Rico Health Reform System. The costs of these services are absorbed by the Administration.
4. Significant delays in the collection of billings for services rendered to member institutions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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FINANCIAL HIGHLIGHTS

1. The Administration's net deficit as of June 30, 2009 amounted to approximately \$91 million.
2. During the year ended June 30, 2009 the Administration experienced an operating loss of approximately \$63 million.
3. During the year ended June 30, 2009, the Administration received approximately \$40 million in contributions from governmental agencies, for equipment purchase, payments of payroll, and the construction of new Trauma Collision, the establishment of a Gamma Knife Center, Blood Bank, improvement to the Emergency Room and the finance program and service ordered by the Administration.

REQUIRED FINANCIAL STATEMENTS

The required basic financial statements of the Administration consist of:

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

STATEMENTS OF NET ASSETS (DEFICIT)

The Administration's statements of net assets (deficit) as of June 30, 2009 and 2008, consisted of (in thousands):

	2009	2008	Increase (Decrease)	%
Current assets	\$ 100,729	\$ 91,941	\$ 8,788	10%
Non-current assets:				
Capital assets, net	66,816	68,948	\$ (2,132)	-3%
Restricted cash	1,852	1,800	52	3%
	<u>68,668</u>	<u>70,748</u>	<u>(2,080)</u>	<u>-3%</u>
	<u>\$ 169,397</u>	<u>\$ 162,689</u>	<u>\$ 6,708</u>	<u>4%</u>
Current liabilities	\$ 252,768	\$ 212,942	\$ 39,826	19%
Non-current liabilities	<u>7,781</u>	<u>8,239</u>	<u>(458)</u>	<u>-6%</u>
	260,549	221,181	39,368	18%
Net asset (deficit)	<u>(91,152)</u>	<u>(58,492)</u>	<u>(32,660)</u>	<u>56%</u>
	<u>\$ 169,397</u>	<u>\$ 162,689</u>	<u>\$ 6,708</u>	<u>4%</u>
Net asset (deficit):				
Investment in capital asset, net of related debt	\$ 63,525	\$ 68,433		
Restricted	3	3		
Unrestricted	<u>(157,680)</u>	<u>(126,928)</u>		
	<u>\$ (91,152)</u>	<u>\$ (58,492)</u>		

MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2009
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CURRENT ASSETS

The increase in current assets as of June 30, 2009, consisted of (in thousands):

	2009	2008	Increase (Decrease)	%
Cash	\$ -	\$ -	\$ -	
Receivable from members and patient services	94,445	76,970	17,475	23%
Receivable from Government Development Bank for Puerto Rico	2,010	10,325	(8,315)	-81%
Current portion of notes receivable	-	189	(189)	-100%
Inventories	3,496	3,849	(353)	-9%
Prepaid expenses	778	608	170	28%
	<u>\$ 100,729</u>	<u>\$ 91,941</u>	<u>\$ 8,788</u>	10%

Cash is the result of (in thousands):

	Amount
Net cash used in operating activities	\$ (20,211)
Net cash provided by non-capital and related financing activities	34,353
Net cash used in capital and related financing activities	(14,411)
Net cash provided by investing activities	269
	<u>\$ -</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2009
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The increase in accounts receivable, consisted of the following activity during the year ended June 30, 2009 (in thousands):

	Member Institutions	Private Insurance	Other	Total
Gross services revenues	\$ 100,253	\$ 111,056	\$ -	\$ 211,309
Contractual adjustments	-	(62,114)	-	(62,114)
Provision for bad debt expense	(4,728)	(19,878)	-	(24,606)
Collections	(84,171)	(26,031)	-	(110,202)
Offset between members institutions	2,163	-	-	2,163
Other	(988)	1,850	63	925
	<u>\$ 12,529</u>	<u>\$ 4,883</u>	<u>\$ 63</u>	<u>\$ 17,475</u>

As a result of specialized and unique services not covered by medical plans, the Administration incurs in significant contractual adjustments. Contractual allowance applicable to private medical insurance plans amounted to 56% of gross service revenues during year ended June 30, 2009.

NON-CURRENT ASSETS

CAPITAL ASSETS

The following is the activity of capital assets during the year ended June 30, 2009 (in thousands):

Description	Balance June 30, 2008	Increase	Decrease	Balance June 30, 2009
Capital assets not being depreciated	\$ 28,261	\$ -	\$ -	\$ 28,261
Capital assets being depreciated	135,682	5,820	(1,306)	140,196
Accumulated depreciation	(94,995)	(7,932)	1,286	(101,641)
Capital assets being depreciated, net	40,687	(2,112)	(20)	38,555
	<u>\$ 68,948</u>	<u>\$ (2,112)</u>	<u>\$ (20)</u>	<u>\$ 66,816</u>

The decrease in capital assets at June 30, 2009, is mainly due to the fact that depreciation during the year exceeded the acquisition of equipment and building improvements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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RESTRICTED CASH

The \$1.8 million in restricted cash represents the amount received from a Federal Government Program for the acquisition of an emergency medical vehicle for the Field Medical Unit.

LIABILITIES

CURRENT LIABILITIES

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

	2009	2008	Increase (Decrease)
Bank Overdraft	\$ -	\$ 3,864	\$ (3,864)
Accounts payable	93,422	75,063	18,359
Accrued expenses	93,125	73,932	19,193
Accrued pension costs	61,747	47,222	14,525
Current portion of obligations under capital leases	151	310	(159)
Liabilities payable from restricted assets	4,323	12,551	(8,228)
	<u>\$ 252,768</u>	<u>\$ 212,942</u>	<u>\$ 39,826</u>

The increase in accounts payable, accrued expenses and accrued pension costs was caused by the operating loss experienced by the Administration during the year ended June 30, 2009, and delays on the collection from member institutions for services rendered, which, as in prior years, has significantly affected the Administration's cash flow. This situation has not permitted the Administration to pay its suppliers on a regular basis, submit to the Retirement System employees' and employer's contributions of pension costs, and pay to the Puerto Rico Treasury Department income tax withheld to employees.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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NON-CURRENT LIABILITIES

The decrease in non-current liabilities consisted of (in thousands):

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Obligations under capital leases	\$ 140	\$ 205	\$ (65)
Liabilities payable from restricted assets-Self Insurance Fund	<u>7,641</u>	<u>8,034</u>	<u>(393)</u>
	<u>\$ 7,781</u>	<u>\$ 8,239</u>	<u>\$ (458)</u>

The decrease in liabilities payable from restricted assets was caused by claims for malpractice paid during the year. During the year ended on June 30, 2009, no provision was made to cover additional claims under the Administration's self insurance fund since the amount of the estimated accrued liability of \$7.6 million was considered adequate.

The following is the activity of long-term debt for the year ended June 30, 2009 (in thousands):

<u>Description</u>	<u>Balance June 30, 2008</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2009</u>	<u>Current Portion</u>
Capital lease obligations	\$ 515	\$ -	\$ (224)	\$ 291	\$ 151
Self-insurance fund	<u>8,034</u>	<u>-</u>	<u>(393)</u>	<u>7,641</u>	<u>-</u>
	<u>\$ 8,549</u>	<u>\$ -</u>	<u>\$ (617)</u>	<u>\$ 7,932</u>	<u>\$ 151</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)

The Administration's statements of revenues, expenses, and changes in net assets (deficit) for the years ended June 30, 2009 and 2008, consisted of (in thousands):

	2009	2008	Increase (Decrease)
Services revenue	\$ 150,120	\$ 136,482	\$ 13,638
Operating costs and expenses:			
Cost of services	170,023	158,206	11,817
General and administrative expenses	10,233	10,605	(372)
Depreciation expenses	7,931	10,423	(2,492)
Provision for doubtful accounts	24,576	119	24,457
	<u>212,763</u>	<u>179,353</u>	<u>33,410</u>
Operating loss	<u>(62,643)</u>	<u>(42,871)</u>	<u>(19,772)</u>
Non-operating income (expenses):			
Contributions from the Commonwealth	40,177	52,031	(11,854)
Interest income and other	133	359	(226)
Tax assessment by the Treasury Department	(6,238)	(5,381)	(857)
Interest expenses	(4,068)	(3,640)	(428)
Loss on sale of capital assets	(21)	(18)	(3)
	<u>29,983</u>	<u>43,351</u>	<u>(13,368)</u>
Net change in net assets (deficit)	(32,660)	480	<u>\$ (33,140)</u>
Net assets (deficit), beginning of year	<u>(58,492)</u>	<u>(58,972)</u>	
Net assets (deficit), end of year	<u>\$ (91,152)</u>	<u>\$ (58,492)</u>	

SERVICE REVENUES

The increase in service revenues for the year ended June 30, 2009, consisted of (in thousands):

	2009	2008	Increase (Decrease)	%
Member institutions	\$ 100,253	\$ 100,560	\$ (307)	-0.3%
Private and insurance	48,942	35,096	13,846	39%
Other	925	826	99	12%
	<u>\$ 150,120</u>	<u>\$ 136,482</u>	<u>\$ 13,638</u>	<u>10%</u>

Approximately over 67% of the Administration's revenues are derived from services rendered to member institutions.

OPERATING COSTS AND EXPENSES

The increase in costs of services and general and administrative expenses for the year ended June 30, 2009, consisted of (in thousands):

	2009	2008	Increase (Decrease)	%
Payroll and fringe benefits	\$ 127,039	\$ 114,617	\$ 12,422	11%
Costs of materials and services	43,458	45,006	(1,548)	-3%
Utilities	9,759	9,188	571	6%
	<u>\$ 180,256</u>	<u>\$ 168,811</u>	<u>\$ 11,445</u>	<u>7%</u>

The increase in payroll and fringe benefits was caused mainly by an increase in compensation as a result of the new five years collective bargain agreement implemented during the year ended on June 30, 2009, and recruitment of new personnel in connection with the establishment of additional medical facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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NON-OPERATING INCOME

The decrease in non-operating income for the year ended June 30, 2009, consisted of (in thousands):

	2009	2008	Increase (Decrease)
Governmental contributions	\$ 40,177	\$ 52,031	(11,854)
Interest income	133	359	(226)
Interest expense	(4,068)	(3,640)	(428)
Tax assessment by the Treasury Department in connect on with unpaid income tax withheld	(6,238)	(5,381)	(857)
Loss on sale of capital assets	(21)	(18)	(3)
	<u>\$ 29,983</u>	<u>\$ 43,351</u>	<u>\$ (13,368)</u>

The governmental contributions consisted of the following activity during the year ended June 30, 2009:

- \$1.1 million received in connection with Joint Resolution No. 4533 approved by the Commonwealth's Legislative Assembly on August 12, 2004, assigning \$40.5 million to the Administration for the construction of new Trauma facilities, the establishment of a Gamma Knife Center, a Flood Fort, improvement to the Emergency Room and purchase of equipment.
- \$1.7 million received in connection with Joint Resolution No. 56 approved by the Commonwealth's Legislative Assembly on July 20, 2008, for the recruiting and payment of employees necessary for the "Centro Cerebrovascular de Puerto Rico y el Caribe".
- \$15 million received in connection with Joint Resolution No. 56 approved by the Commonwealth's Legislative Assembly on July 20, 2008, for payment of operating expenses.
- \$847 thousands received in connection with Joint Resolution No. 116 approved by the Commonwealth's Legislative Assembly on July 23, 2007 assigning \$2,947 thousands to the Administration for the acquisition of medical equipment.
- \$18.8 million received in connection with special contributions assigned by Puerto Rico Management and Budget Office for payment of payroll and operating expenses.
- \$2.7 million received in connection with special contribution assigned by the Puerto Rico Management and Budget Office for payment to the Puerto Rico Telephone Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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Interest expense consisted of the following activity during the year ended on June 30, 2009:

- Interest of approximately \$2,480 thousand billed by the Employees' Retirement System in connection with unpaid contributions.
- Interests and bank charges of \$1,588 thousand paid to the bank in connection with bank overdraft.

PLANS TO IMPROVE THE ADMINISTRATION'S FINANCIAL CONDITION

The financial condition of the Administration has been weakened by high operating costs and recurring operating losses, which has affected its ability to pay its suppliers, governmental agencies and other creditors on a regular basis. In addition, the Administration has been affected by the delay in the collection of billings for services rendered to member institutions. As of June 30, 2009, the Administration has an unrestricted deficit of \$157,680,008. The Administration's operations will depend on obtaining additional contributions from the Commonwealth of Puerto Rico to partially subsidize existing and future operating losses, resulting from high operating costs and services provided to the medical indigent population not covered under any private health insurance or non-participating in the Health Reform Program Administered by the Puerto Rico Health Insurance Administration (ASES).

The Administration has made formal requests to various Commonwealth's agencies, including the Office of Management and Budget, petitioning additional funds to subsidize its operating deficit.

The following initiatives have been established:

- A. On September 7, 2005, Law No. 112 was approved to amend Article 15 of Law No. 66 of June 22, 1978, which require, from the Secretary of Health and the Executive Director of ASEM, the preparation and submission to the Governor of the Commonwealth of Puerto Rico and to the Puerto Rico's Legislative Assembly a reorganization plan for the integration and consolidation of administrative functions and programs of all the components of the Puerto Rico Medical Center to achieve operational efficiency and reduction of costs.
- B. In connection with the requirements of Law No. 112, for the integration and consolidation of administrative functions and programs of all the component of the Puerto Rico Medical Center, on January 31, 2007, the Secretary of Health and the Executive Director of ASEM submitted to the Governor of the Commonwealth of Puerto Rico and action plan for the improvement of the Puerto Rico Medical Center, which includes; the Administration (ASEM), the University District Hospital (UDH) and the Pediatric University Hospital (HPU). In the report the following recommendations were included:
 - To obtain more relevant information of all the Medical Center Components, in addition to the information included in the report, to determine necessary changes and to establish the feasibility and criteria for a reorganization plan of the Medical Center.
 - The implementation of a new integrated information system to be shared with the member institutions, presently implemented.
 - The reevaluation of the relationship of the member's institution with the campus of Medical Sciences to promote the efficiency utilization and quality of services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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- The establishment of a Project of Law to temper the current Law No. 66 of June 22, 1978, which creates the Administration, with Law No. 72, dated September 7, 1993, which implement the Health Reform by the Puerto Rico Health Insurance Administration (ASES).
- The establishment of recurrent financing sources by the Puerto Rico Office of Management and Budget (OME) to subsidize its high operating costs in providing complex medical services requiring the use of high technology equipment and to cover services provided to the medical indigent population not covered under any private health insurance or not participating in the Health Reform Program Administered by ASES.

Similar recommendations were included in a report prepared, in year 2008, by the Health System Evaluation Committee appointed by the Governor of the Commonwealth of Puerto Rico with respect to the operation of the Medical Center.

- C. The establishment of revised rates for services rendered to member institutions, medical insurance company and others to cover the actual cost incurred by ASEM in providing services.
- D. Enforcing the compliance by member institutions with Article No. 13 of Law. No. 6 of June 22, 1978, as amended, which requires the settlement of amounts owed to the Administration at the end of each fiscal year, as documented by periodic billings submitted for services rendered in excess of partial advances received.
- E. Requesting that all debts incurred by the member institutions with the Administration be settled immediately.
- F. The Puerto Rico Office of Management and Budget has retained the services of a professional consulting firm to evaluate the operational and administrative procedures of the Administration in order to improve processes and performance.

CONTINGENCIES

The Administration is a party in certain legal actions and claims related to medical malpractice arising in the ordinary conduct of its business. Although the Administration appears as a defendant in these claims, many of them involve medical personnel of the member institutions, and in effect, these claims are against said institutions. As a result of the deficiency as of June 30, 2009, of funds available in the Self-Insurance Fund, any unfavorable outcome may have a significant effect on the financial condition of the Administration.

The Administration has accounts receivable aggregating \$22,774,697 from the Hospital of the Municipality of San Juan, related to medical services rendered by the Administration to the Municipality of San Juan covering inpatient and outpatient services, laboratory, pharmacy, general services and other ancillary services billed to the Municipality in accordance with the provision of Law Number 66 of June 22, 1978, which created the Administration, to operate and administer the centralized health services, provided in support of the member institutions and consumers of the complex known as "Puerto Rico Medical Center". The Administration demands that these amounts are due related to services rendered covering the period from June 30, 2005 to June 30, 2008; however, amounts are still unpaid.

The Administration filed a claim at the Puerto Rico Department of Justice and at the Commission for the Resolution of Controversies for Over Payment and Debts between Governmental Agencies (the Commission), demanding the resolution of this matter.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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On June 29, 2009, the Commission designated the Puerto Rico Office of Management and Budget (OMB) to serve as a mediator in this claim. As of the date of the accompanying financial statements, no resolution or recommendation has been made by OMB in connection with this controversy.

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Section III

Basic Financial Statements

PUERTO RICO MEDICAL SERVICES ADMINISTRATION

A Component Unit of the Puerto Rico Department of Health

STATEMENT OF NET ASSETS (DEFICIT)

June 30, 2009

ASSETS

CURRENT ASSETS:

Accounts receivable-

Member institutions, net of allowance for doubtful
accounts of \$45,120,136

\$ 73,426,326

Private insurance, net of allowance for doubtful
accounts of \$39,418,786

20,286,030

Government Development Bank in connection with
joint resolution 4533

2,010,256

Other, net of allowance for doubtful accounts of \$1,109,939

732,557

96,455,169

Prepaid expenses

778,362

Inventories

3,495,731

100,729,262

NON-CURRENT ASSETS:

Capital assets, net

66,815,817

Restricted cash

1,852,475

68,668,292

\$ 169,397,554

Continues...

The accompanying notes are an integral part of this statement.

PUERTO RICO MEDICAL SERVICES ADMINISTRATION

A Component Unit of the Puerto Rico Department of Health

STATEMENT OF NET ASSETS (DEFICIT)

June 30, 2009

Continued...

LIABILITIES AND NET ASSETS (DEFICIT)

CURRENT LIABILITIES:

Accounts payable	\$ 93,421,896
Accrued expenses	93,124,112
Accrued pension costs	61,747,308
Current portion of obligations under capital leases	151,459
Liabilities payable from restricted assets - improvements to medical facilities and equipment purchase	<u>4,323,416</u>
	<u>252,768,191</u>

NON-CURRENT LIABILITIES:

Long term portion of obligations under capital assets	139,771
Liabilities payable from restricted assets - Self-Insurance Fund	<u>7,641,660</u>
	<u>7,781,431</u>
	<u>260,549,622</u>

NET ASSETS (DEFICIT):

Invested in capital assets, net of related debt	66,524,587
Restricted assets	3,353
Unrestricted deficit	<u>(157,680,008)</u>
	<u>(91,152,068)</u>
	<u>\$ 169,397,554</u>

The accompanying notes are an integral part of this statement.

PUERTO RICO MEDICAL SERVICES ADMINISTRATION

A Component Unit of the Puerto Rico Department of Health

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT) For the year ended June 30, 2009

SERVICE REVENUES	<u>\$ 150,120,364</u>
OPERATING COSTS AND EXPENSES:	
Cost of services	170,022,727
General and administrative	10,233,521
Depreciation expense	7,930,345
Provision for doubtful accounts	<u>24,576,726</u>
	<u>212,763,819</u>
OPERATING LOSS	<u>(62,643,455)</u>
NON-OPERATING INCOME (EXPENSES):	
Contributions from the Commonwealth of Puerto Rico	40,177,266
Interest income and other	133,452
Tax assessment by the Treasury Department in connection with unpaid income tax withheld	(6,238,019)
Loss on sale of capital assets	(21,227)
Interest expense	<u>(4,068,228)</u>
	<u>29,983,244</u>
NET CHANGE IN NET ASSETS (DEFICIT)	(32,660,211)
NET ASSETS (DEFICIT), beginning of year	<u>(58,491,857)</u>
NET ASSETS (DEFICIT), end of year	<u>\$ (91,152,068)</u>

The accompanying notes are an integral part of this statement.

PUERTO RICO MEDICAL SERVICES ADMINISTRATION
A Component Unit of the Puerto Rico Department of Health

STATEMENT OF CASH FLOWS
For the year ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from service revenues	\$ 108,192,023
Payments to suppliers for goods and services	(30,998,050)
Payments to employees and related benefits	<u>(97,405,346)</u>
Net cash used in operating activities	<u>(20,211,373)</u>

CASH FLOWS FROM NON CAPITAL AND RELATED FINANCING ACTIVITIES:

Intergovernmental contributions	38,217,719
Payment of bank overdraft	<u>(3,864,247)</u>
Net cash provided by non capital and related financing activities	<u>34,353,472</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Intergovernmental contributions	1,959,547
Improvements to emergency room, other facilities and purchase of equipment	(5,819,807)
Principal payments of obligations under capital leases	(223,871)
Interest paid	<u>(10,327,474)</u>
Net cash used in capital and related financing activities	<u>(14,411,605)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Increase in restricted cash	(52,475)
Proceeds from notes receivable	188,532
Receipts from interest and other income	<u>133,449</u>
Net cash provided by investing activities	<u>269,506</u>

NET CHANGE IN CASH

CASH, beginning of year

CASH, end of year

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Continues....

The accompanying notes are an integral part of this statement.