

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH**

**HEALTH FACILITIES AND
SERVICES ADMINISTRATION**

**AUDITORS' REPORT AND
COMPONENT UNIT
FINANCIAL STATEMENTS**

JUNE 30, 1997 AND 1996

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Hon. Carmen Feliciano de Melecio
Secretary
Department of Health
Commonwealth of Puerto Rico
San Juan, Puerto Rico

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Health Facilities and Services Administration (the Administration) a component unit of the Department of Health of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 1997 and 1996, 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 audits.

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

We were unable to perform all necessary audit procedures over the inventory balance of the enterprise fund at June 30, 1995 stated at \$20,645,195. Any misstatement on this balance would affect the results of operations and cash flows of the enterprise fund for the year ended June 30, 1996.

As discussed in Note 1, the accompanying financial statements present only the Health Facilities and Services Administration and are not intended to present fairly the financial position of the Department of Health of the Commonwealth of Puerto Rico, and the results of its operations and the cash flows of its proprietary fund types and trust funds in conformity with generally accepted accounting principles.

In our opinion, except for the effect of any adjustment in the statements of revenues and expenses and cash flows of the enterprise fund for the year ended June 30, 1996, as might have been determined to be necessary had we been able to perform the procedures described in the third paragraph, the accompanying financial statements referred to above present fairly, in all material respects, the combined financial position of the Administration at June 30, 1997 and 1996, and the results of operations and the cash flows of the enterprise fund for the years then ended in conformity with generally accepted accounting principles.

As explained in Note 2, subsequent to the date of the accompanying financial statements, the Administration and the Department of Health had initiated an active movement toward the privatization of health facilities mostly owned by the Administration. The realizable value upon the sale or other disposition of the health facilities may be substantially different from the amounts recorded in the books at June 30, 1997. The final outcome of these actions and its effect on the accompanying financial statements and on the future operations of the Administration is uncertain at this time.

San Juan, Puerto Rico
October 17, 1997

Stamp 1465568 was affixed
to the original.

A handwritten signature in dark ink, reading "Valdes Gueis-Marin". The signature is written in a cursive, flowing style. The first name "Valdes" is written with a large, prominent 'V'. The last name "Gueis-Marin" is written in a more compact, cursive script.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

Combined Balance Sheets

ASSETS

	June 30, 1997		June 30, 1996	
	Enterprise Fund	Trust Fund	Total (memorandum only)	Total (memorandum only)
CURRENT ASSETS				
Cash	\$ 4 945 652	\$ 8 095 754	\$ 13 041 406	\$ 25 198 677
Patient receivables - net				
Medicare	9 576 853	-	9 576 853	11 853 734
Due from other third party	12 787 137	-	12 787 137	14 338 854
Estimated third party payor				
Medicare	5 452 252	-	5 452 252	10 892 113
Due from other governmental agencies	16 418 365	4 325 084	20 743 449	37 416 476
Due from trust fund	4 619 269	-	4 619 269	3 978 633
Other accounts receivable - net	25 611 322	-	25 611 322	11 969 896
Inventory of supplies	15 075 863	-	15 075 863	17 747 367
Other assets	1 480 131	-	1 480 131	1 540 759
Total current assets	95 966 844	12 420 838	108 387 682	134 936 509
RESTRICTED CASH	1 430 909	-	1 430 909	1 717 361
DUE FROM FEDERAL GOVERNMENT	6 790 177	-	6 790 177	6 511 866
PROPERTY AND EQUIPMENT, net	374 292 344	-	374 292 344	310 940 168
Total assets	\$478 480 274	\$ 12 420 838	\$490 901 112	\$454 105 904
	=====	=====	=====	=====

(Continues)

See accompanying notes to the financial statements.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

Combined Balance Sheets
(Continued)

LIABILITIES AND FUND EQUITY (DEFICIT)

	June 30, 1997		June 30, 1996	
	Enterprise Fund	Trust Fund	Total memorandum only)	Total memorandum only)
CURRENT LIABILITIES				
Current portion of long-term debt				
Loan payable	\$ 24 018 917	\$ -	\$ 24 018 917	\$ 11 885 638
Capital lease obligations	13 088 743	-	13 088 743	13 157 791
Accounts payable and accrued liabilities	56 716 033	357 518	57 073 551	70 572 857
Interest payable	36 922 174	-	36 922 174	33 077 949
Accrued compensated absences	80 382 468	-	80 382 468	74 827 388
Due to other governmental agencies	52 329 820	-	52 329 820	31 148 849
Due to enterprise fund	-	4 619 269	4 619 269	3 978 633
Total current liabilities	263 458 155	4 976 787	268 434 942	238 649 105
LONG-TERM LOAN PAYABLE	554 272 695	-	554 272 695	420 924 142
LONG-TERM CAPITAL LEASE OBLIGATIONS	315 066 720	-	315 066 720	250 587 829
DUE TO OTHER AGENCIES	34 253 986	-	34 253 986	45 672 222
Total liabilities	1 167 051 556	4 976 787	1 172 028 343	955 833 298
COMMITMENTS AND CONTINGENCIES	-	-	-	-
FUND EQUITY (DEFICIT)				
Deficit	(688 571 282)	-	(688 571 282)	(510 516 694)
Fund balance	-	7 444 051	7 444 051	8 789 300
Total fund equity (deficit)	(688 571 282)	7 444 051	(681 127 231)	(501 727 394)
Total liabilities and fund equity (deficit)	\$ 478 480 274	\$ 12 420 838	\$ 490 901 112	\$ 454 105 904

See accompanying notes to the financial statements.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

STATEMENTS OF REVENUES AND EXPENSES
OF THE ENTERPRISE FUND

	For the years ended June 30,					
	1997			1996		
OPERATING REVENUES						
Net patient service revenue						
Medicaid	\$	77	111 274	\$	86	936 815
Medicare		48	676 500		56	693 631
Revenue from other third party		59	433 852		47	375 256
Other		4	203 594		2	898 248
Premium revenue		7	434 337		12	468 954
Other		6	135 395		10	032 497
Total operating revenues		202	994 952		216	405 401
OPERATING EXPENSES						
Salaries and fringe benefits		303	134 196		315	365 322
Professional services		74	613 751		82	898 533
Inter-Agency services		66	464 864		73	462 784
Materials and supplies		73	989 213		129	278 480
Subsidies - community hospitals		80	049 177		79	434 785
Subsidies - others		12	034 839		12	041 932
Repairs and maintenance		5	806 083		6	040 258
Rent		4	246 955		13	049 980
Utilities		21	100 340		20	313 024
Bad debt expenses		23	792 723		37	042 311
Depreciation and amortization		25	944 877		21	516 015
Other		20	904 428		31	160 959
Total operating expenses		712	081 446		821	604 383
LOSS FROM OPERATIONS		(509	086 494)		(605	198 982)
NON-OPERATING REVENUES (EXPENSES)						
Federal grants		2	172 655		74	820 883
Rent and other income - net		21	689 222		18	035 830
Interest		(58	449 095)		(45	965 228)
Total non-operating revenues (expenses)		(34	587 218)		46	891 485
LOSS BEFORE OPERATING TRANSFERS		(543	673 712)		(558	307 497)
OPERATING TRANSFERS FROM						
Primary government		374	231 223		496	157 088
Department of Health			-		2	885 000
LOSS FOR THE YEAR		(\$169	442 489)		(\$59	265 409)

See accompanying notes to the financial statements.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

STATEMENTS OF CHANGES IN DEFICIT
OF THE ENTERPRISE FUND

	For the years ended June 30,	
	<u>1997</u>	<u>1996</u>
Deficit, at beginning of year as previously reported	(\$510 516 694)	(\$440 485 501)
Prior period adjustments	<u>(8 612 099)</u>	<u>(10 765 784)</u>
Deficit, at beginning of year, as restated	(519 128 793)	(451 251 285)
Loss for the year	<u>(169 442 489)</u>	<u>(59 265 409)</u>
Deficit, at end of year	(\$688 571 282)	(\$510 516 694)
	=====	=====

See accompanying notes to financial statements.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF THE TRUST FUND

	For the years ended June 30,	
	<u>1997</u>	<u>1996</u>
Revenues	\$ 140 524	\$ 186 490
Expenditures	(1 485 773)	(4 810 691)
Excess of expenditures over revenues for the year	(1 345 249)	(4 624 201)
Fund balance, at beginning of year	<u>8 789 300</u>	<u>13 413 501</u>
Fund balance, at end of the year	\$7 444 051 =====	\$ 8 789 300 =====

See accompanying notes to financial statements.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

STATEMENTS OF CASH FLOWS
OF THE ENTERPRISE FUND

	For the years ended June 30,	
	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss from operations	(\$509 086 494)	(\$605 198 982)
Adjustments to reconcile the loss from operations to the net cash used in operating activities:		
Bad debt expenses	23 792 723	37 042 311
Depreciation and amortization	25 944 877	21 516 015
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(19 460 693)	(26 133 530)
Inventory	2 671 504	2 897 828
Other assets	60 628	(119 884)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(6 943 650)	(3 843 881)
Other operating liabilities	<u>16 053 475</u>	<u>(22 987 700)</u>
Net cash used in operating activities	<u>(466 967 630)</u>	<u>(596 827 823)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Contributions from the Commonwealth of Puerto Rico	515 813 176	576 707 369
Operating grants received	1 894 344	85 185 947
Increase in due from other fund	<u>(640 636)</u>	<u>(1 217 032)</u>
Net cash provided by non- capital financing activities	<u>517 066 884</u>	<u>660 676 284</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property and equipment	(13 555 144)	(18 438 618)
Interest paid on long-term debt	(54 604 870)	(36 792 479)
Principal paid on long-term debt	<u>-</u>	<u>(16 092 873)</u>
Net cash used in capital and related financing activities	<u>(68 160 014)</u>	<u>(71 323 970)</u>

(Continues)

See accompanying notes to financial statements.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

STATEMENTS OF CASH FLOWS
OF THE ENTERPRISE FUND
(CONTINUED)

	For the years ended June 30,	
	1997	1996
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income received	\$ 831 133	\$ 1 406 418
Other income received	6 631 617	6 197 560
Net cash provided by investing activities	7 462 750	7 603 978
NET (DECREASE) INCREASE IN CASH	(10 598 010)	128 469
CASH AT BEGINNING OF YEAR	16 974 571	16 846 102
CASH AT END OF YEAR	\$ 6 376 561	\$ 16 974 571
	=====	=====

Reconciliation of cash to balance sheets of the enterprise fund

Cash in current assets	\$ 4 945 652	\$ 15 257 210
Restricted cash	1 430 909	1 717 361
	\$ 6 376 561	\$ 16 974 571
	=====	=====

Non-cash investing, capital and financing activities

In 1997 the Administration capitalized property and equipment under capital lease with an aggregate cost of approximately \$76,767,000 (\$183,293,000 in 1996).

During the year 1997, the Governmental Development Bank made an advance from a line of credit for \$196,346,084 (\$145,000,000 in 1996) to the Administration. The proceeds from these loans were deposited directly in the Department of Treasury on behalf of the Administration. In addition, the Department of Treasury made a payment to the Governmental Development Bank for the principal amount of \$50,864,252 on behalf of the Administration.

Other payments made by the Department of Treasury on behalf of the Administration in 1997 were \$12,161,886 to Public Building Authority for amortization of the capital lease obligations, \$6,000,000 to Puerto Rico Medical Services Administration and \$5,418,962 to Medical Sciences Campus of the University of Puerto Rico for the annual installment due.

The payment of \$2,885,000 in 1996 to Medical Sciences Campus of University of Puerto Rico was paid by Department of Health on behalf of the Administration.

See accompanying notes to the financial statements.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1997 AND 1996

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Health Facilities and Services Administration (the Administration) is a governmental instrumentality of the Commonwealth of Puerto Rico (the Commonwealth) created by Act No. 26 of November 13, 1975, as amended. The Administration is a component unit of the Department of Health of the Commonwealth of Puerto Rico (the Department). As a component unit of the Department, the Administration is also included as part of the Department's and Commonwealth reporting entity.

The Administration is authorized to operate independently from the Department of Treasury and empowered, among other things, to lease and operate hospitals, clinics, health care centers and any other health facilities acquired in the future and to provide for the improvements, alteration or repair of such facilities. In addition, it is empowered to borrow money and issue notes or other obligations for the purpose of financing the cost of improvements and providing health services to the general public.

As a governmental entity, the Administration is exempt from the payment of any taxes on its revenues and properties.

Basis of presentation

The Administration reports its financial position and results of operations in funds, each of which is considered an independent fiscal entity. The operations of each fund are accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and

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COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

expenditures/expenses. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The Administration has established the following fund categories:

Enterprise fund

The main financial activities of the Administration have been classified as an enterprise fund. Enterprise funds are used to account for operations that: (a) are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges, or (b) where the Commonwealth has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise fund accounts for resources devoted to financing the general services that the Administration provides to the general public. Appropriations from the Legislature of the Commonwealth of Puerto Rico, contributions from the Federal Government, billing to patients or medical plans for services rendered in the Administration's hospitals and diagnostic treatment centers and other sources of revenue, used to finance the

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COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

fundamental operations of the Administration, are included in this fund. The fund is charged with all costs of operating the Administration for which a separate fund has not been established. The fund also accounts for the monies received by the Administration from the Legislature of the Commonwealth of Puerto Rico and contributions of the Federal Government for the administration and coordination of the construction and improvements of the health and administrative facilities.

Trust fund

This specific purpose fund accounts for monies received by the Administration on a fiduciary basis to acquire certain goods or render certain services, or monies to be kept on behalf of inpatients or outpatients attended in the facilities administered by the Administration. The patient funds are used to acquire personal goods or services for specific patients.

Basis of accounting

The accrual basis of accounting is used by the enterprise fund. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash.

Regulations promulgated by the Secretary of Health establish norms for the billing, collection, deposit, accounting, control and use of funds. Pursuant to such regulations, patients admitted to an institution under the jurisdiction of the Administration, who are indigent, receive hospital and medical services free of charge, and those who are totally or partially solvent pay for the total or partial cost of such services.

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COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The modified accrual basis of accounting is followed by the trust fund. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period.

Net patient service revenue

The Administration has agreements with third-party payors that provide for payments to the Administration at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Net patient service revenues is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Administration did not maintain sufficient records to determine the amounts of charity allowances provided to indigent patients. Similarly, the absence of such records did not permit the determination of amounts relating to courtesy allowances. No attempt has been made to determine or estimate, for disclosure purposes pursuant to generally accepted accounting principles, the amounts of charity allowances.

(Continues)

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premium revenue

The Administration has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Administration receives capitation payments based on the number of HMO's participants, regardless of services actually performed by the Administration. In addition, the HMOs make fee-for-service payments to the Administration for certain covered services based upon discounted fee schedules.

Inventories

Inventories are accounted for at the lower of average cost or market. Inventories consist of drugs, medicines, provisions, and medical, surgical and other materials.

Property and equipment

Property and equipment are recorded at cost, or if donated, at fair market value at the time of donation.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Property and equipment under capital leases and leasehold improvements are amortized using the straight-line method over the shorter of, the lease term or the estimated useful life of the assets. Such amortization is included as depreciation and amortization in the financial statements.

Compensated absences

The Administration accounts for compensated absences in accordance with the provisions of Governmental Accounting Standards Board Statement No. 16 "Accounting for Compensated Absences."

(Continues)

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 90 days.

As per Law Number 156 of August 20, 1996, for fiscal years beginning on July 1, 1997, the employee will have the right to accumulate the excess of 90 days in sick leave until December 31st. of each year. The excess should be paid to the employee before March 31st. of the following year.

Use of estimates

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

Early Adoption of Accounting Principles

The management of the Administration elected the early adoption of the provisions of Governmental Accounting Standards Board Statement (GASBS) No. 27 "Accounting for Pensions by States and Local Governmental Employers" for the fiscal years ended June 30, 1997 and 1996.

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COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The GASBS No. 27 establishes standards of accounting and financial reporting for pension expenditures/expense and related 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 from June 30, 1995 and the year of adoption.

Accounting standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Administration has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

Risk management

The Administration is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, business interruption, 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 charged to the Administration's account with the Department of Treasury.

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COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Total column (Memorandum only)

Total columns on the financial statements captioned "Total Memorandum Only" are not necessary for a fair presentation of the financial statements and are presented for information purposes only. These columns are not comparable to a consolidation, accordingly, they do not present consolidated financial information since interfund eliminations have not been made.

NOTE 2 HEALTH CARE REFORM

On February 1, 1993 the Commonwealth of Puerto Rico created the Health Care Reform (Reform) with the purpose of providing citizens with a better uniform care system at reasonable costs. The Reform changed the actual functions of the Department and the Administration from health care providers to regulators and evaluators of health services provided by private administrative corporations under an unique service delivery system. The health services will be provided in physical facilities and with medical equipment rented or sold from the Department of Health as well as in privately owned health care units. The health plan has already been established in several regions and cities of Puerto Rico.

On September 5, 1996 the Legislature of Puerto Rico signed into Law the Act 190 to regulate the process of privatization of the Governmental Health Facilities as amended on July 6, 1997 (a date subsequent to the accompanying financial statements). Under Act 190, the Department of Health, the Administration and the Government Development Bank for Puerto Rico has started a plan to privatize all government owned health facilities, most of them now operated by the Administration. This privatization process is looking mainly for the sale, lease or sublease of the facilities in order to accomplish the main objective of the Health Care Reform which is to change the actual function of the Department from provider to regulator and evaluator and assume the role of promoter and procure a better health system for the people of Puerto Rico.

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COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2 HEALTH CARE REFORM (CONTINUED)

Subsequent to the date of the accompanying financial statements the Department of Health has granted ten health facilities to private sectors and will continue to do so during fiscal year 1997-1998. As a result the accompanying financial statements do not include adjustments if any that may result from the privatization of such facilities.

The Administration will continue to operate health facilities as long as such facilities are not fully privatized. Afterwards, its manpower and resources will be combined with those of the Department to complement the normative, regulatory and supervisory functions of the Department.

On July 28, 1995, as part of the Health Care Reform, the Secretary of the Department of Health of the Commonwealth of Puerto Rico signed administrative order number 99. This administrative order formalizes the transfer of various divisions and offices from the Administration to the Department.

NOTE 3 NET PATIENT SERVICE REVENUE

The Administration has agreements with third-party payors that provide for reimbursement to the Administration for services rendered by the health facilities operated by the Administration. A summary of the basis of reimbursement with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge.

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COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Inpatient nonacute services and outpatient services rates vary according to a patient classification system based on clinical, diagnostic, and other factors.

Defined capital and medical education and other pass through costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The Administration is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Administration and audits thereof by the Medicare fiscal intermediary. For the years ended on June 30, 1997 and 1996 the annual medicare cost reports have not been yet audited by the Medicare fiscal intermediary.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Administration is reimbursed at a defined rate based on previous period medicare cost report.

Blue Cross - Inpatient services rendered to Blue Cross subscribers are reimbursed at a negotiated all inclusive per diem rate. The prospectively determined per diem rates are not subject to retroactive adjustment.

Other - The Administration has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organization and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF HEALTH
HEALTH FACILITIES AND SERVICES ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS

NOTE 4 CASH

The Administration is authorized to deposit only in institutions approved by the Department of Treasury of the Commonwealth of Puerto Rico, and such deposits should be kept in separate accounts in the name of the Administration. The Administration's deposits as of June 30, 1997 in commercial banks were entirely covered by Federal depository insurance or by collateral held by the Puerto Rico Department of Treasury in the Department's name. The amounts deposited in the Government Development Bank, an internal service fund of the Commonwealth of Puerto Rico, are uncollateralized.

The Administration's cash deposits and the respective risk category as of June 30, 1997 are as follows:

	<u>Bank Balance</u>	<u>Carrying amount</u>	<u>Credit risk category</u>	<u>1</u>	<u>2</u>	<u>3</u>
Unrestricted cash	\$22 949 488	\$13 041 406	\$22 949 488	\$ -	\$ -	
Restricted cash	1 430 909	1 430 909	-	-		1 430 909

Following is a description of the categories of credit risk:

<u>Category</u>	<u>Description</u>
1	The deposits are collateralized by Federal Deposit Insurance Corporation or collateralized by securities pledged with the Department of Treasury of the Commonwealth of Puerto Rico in the Administration's name.
2	The deposits are collateralized by securities held by the pledging financial institution's trust department or agent in the Administration's name.
3	The deposits are uncollateralized.

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NOTES TO FINANCIAL STATEMENTS

NOTE 5 ACCOUNTS RECEIVABLE

A. Patient receivable:

Patient receivable consisted of the following at June 30, 1997 and 1996.

	<u>1997</u>		<u>1996</u>	
	Due from other third party	Medicare	Due from other third party	Medicare
Current amount	\$29 044 620	\$12 735 137	\$23 898 090	\$15 322 772
Allowance for doubtful accounts	<u>(16 257 483)</u>	<u>(3 158 284)</u>	<u>(9 559 236)</u>	<u>(3 469 038)</u>
Patient receivable - net	\$12 787 137	\$ 9 576 853	\$14 338 854	\$11 853 734
	=====	=====	=====	=====

B. Other accounts receivable:

Other accounts receivable consisted of the following at June 30, 1997 and 1996:

	<u>1997</u>	<u>1996</u>
Institutions under Health Reform	\$63 544 267	\$23 472 185
Other claims	<u>3 805 153</u>	<u>3 880 280</u>
	67 349 420	27 352 465
Allowance for doubtful accounts	<u>(41 738 098)</u>	<u>(15 382 569)</u>
	\$25 611 322	\$11 969 896
	=====	=====

For 1997 and 1996 management decided to provide for bad debts using the allowance method based on historical experience and management's evaluation of outstanding accounts receivable.

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NOTES TO FINANCIAL STATEMENTS

NOTE 5 ACCOUNTS RECEIVABLE (CONTINUED)

Of the total bad debt expense for 1997 amounting to \$49,638,333 (\$50,045,306, in 1996), \$23,792,723 (\$37,042,311 in 1996) have been recorded as bad debt expense and \$25,845,610 (\$13,002,995 in 1996) have been reduced, as an allowance for possible uncollectibles from rent and other income caption that accounts among others, for the non-operating revenues resulting from the privatization of hospital and facilities under the Health Reform in the accompanying statement of revenues and expenses of enterprise fund. Total bad debt expense for 1996 amounting to \$37,042,311 includes \$21,141,861 corresponding to accounts outstanding at June 30, 1995 for which no allowance was made at that time.

NOTE 6 PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30, 1997 and 1996 are as follows:

	<u>1997</u>	<u>1996</u>	Estimated Useful life
Land and buildings	\$358 759 613	\$314 445 540	25 to 30 yrs.
Machinery and equipment	122 006 258	93 503 460	5 to 20 yrs.
Motor vehicles	12 169 355	12 115 112	4 to 12 yrs.
Leasehold improvements	<u>88 492 330</u>	<u>77 055 727</u>	20 to 25 yrs.
	581 427 556	497 119 839	
Less accumulated depreciation and amortization	<u>207 135 212</u>	<u>186 179 671</u>	
Property and equipment, net	\$374 292 344 =====	\$310 940 168 =====	

NOTE 7 DUE FROM FEDERAL GOVERNMENT

The balance due from Federal Government represents an excess of expenses over cash receipts for grants that require monies to be used for specified purposes. Generally, due from balances are caused by differences in the timing of cash receipts and expenses that will be reversed in the next fiscal year. Effective on October 1, 1995 all federal programs were transferred to the Department of Health of the Commonwealth of Puerto Rico. Refer to Note 14.

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NOTES TO FINANCIAL STATEMENTS

NOTE 8 LONG-TERM DEBT

Long-term debt as of June 30, 1997 and 1996 consists of following:

	<u>1997</u>	<u>1996</u>
A. Long-term debt to Governmental Development Bank for the amount of \$364,150,000 on December 8, 1992, payable in seven (7) consecutive contractual annual installments, commencing on July 1, 1993; bearing 8% annual interest rate, payable in July 1 of each fiscal year. On August 9, 1995 the Administration restructured and refinanced the long-term debt balance of \$298,815,000. The new annual installment payment was reduced to \$34,910,420 (principal and interest) and extends the due date from fiscal year 2000 to 2010.	\$276 804 560	\$287 809 780
B. 8% long-term debt to Governmental Development Bank, for the amount of \$145,000,000 on June 27, 1996 payable in ten (10) annual installments commencing on July 1, 1997 plus interest through July 1, 2006. On June 25, 1997 the Administration obtained an additional \$200,000,000 under the terms of this loan.	<u>301 487 052</u>	<u>145 000 000</u>
	578 291 612	432 809 780
Less current portion	<u>24 018 917</u>	<u>11 885 638</u>
	\$554 272 695	\$420 924 142
	=====	=====

(Continues)

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NOTES TO FINANCIAL STATEMENTS

NOTE 8 LONG-TERM DEBT (CONTINUED)

The scheduled contractual principal payments on long-term debt as of June 30, 1997 for the next five years and thereafter are as follows:

<u>June 30,</u>	<u>Amounts</u>
1998	\$ 24 018 917
1999	39 863 401
2000	43 240 965
2001	46 700 242
2002	50 436 262
Thereafter	<u>374 031 825</u>
	\$578 291 612
	=====

NOTE 9 CAPITAL LEASE OBLIGATIONS

The Administration is the lessee of various real and personal properties under capital leases with the Public Building Authority (lessor) expiring in different years through 2025. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The buildings and equipment are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for 1997 and 1996.

The lessee and lessor are both instrumentalities of the Commonwealth of Puerto Rico. Leased health facilities were constructed by the Public Buildings Authority and include land, buildings, and medical equipment in Regional Hospitals and Centers for Diagnosis and Treatment throughout Puerto Rico.

(Continues)

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NOTES TO FINANCIAL STATEMENTS

NOTE 9 CAPITAL LEASE OBLIGATIONS (CONTINUED)

Annual lease payments are currently fixed, but are subject to change, as deemed necessary by the Executive Director of the Public Buildings Authority.

Scheduled minimum lease payments on capital lease obligations as of June 30, 1997 for the next five years and thereafter follows:

<u>June 30,</u>	<u>Amounts</u>
1998	\$ 56 787 514
1999	48 538 908
2000	48 473 346
2001	48 481 232
2002	48 651 789
Thereafter	<u>642 537 423</u>
	893 470 212
Less amount representing executory costs under capital leases	<u>222 821 302</u>
Net minimum lease payments	670 648 910
Less amount representing interest	<u>342 493 447</u>
Present value of net minimum lease payments and obligation under capital lease	328 155 463
Less current portion	<u>13 088 743</u>
	\$315 066 720 =====

(Continues)

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NOTES TO FINANCIAL STATEMENTS

NOTE 9 CAPITAL LEASE OBLIGATIONS (CONTINUED)

Total interest imputed at the fluctuating rate from 5% to 10% charged to operations under the aforementioned leases amounted to \$25,195,753 and \$21,782,597 for the years ended June 30, 1997 and 1996, respectively.

Property and equipment in the accompanying combined balance sheets include the following leased property under capital leases by major classes as of June 30, 1997 and 1996:

	<u>1997</u>	<u>1996</u>
Land and buildings	\$358 759 613	\$314 445 540
Machinery and equipment	<u>52 190 572</u>	<u>19 737 040</u>
	410 950 185	334 182 580
Less accumulated amortization	<u>146 198 186</u>	<u>129 201 276</u>
	\$264 751 999	\$204 981 304
	=====	=====

Amortization expense under the aforementioned leases amounted to \$15,971,214 and \$12,055,444 for the years ended June 30, 1997 and 1996, respectively.

Land under lease agreements is less than 25% of the total real estate leased and is, therefore, amortized over the lease term of 30 years as a single unit along with buildings. Machinery and equipment are amortized over an estimated useful life of 10 years.

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NOTES TO FINANCIAL STATEMENTS

NOTE 10 DUE TO OTHER AGENCIES

The balance due to other agencies as of June 30, 1997 and 1996 consist of the following:

	<u>1997</u>	<u>1996</u>
Medical Sciences Campus of University of Puerto Rico	\$21 671 496	\$27 090 458
Puerto Rico Medical Service Administration	52 213 692	42 661 940
Puerto Rico Department of Education	3 200 214	-
Cardiovascular Center of Puerto Rico and Caribbean	4 628 274	-
Puerto Rico Electric Power Authority	1 868 685	4 269 015
Commonwealth Employee Association	1 568 125	1 428 385
Puerto Rico Department of Labor	195 430	195 471
Puerto Rico Telephone Company	478 067	748 413
Puerto Rico Water and Sewer Authority	152 282	254 444
State Insurance Fund Corporation	73 431	59 696
Puerto Rico General Services Administration	144 048	17 754
Agricultural Services Administration	219 349	56 116
Puerto Rico Department of Treasury	<u>170 713</u>	<u>39 379</u>
	86 583 806	76 821 071
Less current portion	<u>52 329 820</u>	<u>31 148 849</u>
	\$34 253 986	\$45 672 222
	=====	=====

(Continues)

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NOTES TO FINANCIAL STATEMENTS

NOTE 10 DUE TO OTHER AGENCIES (CONTINUED)

On August 23, 1994, the Administration signed an agreement with the Medical Science Campus of the University of Puerto Rico (MSC) in relation to the Pediatric Hospital. The agreement stipulates that the MSC will transfer to the Administration all the inventory (drug, supplies and others) and equipment on hand as of March 2, 1993. The Pediatric Hospital was administered by the MSC from 1982 to March 1993. During these years the costs of indigent patients were greater than the amount assigned to the MSC for this purpose. As a result, an operational deficit of \$17,305,645 was accumulated which the Administration has agreed to absorb and pay in six annual installments of \$2,884,274, due in June 30 of each year, starting on June 30, 1996.

On May 1, 1996 the Administration signed a new agreement with the MSC related with medical and health services rendered until June 30, 1995. The agreement stipulates that the Administration has agreed to pay the total amount of \$12,669,810 in five annual installments of \$2,533,962 due in July 1, of each year, starting on July 1, 1996.

Also, the Administration has agreed with MSC to advance \$1,500,000 twice a month. This amount is applied to medical and hospital services to be rendered by MSC during the year. In July, subsequent to end of fiscal year, both parties shall reconcile the services rendered with the payments and the difference, if any, will be liquidated by the corresponding party.

The Administration accumulated debts for the years 1988 to 1994 to the Puerto Rico Medical Service Administration (PRMSA) in the amount of \$39,516,000. PRMSA is a governmental instrumentality of the Commonwealth of Puerto Rico, and a component unit of the Department. PRMSA provides auxiliary and ancillary medical services, and commercial and administrative services to some hospitals of the Administration. On March 2, 1995, the Administration signed

(Continues)

COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS

NOTE 10 DUE TO OTHER AGENCIES (CONTINUED)

an agreement with PRMSA to pay \$3,516,288, as a down payment, and six annual installments of \$6,000,000 for services provided to the Administration during years 1988 to 1994. The annual installment is due in July 1, commencing on July 1, 1995. The total amount due under this agreement at June 30, 1997 was \$24,000,000.

The Administration also makes quarterly advances to PRMSA for the services rendered. At the end of each fiscal year both instrumentalities have to reconcile the services rendered with the payments and the difference, if any, will be liquidated by corresponding party.

The schedule of contractual payments on amounts due to other agencies for the next four years follows:

<u>June 30,</u>	<u>Amounts</u>
1998	\$52 329 820
1999	11 418 236
2000	11 418 236
2001	<u>11 417 514</u>
	\$ 86 583 806
	=====

NOTE 11 PENSION PLAN

The Employee's Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Administration under age 55 at the date of employment become members of the System as a condition to their employment.

(Continues)

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NOTES TO FINANCIAL STATEMENTS

NOTE 11 PENSION PLAN (CONTINUED)

The System provides retirement, death and disability benefits pursuant to Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained age of at least fifty-eight (58) years 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 one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2 percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least thirty 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 or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

(Continues)

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NOTES TO FINANCIAL STATEMENTS

NOTE 11 PENSION PLAN (CONTINUED)

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the salary in excess of \$550. The Administration's contributions are 9.275% of gross salary. Total employee and employer contributions during the year ended June 30, 1997 amounted to approximately \$14,315,000 (\$12,135,000 in 1996) and approximately \$17,158,000 (\$14,818,000 in 1996), respectively. Total payroll covered for the year was approximately \$175,513,000 (\$169,964,000 in 1996).

For the two preceding fiscal years the Administration contributed approximately \$18,123,000 and \$15,364,000, in 1996 and 1995, respectively, which represented 100% of required contributions.

No pension liability or asset was recorded at the beginning of the year measured in accordance with SGAS 27. Prior to the adoption of SGAS 27 at the beginning of this fiscal year no pension liability or asset was reported.

Additional information on ERS is provided in its financial statements for the year ended June 30, 1997, a copy of which can be obtained from Mr. Andrés Barbeito, Administrator, Retirement System Administration, PO Box 42003, San Juan, Puerto Rico 00949.

NOTE 12 PRIOR PERIOD ADJUSTMENT

During 1996, the Administration changed its method of accounting for certain lease contracts to conform with the requirements of the Financial Accounting Standards Board. Leases that had previously been accounted for as operating leases and that met certain criteria were classified as capital leases, and the related property and lease obligations were recorded as assets and liabilities. The effect of capitalizing these contracts was to increase the deficit at the beginning of 1997 by \$829,820 (\$19,748,070 in 1996).

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NOTES TO FINANCIAL STATEMENTS

NOTE 12 PRIOR PERIOD ADJUSTMENT (CONTINUED)

In addition, the deficit at the beginning of 1997 and 1996 has been adjusted to correct various accruals made before 1996 and 1995 and the amount due from Federal Government. The net effect of the adjustment was to increase the deficit by \$5,128,222 (\$1,590,172 decrease in 1996).

The deficit balance at the beginning of 1997 has been also adjusted to correct an accounting error in 1996 regarding the estimated receivable from third party payor settlements for Medicare in the amount of \$2,654,057. The effect of the correction of this error was to increase the deficit at beginning of the year by \$2,654,057 in 1997 (decrease by \$7,392,114 in 1996).

NOTE 13 COMMITMENTS

- A. The Administration leases certain facilities and equipment under various leases treated as operational lease contracts. Total rental expense under operating leases amounted to approximately \$4,247,000 for the year ended June 30, 1997 (\$13,050,000 in 1996).

Future commitments under existing non-cancelable operating lease agreements for facilities and equipment as of June 30, 1997 are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Minimum lease payments</u>
1998	\$ 1 948 741
1999	1 652 890
2000	295 766
2001	81 849
2002	31 690
Thereafter	<u>405 384</u>
	\$ 4 416 320
	=====

(Continues)

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NOTES TO FINANCIAL STATEMENTS

NOTE 13 COMMITMENTS (CONTINUED)

- B. Both the Department and the Administration, as part of the Health Care Reform has entered into various lease agreement as lessors for certain property which consists principally of health facilities. The Health Care Reform contemplates the privatization of health facilities that have been partially completed in the following regions:

<u>Region</u>	<u>Date</u>
North-east	November 1994
South-east	May and August 1996
North	July 1996
Central	May 1996
North-west	July 1996

On October 8, 1997, subsequent to the accompanying financial statements, the Department and the Administration had to recover the health facilities of nine institutions which were not being administer according to contracted terms.

NOTE 14 CONTINGENCIES

Litigation

The Administration is a defendant and co-defendant in numerous lawsuits arising from normal operations as reported by the Secretary of Justice of the Commonwealth of Puerto Rico. These cases are for breach of contract, torts and salary claims. Preliminary hearings and discovery proceedings are in progress. In the opinion of the Administration's legal counsel, it is not possible to predict at this time the extent of the Administration's liability, if any.

(Continues)

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NOTES TO FINANCIAL STATEMENTS

NOTE 14 CONTINGENCIES (CONTINUED)

The Secretary of Justice of the Commonwealth of Puerto Rico reports that numerous lawsuits have been filed against the Administration, but that according to the laws of Puerto Rico, the Administration is fully represented by the Department of Justice in the defense of these cases, and any successful claims would be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the functional budget of the Administration. Accordingly, the Administration has not made a reserve for the settlement of such claims.

Federal and State Programs

The Administration participated in numerous Federal and State assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. As of June 30, 1997, the audits of certain grant programs have not been completed. Accordingly, the Administration's compliance with applicable grant requirements will be determined at a later date. In the opinion of the management of the Administration, expected disallowance will not have a material effect on the financial statements as of June 30, 1997. Effective October 1, 1995 all federal programs were transferred to the Department of Health for its administration. Refer to Note 7.

WIC Program

In August 1994, the Department of Health Internal Audit Division and the Federal Agriculture Department Audit Division, started an evaluation of the internal compliance and special requirements governing the WIC Program. In addition, the audit divisions investigated the price list of food products and the acquisition of nutrition food of participants with the vendors. On September 8, 1995, the Department accepted the final result of charging indirect cost based on an expired rate from Food and Consumer Service. The settlement required the Administration to pay \$3,094,588 (\$2,913,823 principal and \$180,765 in interest) in two installments of \$1,037,250 (August 1995 and 1996) and a last payment of \$1,020,088 in 1997.

(Continues)

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NOTES TO FINANCIAL STATEMENTS

NOTE 14 CONTINGENCIES (CONTINUED)

Line of credit

On May 4, 1994 the Administration entered into a revolving line of credit agreement with the Government Development Bank for Puerto Rico which provides for borrowings up to a maximum of \$200,000,000 through June 30, 1997. During 1997 the line of credit available was increased to \$332,000,000. Borrowings outstanding under this revolving line of credit bear variable interest and are payable quarterly before the tenth (10) day of July, October, January and April. Advances under the revolving line of credit are made only upon the authorization of the Director of the Office of Management and Budget of the Commonwealth of Puerto Rico. The line of credit is guaranteed by a note payable for the same amount and it will be used solely for the purpose of implementing the Health care Reform. As of June 30, 1997, \$329,461,755 were outstanding on this line, with an interest rate of 6.75%. In the opinion of the management of the Administration, this line of credit does not constitute a debt of the Administration and is not reflected in the accompanying financial statements. The Administration has not been called to make any direct payment on this line of credit.

NOTE 15 CONCENTRATION OF CREDIT RISK

In addition to cash secured by collateral as described in Note 4, another financial instrument that potentially subjects the Administration to a concentration of credit risk is its accounts receivable.

The Administration provides health services to patients located in Puerto Rico. The Administration grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

NOTE 16 RECLASSIFICATIONS

Several accounts in the 1996 financial statements were reclassified to conform with the 1997 financial statements presentation.