

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Puerto Rico Medical Services Administration (the Administration), a component unit of the Puerto Rico Department of Health (the Department), as of June 30, 2011 and 2010, 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 audits.

We conducted our audits 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph presents fairly, in all material respects, the financial position of Puerto Rico Medical Services Administration as of June 30, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a separated report date November 1, 2011 on our consideration of the Administration's Internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

TRUST *worthy*

www.fpvgalindez.com | PO Box 364152, San Juan, PR 00936-4152  
Phone 787.725.4545 | 787.764.5049 Fax 787.724.5802 | 787.764.0528



Board of Member Institutions of  
Puerto Rico Medical Services Administration  
Page 2

As described in Note 10, 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 entities adhered to the Commonwealth of Puerto Rico.

As described in Note 13, 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, 2011 and 2010, the Administration has a total deficit of \$182,463,948 and \$181,941,920, respectively, and a deficiency in working capital of \$43,832,250 and \$237,857,093, respectively. The Administration's operations will depend on obtaining additional contributions from the Secretary of the Puerto Rico Department of Health and 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 14, the accompanying financial statements as of June 30, 2011 and 2010 include accounts receivable aggregating \$34,724,459 and \$24,257,830, respectively, from the Hospital of the Municipality of San Juan, related to medical services rendered by the Administration to the Municipality of San Juan (the Municipality), covering inpatient and outpatient services, laboratory, pharmacy, general services and other ancillary services billed to the Municipality. The ultimate collectability of this account receivable is dependent upon future review and acceptance between the Administration and the Municipality, and as such, cannot be determined as this time. A provision to cover 50% of the uncollectability of this receivable has been made in the accompanying financial statements.

As discussed in Note 1, the accompanying financial statements present only the financial position and transactions attributable to the Administration. They do not intent to present the financial position and transactions of the Puerto Rico Department of Health in conformity with the accounting principles generally accepted in the United States of America.

Board of Member Institutions of  
Puerto Rico Medical Services Administration  
Page 3

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries to management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other information and knowledge that we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

2630235



*FPV & Galindez*

San Juan, Puerto Rico  
November 1, 2011

TRUST *worthy*