Puerto Rico Medical Services Administration
(A Component Unit of the
Commonwealth of Puerto Rico)

Basic Financial Statements, Required Supplementary Information and
Supplemental Schedule of Expenditures of Federal Awards
EIN 66-0433853

Year Ended June 30, 2025

Table of Contents

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of the business-type activities of the Puerto Rico Medical Services Administration (the Administration), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Puerto Rico Medical Services Administration, as of June 30, 2025 and 2024, and the respective changes in net position (deficit), and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Puerto Rico Medical Services Administration, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

Uncertainty about Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Administration will continue as a going concern. As discussed in Note 15 to the financial statements, as of June 30, 2025 and 2024, the Administration has suffered recurring losses from operations, negative cash flow from operations, and has a net deficiency, among other financial and operational factors. These conditions raise substantial doubt about the Administration's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 15. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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Restatement of Net Position

As discussed in Note 18 to the financial statements, the 2024 financial statements have been restated to correct misstatements related to depreciation expense that was calculated for equipment recorded in the equipment clearing account for various years, therefore, not depreciated despite the fact that it was in use during previous years.

New Accounting Standard

As discussed in Note 18 to the financial statements, in 2025 the Administration adopted Governmental Accounting Standards Board Statement No. 101 *Compensated Absences.*

Services to Member Institutions and Medical Indigent Population

As described in Note 13 to the financial statements, 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.

Puerto Rico Department of Health

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

Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Puerto Rico Medical Services Administration's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Puerto Rico Medical Services Administration's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Puerto Rico Medical Services Administration's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of the Administration's proportionate share of collective total pension liability and the total other postemployment benefits (OPEB) collective liability, as listed on the table of contents, be presented to supplement the basic financial statements.

Such information is the responsibility of management and, 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 of 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 knowledge 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2025, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

<u>Other Reporting Required by *Government Auditing Standards*</u>

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2026 on our consideration of Puerto Rico Medical Services Administration's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Puerto Rico Medical Services Administration's internal control over financial reporting and compliance.

DLLC322-1954
Puerto Rico Medical Services Administration

San Juan, Puerto Rico
February 19, 2026
License No. LLC-322
Expires December 1, 2026

The following discussion and analysis of the Puerto Rico Medical Services Administration (the Administration) provides an overview of the Administration's financial performance during the years ended June 30, 2025 and 2024. Please read it in conjunction with the basic financial statements, which follow this section.

Financial Highlights

- The Administration's net position (deficit) as of June 30, 2025 and 2024 amounted to approximately ($681) and ($637) million, respectively, reflecting a deficit increase of approximately $44 million.

- Current assets had a net decrease of approximately $5 million when compared to 2024 balances.

- Net capital assets had a net increase of approximately $14 million when compared to 2024 balances.

- Other non-current assets had a net decrease of approximately $18 million when compared to 2024 balances.

- Deferred outflows of resources decreased by approximately $14 million in fiscal year 2024.

- Current liabilities had a net increase of approximately $36 million when compared to 2024 balances.

- Non-current liabilities had a net decrease of approximately $13 million when compared to 2024 balances.

- Deferred inflows of resources decreased by approximately $2 million in fiscal year 2025.

- During the years ended June 30, 2025 and 2024, the Administration experienced operating income (losses) of approximately ($141) million and $162 thousand, respectively.

- Note 15 to the financial statements provides information regarding the Administration's going concern uncertainty.

- During the years ended June 30, 2025 and 2024, the Administration received approximately $102 million and $95 million, respectively, in contributions from the Commonwealth of Puerto Rico for the payment of new recruitments, payroll contributions, purchase of equipment, building improvements and other operating expenses. Also, during the years ended June 30, 2025 and 2024, $6 million and $2 million, respectively, were received for capital contributions.

Required Financial Statements

The required basic financial statements of the Administration consist of:

1. Statement of net position (deficit) – The statement of net position (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 position (deficit) – This statement measures the results of the Administration's operations and can be used to determine whether the Administration has successfully recovered operating costs and expenses through services revenues, contributions, and other non-operating income.

3. Statement of cash flows – This statement reports cash receipts, cash payments, and net changes resulting from operating, investing, and capital and non-capital related financing activities.

Statements of Net Position

The Administration's statements of net position as of June 30, 2025 and 2024 consisted of (in thousands):

	2025	2024 (As restated)	Increase (Decrease)	%
Current assets	$ 26,231	$ 31,179	$ (4,948)	-16%
Non-current assets:				
Capital assets, net	98,334	84,123	14,211	17%
Noncurrent assets	74,994	93,578	(18,584)	-20%
	173,328	177,701	(4,373)	-2%
Total assets	199,559	208,880	(9,321)	-4%
Deferred outflows of resources	24,423	38,826	(14,403)	-37%
Current liabilities	316,267	280,297	35,970	13%
Non-current liabilities	588,322	601,743	(13,421)	-2%
Total liabilities	904,589	882,040	22,549	3%
Deferred inflows of resources	652	2,924	(2,272)	-78%
Net position:				
Net investment in capital assets	94,966	82,553	12,413	15%
Restricted	60,631	85,370	(24,739)	-29%
Unrestricted (deficit)	(836,856)	(805,181)	(31,675)	-4%
Total net position (deficit)	$ (681,259)	$ (637,258)	$ (44,001)	-7%

Statements of Net Position – (continued)

The Administration's statements of net position as of June 30, 2024 and 2023 consisted of (in thousands):

	2024 (As restated)	2023	Increase (Decrease)	%
Current assets	$ 31,179	$ 40,238	$ (9,059)	-23%
Non-current assets:				
Capital assets, net	84,123	78,836	5,287	7%
Noncurrent assets	93,578	92,978	600	1%
Other non-current assets	177,701	171,814	5,887	3%
Total assets	208,880	212,052	(3,172)	-1%
Deferred outflows of resources	38,826	88,310	(49,484)	-56%
Current liabilities	280,297	239,720	40,577	17%
Non-current liabilities	601,743	722,194	(120,451)	-17%
Total liabilities	882,040	961,914	(79,874)	-8%
Deferred inflows of resources	2,924	46,542	(43,618)	-94%
Net position:				
Net investment in capital assets	82,553	78,643	3,910	5%
Restricted	85,370	78,420	6,950	9%
Unrestricted (deficit)	(805,181)	(865,157)	59,976	7%
Total net position (deficit)	$ (637,258)	$ (708,094)	$ 70,836	10%

Statements of Net Position – (continued)

The decrease in current assets as of June 30, 2025, consisted of (in thousands):

	2025	2024	Increase (Decrease)	%
Unrestricted cash	$ 2,446	$ 4,728	$ (2,282)	-48%
Receivable from member institutions and private insurances	15,473	20,454	(4,981)	-24%
Accounts receivable others	4,315	1,489	2,826	190%
Inventories	3,997	3,652	345	9%
Prepaid expenses	-	856	(856)	-100%
	$ 26,231	$ 31,179	$ (4,948)	-16%

The decrease in current assets as of June 30, 2024, consisted of (in thousands):

	2024	2023	Increase (Decrease)	%
Unrestricted cash	$ 4,728	$ 10,692	$ (5,964)	-56%
Receivable from member institutions and private insurances	20,454	22,915	(2,461)	-11%
Accounts receivable others	1,489	2,385	(896)	-38%
Inventories	3,652	3,556	96	3%
Prepaid expenses	856	690	166	24%
	$ 31,179	$ 40,238	$ (9,059)	-23%

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Statements of Net Position – (continued)

The net decrease in accounts receivable from member institutions, private insurances and Medicare consisted of the following activity during the years ended June 30, 2025 and 2024 (in thousands):

June 30, 2025

	Member Institutions	Private Insurance	Total
Gross services revenues	$ 81,034	$ 97,000	178,034
Revenue accounts reclassification	(3,790)	3,790	-
Contractual adjustments current	(1,982)	(46,256)	(48,238)
Collections from prior years	-	(1,159)	(1,159)
Non cash transactions	20,340	-	20,340
Provision for bad debt expense	(3,575)	(16,801)	(20,376)
Collections	(94,824)	(38,758)	(133,582)
	$ (2,797)	$ (2,184)	$ (4,981)

June 30, 2024

	Member Institutions	Private Insurance	Total
Gross services revenues	$ 79,890	$ 90,432	$ 170,322
Revenue accounts reclassification	(578)	578	-
Contractual adjustments current	(2,183)	(44,636)	(46,819)
Collections from prior years	-	(918)	(918)
Non cash transactions	22,980	-	22,980
Provision for bad debt expense	-	(11,772)	(11,772)
Collections	(101,638)	(34,616)	(136,254)
	$ (1,529)	$ (932)	$ (2,461)

The decrease of $4.9 million in accounts receivable in fiscal year 2025 is mainly due to collections and billing from member institutions and health plans during the fiscal year.

The decrease of $2.5 million in accounts receivable in fiscal year 2024 is mainly due to collections and billing from member institutions and health plans during the fiscal year.

Statements of Net Position – (continued)

Non-Current Assets - Capital Assets

As of June 30, 2025:

Description	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Capital assets not being depreciated	$ 6,872	$ -	$ -	$ 6,872
Capital assets being depreciated	262,576	29,023	(12,331)	279,268
Accumulated depreciation	(185,325)	(14,812)	12,331	(187,806)
Capital assets being depreciated, net	77,251	14,211	-	91,462
Capital assets, net	$ 84,123	$ 14,211	$ -	$ 98,334

As of June 30, 2024:

Description	Balance June 30, 2023 (As restated)	Increase	Decrease	Balance June 30, 2024
Capital assets not being depreciated	$ 6,872	$ -	$ -	$ 6,872
Capital assets being depreciated	245,132	17,444	-	262,576
Accumulated depreciation	(174,845)	(10,480)	-	(185,325)
Capital assets being depreciated, net	70,287	6,964	-	77,251
Capital assets, net	$ 77,159	$ 6,964	$ -	$ 84,123

The increase in capital assets during the years ended June 30, 2025 and 2024, is mainly because acquisitions of equipment and building improvements exceeded depreciation expense. Also, in recent fiscal years the Administration has received funds for the capital improvements of the healthcare facilities.

Statements of Net Position – (continued)

Liabilities

Current Liabilities

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

	2025	2024 (As restated)	Increase (Decrease)	%
Due to other governmental entities	$ 19,289	$ 20,641	$ (1,352)	-7%
Accounts payable	36,295	34,965	1,330	4%
Accrued expenses	3,054	2,743	311	11%
Medicare settlement payable	2,320	1,180	1,140	100%
Accrued interest	206,184	179,887	26,297	15%
Total pension liability	23,434	22,919	515	2%
Total other post employment benefit	989	1,036	(47)	-5%
Current portion of compensated absences	10,716	10,491	225	2%
Current portion of voluntary termination benefits	1,174	1,651	(477)	-29%
Liabilities payable from restricted assets	6,407	3,649	2,758	76%
Unearned revenue	5,223	619	4,604	744%
Lease liability	187	100	87	87%
Subscription liability	995	416	579	100%
	$ 316,267	$ 280,297	$ 35,970	13%

The increase of $26 million in accrued interest was mainly because the Commonwealth of Puerto Rico did not make the payment corresponding to the Government Development Bank (GDB) line of credit on this year. There was a decrease in the interest rate from 10% to 9%.

The increase in unearned revenue of $4.6 million is due to $3.5 million received from the Coronavirus State and Local Fiscal Recovery Funds – ARP Act and $1.1 million from the Disaster Grants – Public Assistance for the purchase of equipment.

Increase in the Medicare settlement payable of $1.1 million is due to the overpayments made by Medicare for Uncompensated Care for hospitals serving a high indigent medical population.

Statements of Net Position – (continued)

Current Liabilities – (continued)

	2024 (As restated)	2023	Increase (Decrease)	%
Due to other governmental entities	$ 20,641	$ 19,054	$ 1,587	8%
Accounts payable	34,965	27,479	7,486	27%
Accrued expenses	2,743	3,170	(427)	-13%
Medicare settlement	1,180	-	1,180	100%
Accrued interest	179,887	151,691	28,196	19%
Total pension liability	22,919	23,207	(288)	-1%
Total other post employment benefit	1,036	1,065	(29)	-3%
Current portion of compensated absences	10,491	7,446	3,045	41%
Current portion of voluntary termination benefits	1,651	2,293	(642)	-28%
Liabilities payable from restricted assets	3,649	3,809	(160)	-4%
Unearned revenue	619	1	618	61800%
Lease liability	100	120	(20)	-17%
Subscription liability	416	385	31	8%
	$ 280,297	$ 239,720	$ 40,577	17%

On October 13, 2023, the Oversight Board approved the Administration's proposed compensation plan to implement the new market-based salary structure, which increases the salaries of job classes in the Administration to better align with comparable jobs in the local labor market. The total cost of implementation of the Administration's new compensation plan is $11 million. Fiscal year 2024 increased in accounts payable of $7 million was mainly due to the accumulation of the $4.3 million of retroactive salary increased related to the above-mentioned compensation plan.

The increase of $28 million in accrued interest was mainly because the Commonwealth of Puerto Rico did not make the payment corresponding to the Government Development Bank (GDB) line of credit this year and there was an increase in the interest rate from 9.75% to 10%.

Statements of Net Position – (continued)

Non-Current Liabilities

The decrease in non-current liabilities as of June 30, 2025, consisted of (in thousands):

	2025	2024 (As restated)	Increase (Decrease)	%
Government Development Bank of Puerto Rico line of credit in connection with Law #66 of June 22, 1978, as amended	$ 282,448	$ 282,448	$ -	0%
Total pension liability	287,527	300,319	(12,792)	-4%
Total other postemployment benefit liability	7,427	8,249	(822)	-10%
Compensated absences, net of current portion	5,837	5,802	35	1%
Voluntary termination benefits, net of current portion	954	2,014	(1,060)	-53%
Liabilities payable from restricted assets - Self insurance fund	1,740	1,769	(29)	-2%
Leases liability, net of current portion	575	79	496	628%
Subscription liability, net of current portion	1,814	1,063	751	100%
	$ 588,322	$ 601,743	$ (13,421)	-2%

The decrease in total pension and OPEB liabilities of $13,614 million is related mainly to the increase in the GASB No. 73 and 75 discount rates.

Decrease in Voluntary termination benefits, Law No. 211, was mainly due to benefits payment of $1,060 million.

Statements of Net Position – (continued)

Non-Current Liabilities – (continued)

The decrease in non-current liabilities as of June 30, 2024, consisted of (in thousands):

	2024 (As restated)	2023	Increase (Decrease)	%
Government Development Bank of Puerto Rico line of credit in connection with Law #66 of June 22, 1978, as amended	$ 282,448	$282,448	$ -	0%
Total pension liability	300,319	419,212	(118,893)	-28%
Total other postemployment benefit liability	8,249	8,936	(687)	-8%
Compensated absences, net of current portion	5,802	4,748	1,054	22%
Voluntary termination benefits, net of current portion	2,014	3,531	(1,517)	-43%
Liabilities payable from restricted assets - Self insurance fund	1,769	1,766	3	0%
Leases liability, net of current portion	79	74	5	7%
Subscription liability, net of current portion	1,063	1,479	(416)	-28%
	$ 601,743	$722,194	$ (120,451)	-17%

The decrease in total pension liability of $118,893 million is related mainly to the increase in the GASB No. 73 discount rate and the assumed methodology of payment for certain current post-Act 3 of 2013 retirees. Also, there was a decrease in the Administration's proportion of the collective total liability.

Decrease related to Voluntary termination benefits, Law No. 211, due to benefits payment of $1,517 million.

Statements of Net Position – (continued)

Non-Current Liabilities

The following detailed the activity of non-current liabilities for the years ended June 30, 2025 and 2024 (in thousands):

June 30, 2025: Description	Balance June 30, 2024 (As restated)	Increase	Decrease	Balance June 30, 2025
Government Development Bank of Puerto Rico line of credit in connection with Law #66 of June 22, 1978 as amended	$ 282,448	$ -	$ -	$ 282,448
Total pension liability	300,319	-	(12,791)	287,528
Other postemployment benefit liability	8,249	-	(823)	7,426
Compensated absences, net of current portion	5,802	35	-	5,837
Voluntary termination benefits, net of current portion	2,014	-	(1,060)	954
Self-insurance fund	1,769	-	(29)	1,740
Leases liability, net of current portion	79	496	-	575
Subscription liability, net of current portion	1,063	751	-	1,814
	$ 601,743	$ 1,282	$ (14,703)	$ 588,322

June 30, 2024: Description	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024 (As restated)
Government Development Bank of Puerto Rico line of credit in connection with Law #66 of June 22, 1978 as amended	$ 282,448	$ -	$ -	$ 282,448
Total pension liability	419,212	-	(118,893)	300,319
Other postemployment benefit liability	8,936	-	(687)	8,249
Compensated absences, net of current portion	4,748	1,054	-	5,802
Voluntary termination benefits, net of current portion	3,531	-	(1,517)	2,014
Self-insurance fund	1,766	3	-	1,769
Leases liability, net of current portion	74	5	-	79
Subscription liability, net of current portion	1,479	-	(416)	1,063
	$ 722,194	$ 1,062	$ (121,513)	$ 601,743

Revenues, Expenses and Changes in Net Position (Deficit)

The Administration's statements of revenue, expenses, and changes in net position for the years ended June 30, 2025 and 2024, consisted of (in thousands):

	2025	2024 (As restated)	Increase (Decrease)	%
Total revenues	$ 110,578	$ 112,650	$ (2,072)	-2%
Operating costs and expenses:				
Cost of services	195,056	175,441	19,615	11%
General and administrative	18,205	16,261	1,944	12%
Depreciation and amortization	14,812	10,481	4,331	41%
Pension expense (credit)	23,107	(90,064)	113,171	-126%
Voluntary termination benefits	20	1	19	1900%
Other postemployment expense	166	368	(202)	-55%
	251,366	112,488	138,878	123%
Operating income (loss)	(140,788)	162	(140,950)	-87006%
Non-operating income (expenses):				
Contributions from the Commonwealth of Puerto Rico	102,312	94,579	7,733	8%
Federal grants	10,256	1,472	8,784	597%
Other income	4,919	5,852	(933)	-16%
Interest expense	(26,918)	(28,506)	1,588	-6%
	90,569	73,397	17,172	23%
Capital contributions from the Commonwealth of Puerto Rico	6,218	1,795	4,423	246%
Net change in net position	(44,001)	75,354	(119,355)	-158%
Net position (deficit), at beginning of year, as restated	(637,258)	(712,612)	75,354	-11%
Net position (deficit), at end of year	$ (681,259)	$ (637,258)	$ (44,001)	7%

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

The Administration's statements of revenue, expenses, and changes in net position for the years ended June 30, 2024 and 2023, consisted of (in thousands):

	2024 (As restated)	2023 (As restated)	Increase (Decrease)	%
Total revenues	$ 112,650	$ 116,366	$ (3,716)	-3%
Operating costs and expenses:				
Cost of services	175,441	165,229	10,212	6%
General and administrative	16,261	11,640	4,621	40%
Depreciation and amortization	10,481	8,953	1,528	17%
Pension expense (credit)	(90,064)	(17,977)	(72,087)	401%
Voluntary termination benefits (credit)	1	(45)	46	-102%
Other postemployment expense (credit)	368	(2,973)	3,341	-112%
	112,488	164,827	(52,339)	-32%
Operating income (loss)	162	(48,461)	48,623	-100%
Non-operating income (expenses):				
Contributions from the Commonwealth of Puerto Rico	94,579	94,483	96	0%
Federal grants	1,472	4,483	(3,011)	-67%
Other income	5,852	4,876	976	20%
Gain on extinguishment of supplier's debt	-	210	(210)	-100%
Interest expense	(28,506)	(24,298)	(4,208)	17%
	73,397	79,754	(6,357)	-8%
Capital contributions from the Commonwealth of Puerto Rico	1,795	16,089	(14,294)	-89%
Net change in net position	75,354	47,382	27,972	59%
Net position (deficit), at beginning of year, as restated	(712,612)	(759,994)	47,382	-6%
Net position (deficit), at end of year	$ (637,258)	$ (712,612)	$ 75,354	-11%

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

Net patient service revenues

The decrease in net patient service revenues for the year ended June 30, 2025, consisted of (in thousands):

	2025	2024	Increase (Decrease)	%
Member institutions	$ 81,034	$ 79,890	$ 1,144	1%
Private and insurance	48,761	43,613	5,148	12%
Subtotal	129,795	123,503	6,292	5%
Provision for bad debts	(20,376)	(11,771)	(8,605)	73%
Collection from prior years	1,159	918	241	26%
Subtotal	(19,217)	(10,853)	(8,364)	77%
Total revenues	$ 110,578	$ 112,650	$ (2,072)	-2%

Approximately 62% of the Administration's net patient service revenues for 2025 are derived from services rendered to member institutions.

The decrease in net patient service revenues for the year ended June 30, 2024, consisted of (in thousands):

	2024	2023	Increase (Decrease)	%
Member institutions	$ 79,890	$ 85,878	$ (5,988)	-7%
Private and insurance	43,613	43,151	462	1%
Subtotal	123,503	129,029	(5,526)	-4%
Provision for bad debts	(11,771)	(13,534)	1,763	-13%
Collection from prior years	918	871	47	5%
Subtotal	(10,853)	(12,663)	1,810	-14%
Total revenues	$ 112,650	$ 116,366	$ (3,716)	-3%

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

Net patient service revenues – (continued)

Approximately 65% of the Administration's net patient service revenues for 2024 are derived from services rendered to member institutions.

Operating Costs and Expenses

Increase in operating costs and expenses for the year ended June 30, 2025, consisted of (in thousands):

	2025	2024	Increase (Decrease)	%
Salaries payroll taxes and fringe benefits	$ 117,509	$ 105,477	$ 12,032	11%
General and administrative	18,205	16,261	1,944	12%
Costs of materials and services	64,047	59,906	4,141	7%
Depreciation and amortization	14,812	10,481	4,331	41%
Utilities	13,500	10,058	3,442	34%
Pension expense (credit)	23,107	(90,064)	113,171	-126%
Voluntary termination benefits (Law 211)	20	1	19	1900%
Total other postemployment benefit expense	166	368	(202)	-55%
	$ 251,366	$ 112,488	$ 138,878	123%

The increase of approximately $12 million in salaries, payroll taxes, and fringe benefits is directly related to the implementation of the new compensation plan, which increases the salaries of job classes in the Administration to better align with comparable jobs in the local labor market.

The pension expense increase of approximately $113.2 million resulted from the recognized effect of GASB No. 73 and is principally related to changes in the discount rate used (3.93% as of June 30, 2025, and 3.65% as of June 30, 2024).

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

Operating Costs and Expenses – (continued)

Decrease in operating costs and expenses for the year ended June 30, 2024, consisted of (in thousands):

	2024	2023	Increase (Decrease)	%
Salaries payroll taxes and fringe benefits	$ 105,477	$ 95,535	$ 9,942	10%
General and administrative	16,261	11,640	4,621	40%
Costs of materials and services	59,906	57,890	2,016	3%
Depreciation and amortization	10,481	8,953	1,528	17%
Utilities	10,058	11,804	(1,746)	-15%
Pension expense (credit)	(90,064)	(17,977)	(72,087)	401%
Voluntary termination benefits (Law 211) (credit)	1	(45)	46	-102%
Total other postemployment benefit expense (credit)	368	(2,973)	3,341	-112%
	$ 112,488	$ 164,827	$ (52,339)	-32%

The increase in salaries, payroll taxes and fringe benefits of approximately $9.9 million are directly related to the implementation of the new compensation plan, which increases the salaries of job classes in the Administration to better align with comparable jobs in the local labor market.

The credit pension benefits of approximately ($90.1) million resulted from the recognized effect of GASB No. 73 and is principally related to changes in the discount rate used (3.65% as of June 30, 2024 and 3.54% as of June 30, 2024).

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

Non-Operating Income (Expenses)

The increase/(decrease) in non-operating income (expenses) for the years ended June 30, 2025 and 2024 consists of (in thousands):

	2025	2024	Increase (Decrease)	%
Contributions from the Government of Puerto Rico	$108,530	$ 96,374	$ 12,156	13%
Federal grants	10,256	1,472	8,784	597%
Other income	4,919	5,852	(933)	-16%
Interest expense	(26,918)	(28,506)	1,588	-6%
	$ 96,787	$ 75,192	$ 21,595	29%

	2024	2023	Increase (Decrease)	%
Contributions from the Government of Puerto Rico	$ 96,374	$110,571	$ (14,197)	-13%
Federal grants	1,472	4,483	(3,011)	-67%
Other income	5,852	4,876	976	20%
Gain on extinguishment of supplier's debt	-	210	(210)	-100%
Interest expense	(28,506)	(24,298)	(4,208)	17%
	$ 75,192	$ 95,842	$ (20,650)	-22%

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

Non-Operating Income (Expenses) – (continued)

The governmental contributions consisted of the following activity during the year ended June 30, 2025:

- $4,462,276 funds granted in connection with Joint Resolution 39 approved by the Commonwealth's Legislature on June 29, 2023, assigned $33.3 million for capital improvements and medical equipment.

- $94,077,000 funds received in connection with Joint Resolution 43 approved by the Commonwealth's Legislature on June 30, 2024, assigned $94.1 million of which $29.7 million were for the payment of salaries and related benefits, $42.1 million for operating expenses, and $22.3 million for the payment to cover retirement expenses under the Pay-Go system.

- $1,755,987 funds received in connection with Joint Resolution 43 approved by the Commonwealth's Legislature on June 30, 2024, assigned $8.7 million for capital improvements and medical equipment of which $1.7 million were received and expensed during the year-end.

- $6,927,479 funds received during April 2025 to cover privatized services contracts such as cleaning, security, maintenance, biomedical wastes and others, authorized by the Puerto Rico Office of Management and Budget and Puerto Rico Fiscal Agency and Financial Advisory Authority.

- $354,353 funds received from Intra-Governmental Transfer authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority to cover the payment of the upside participation bonus.

- $953,414 Funds received from Intra-Governmental Transfer authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority to cover the payment of the Christmas bonus to the employees.

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

Non-Operating Income (Expenses) – (continued)

The Administration received in fiscal years 2025 and 2024, $10,256,119 and $1,472,441, respectively, from federal assistance which were incurred in the purchase of equipment and bonus for first responders and operating expenses and the remaining balance of $5,222,963 and $619,283 were recorded as unearned revenue in the accompanying statements of net position (deficit) as of June 30, 2025 and 2024, respectively.

Interest expense during the years ended on June 30, 2025 and 2024 consisted mainly of approximately $26.3 million and $28.2 million, respectively, related to the line of credit with the Government Development Bank of Puerto Rico.

Contacting the Administration's Financial Management

The financial report is designed to provide our suppliers and creditors with a general overview of the Administration's finances and to show the Administration's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Administration's Finance Director Office at P.O. Box 2129 San Juan Puerto Rico 00936, phone no. (787) 777-3535 Ext. 2903.

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Puerto Rico Medical Services Administration
A Component Unit of the Commonwealth of Puerto Rico

Statements of Net Position (Deficit)

June 30, 2025 and 2024

Assets	2025	2024 (As restated)
Current assets:		
Cash in commercial banks	$ 2,446,258	$ 4,728,293
Accounts receivable:		
Member institutions, net	7,007,807	9,804,618
Private insurance, net	8,464,947	10,649,004
Lease	336,679	300,255
Other, net	3,978,421	1,188,483
Inventory of supplies	3,997,303	3,652,233
Prepaid expenses and other current assets	-	856,045
Total current assets	26,231,415	31,178,931
Non-current assets:		
Cash in commercial banks - restricted	73,439,611	92,076,466
Lease receivable	232,843	178,750
Capital assets, net	98,333,682	84,123,361
PPP asset receivable	1,322,000	1,322,000
Total non-current assets	173,328,136	177,700,577
Total assets	199,559,551	208,879,508
Deferred outflows of resources:		
Pension related	23,434,113	37,789,753
Other postemployment benefit related	989,000	1,036,003
Total deferred outflows of resources	24,423,113	38,825,756
Liabilities and Net Position (Deficit)		
Current liabilities:		
Due to other governmental entities, net	19,288,716	20,640,992
Accounts payable	36,295,936	34,964,598
Accrued expenses	3,053,862	2,743,242
Medicare settlement	2,320,468	1,180,111
Accrued interest	206,183,892	179,886,835
Total pension liability	23,434,113	22,919,316
Total other postemployment benefit liability	989,000	1,036,003
Compensated absences	10,715,564	10,490,482
Voluntary termination benefits	1,174,184	1,650,798
Liabilities payable from restricted assets - Improvements to medical facilities and equipment	6,406,559	3,648,834
Unearned revenue	5,222,963	619,283
Lease liability	187,531	100,427
Subscription liability	994,546	416,256
Total current liabilities	316,267,334	280,297,177
Non-current liabilities:		
Line of credit	282,447,692	282,447,692
Total pension liability	287,527,375	300,318,718
Total other postemployment benefit liability	7,426,772	8,249,425
Compensated absences	5,836,756	5,801,566
Voluntary termination benefits	954,040	2,014,592
Liabilities payable from restricted assets - Self-insurance fund	1,740,166	1,768,675
Lease liability	575,637	79,334
Subscription liability	1,813,751	1,062,917
Total non-current liabilities	588,322,189	601,742,919
Total liabilities	904,589,523	882,040,096
Deferred inflows of resources:		
Pension related	-	2,406,224
Leases related	553,102	385,702
PPP related	99,150	132,200
Total deferred inflows of resources	652,252	2,924,126
Net position:		
Net investment in capital assets	94,966,111	82,553,060
Restricted for permanent improvements	60,526,939	85,278,575
Restricted for others	104,397	91,295
Unrestricted (deficit)	(836,856,558)	(805,181,888)
Total net position (deficit)	$ (681,259,111)	$ (637,258,958)

See notes to financial statements

Puerto Rico Medical Services Administration
A Component Unit of the Commonwealth of Puerto Rico

Statements of Revenues, Expenses and Changes in Net Position (Deficit)

For the years ended June 30, 2025 and 2024

	2025	2024 (As restated)
Patient service revenue, net of contractual allowances	$ 129,794,846	$ 123,503,023
Less: provision for bad debts	19,216,441	10,853,371
Net patient service revenue	110,578,405	112,649,652
Operating costs and expenses:		
Cost of services	195,055,771	175,440,807
General and administrative	18,204,729	16,261,295
Depreciation and amortization	14,812,212	10,480,829
Pension (credit) expense	23,106,983	(90,063,908)
Voluntary termination benefits expense	19,792	581
Other postemployment benefit expense	166,347	368,107
Total operating cost and expenses	251,365,834	112,487,711
Operating income (loss)	(140,787,429)	161,941
Non-operating revenue (expenses):		
Contributions from the Commonwealth of Puerto Rico	102,312,247	94,579,594
Federal grants	10,256,119	1,472,441
Other income, net	4,918,823	5,851,768
Interest expense	(26,918,175)	(28,506,440)
Total non-operating revenue, net	90,569,014	73,397,363
Capital contributions from the Commonwealth of Puerto Rico	6,218,262	1,794,911
Net change in net position	(44,000,153)	75,354,215
Net position (deficit), at beginning of year, as previously reported	(637,258,958)	(708,094,517)
Error Correction	-	(3,495,157)
Change in accounting principle (GASB 101)	-	(1,023,499)
Net position (deficit), at beginning of year, as adjusted and restated	(637,258,958)	(712,613,173)
Net position (deficit), at end of year	$ (681,259,111)	$ (637,258,958)

See notes to financial statements

Puerto Rico Medical Services Administration
A Component Unit of the Commonwealth of Puerto Rico

Statements of Cash Flows

For the years ended June 30, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Receipts from service revenues	$ 111,498,707	$ 116,092,318
Payments to suppliers for goods and services	(79,404,373)	(60,076,219)
Payment to employees for salaries and related benefits	(148,987,555)	(145,020,229)
Net cash used in operating activities	(116,893,221)	(89,004,130)
Cash flows from non capital and related financing activities:		
Intergovernmental contributions	112,568,366	94,836,128
Interest paid	(621,118)	(310,708)
Net cash provided by non capital and related financing activities	111,947,248	94,525,420
Cash flows from capital and related financing activities:		
Intergovernmental contributions	6,218,262	1,794,911
Acquisition of machinery and equipment	(8,921,281)	(10,226,944)
Improvements to emergency room and other facilities	(16,944,191)	(7,079,047)
Lease liability	(242,625)	(152,244)
Subscription liability	(1,001,905)	(385,309)
Net cash used in capital and related financing activities	(20,891,740)	(16,048,633)
Cash flows from investing activities-		
Receipts from interest and other income	4,918,823	7,067,675
Net change in cash	(20,918,890)	(3,459,668)
Cash and restricted cash, beginning of year	96,804,759	100,264,427
Cash and restricted cash, end of year	$ 75,885,869	$ 96,804,759
Reconciliation of cash and restricted cash to the Statement of Net Position:		
Cash in commercial banks	$ 2,446,258	$ 4,728,293
Cash in commercial banks - restricted	73,439,611	92,076,466
Total cash	$ 75,885,869	$ 96,804,759

(Continues)

Puerto Rico Medical Services Administration
A Component Unit of the Commonwealth of Puerto Rico

Statements of Cash Flows – (Continued)

For the years ended June 30, 2025 and 2024

	2025	2024
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	$ (140,787,429)	$ 161,941
Adjustments to reconcile operating income (loss) to net cash used in operating activities		
Depreciation and amortization	13,695,046	10,052,970
Amortization SBITA	1,117,166	427,859
Provision for bad debts	19,216,441	10,853,371
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(17,236,805)	(8,743,968)
Lease receivable	(90,517)	123,227
Inventory of supplies	(345,070)	(95,910)
Prepaid expenses and other current assets	856,045	(165,633)
Deferred outflows of resources	14,402,643	49,484,461
Increase (decrease) in:		
Due to other governmental entities	(1,140,982)	1,586,796
Accounts payable	1,331,338	8,314,270
Accrued expenses	310,620	(44,928)
Medicare settlement	1,140,357	1,180,111
Total pension liability	(12,276,546)	(119,181,256)
Total other postemployment benefits	(869,656)	(715,795)
Compensated absences	260,272	3,074,478
Voluntary termination	(1,537,166)	(2,159,080)
Liabilities payable from restricted assets	2,729,216	(158,295)
Unearned revenue	4,603,680	618,750
Deferred inflows of resources	(2,271,874)	(43,617,499)
	23,894,208	(89,166,071)
Net cash used in operating activities	$ (116,893,221)	$ (89,004,130)

Supplemental disclosure of non-cash transactions

	2025	2024
Subscription asset and liability	$ 2,331,029	$ -
Leases and lease liability	$ 826,032	$ 138,511
Netting of Member Institution receivable and payable	$ 211,294	$ 1,210,036
GASB 101 adoption	$ 1,023,499	$ -

See notes to financial statements

Note 1 - Organization and summary of significant accounting policies

Organization

The Puerto Rico Medical Services Administration (the Administration) is a public corporation and an instrumentality of the Commonwealth of Puerto Rico (the Commonwealth) adhered to the Puerto Rico Department of Health (the Department). The Administration was created by Law Number 66 of June 22, 1978, as amended, to plan, organize, operate and administer the centralized health services, and provide support for the hospital and other functions, offered by the member institutions and users of the medical complex known as the Puerto Rico Medical Center. Therefore, the Administration's basic financial statements are blended in the Commonwealth's fund financial statements as an enterprise fund. As an instrumentality of the Commonwealth, the Administration is exempt from income, property and municipal license tax. The Administration's capital is funded by non-reimbursable legislature appropriations from the Commonwealth, in-kind donations or cash from various governmental agencies or instrumentalities of the Commonwealth, federal grants and other contributions.

The Administration is governed by a ten-member board comprised of the Secretary of the PR Department of Health, the Dean of the Medical Sciences Faculty of the University of Puerto Rico, the President of the board of director of the Puerto Rican League Against Cancer, the Mayor of the Municipality of San Juan, the Administrator of the State Insurance Fund Corporation, the Administrator of the Administration of Mental Health and Addiction Services, the President of the Medical Policy and Administration Committee, and two members appointed by the Secretary of the Puerto Rico Department of Health.

Summary of significant policies

The accounting and reporting policies of the Administration conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The following is a description of the most significant accounting policies:

Basis of presentation

The Administration's financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 (GASB No. 34), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* GASB No. 34, as amended, establishes standards for external financial reporting for all state and local government entities, which includes a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. It requires the classification of net assets into three components: net investment in capital assets, restricted, and unrestricted.

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Basis of presentation – (continued)

These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any bonds, mortgage notes, or other borrowings that are attributable to and spent in the acquisition, construction, or improvement of those assets.

  If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net invested in capital assets; rather, that portion of the debt is included in the same net assets component as the unspent proceeds. As of June 30, 2025 and 2024, net assets invested in capital assets, net of related debt consisted of the balance of capital assets, net.

- Restricted – This component of net position consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributions, or laws or regulations of other governments of constraints imposed by law through constitutional provisions or enabling legislation. As of June 30, 2025 and 2024, net position restricted consisted mainly of cash available from governmental contributions received for improvements to the Administration's facilities and other capital additions.

- Unrestricted – This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets".

Measurement focus and basis of accounting

The financial statements of the Administration are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental units. Under this basis, revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid.

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectable for accounts receivable for services to patients, and liabilities, including estimated malpractice liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amount of revenue and expenses incurred during the reporting period. The reserve for doubtful accounts, and the estimated malpractice liabilities, among other accounts, require the significant use of estimates. Actual results could differ from those estimates.

Restricted cash

Funds set aside are mainly for the payment of improvements to medical facilities and purchase of equipment and for the self-insurance fund.

Account receivables

Account receivables from member institutions are presented net of advances received by the Administration from these institutions. These advances are received on a monthly and/or quarterly basis and are applied to the accounts receivable as services are rendered.

As of June 30, 2025 and 2024, $45,036,997and $263,816,753 and $41,457,936 and $248,112,151 representing receivables from member institutions and private insurance, respectively, are not expected to be collected, which are included as part of the allowance for doubtful accounts within accounts receivable in the accompanying statements of net position.

Valuation of accounts receivable

The Administration makes judgments as to the collectability of accounts receivables based on historical trends and future expectations. Management estimates an allowance for doubtful accounts, which represents the collectability of patient and members institutions service accounts receivables. This allowance adjusts gross patient service accounts receivable downward to their estimated net realizable value. To determine the allowance for doubtful accounts, management reviews specific customer risk for accounts over 365 days using the Administration's accounts receivable aging subsidiary.

Note 1 - Organization and summary of significant accounting Policies – (continued)

Summary of significant policies – (continued)

Fair value of financial instruments

The carrying amounts reported in the statements of net position for cash, receivables, other receivables, note receivable, line of credit, payables and accrued liabilities approximate their fair value due to their short-term duration.

Inventory of supplies

Inventory of supplies consisting of drugs, medicines, food and other supplies is stated at the lower of cost or net realizable value on the first-in, first-out basis.

Capital assets

Capital assets are stated at cost and equipment under capital leases, at the present value of minimum lease payments, in accordance with the provision of the GASB No. 87 *Leases*. Capital assets are defined by the Administration as assets with an individual cost of more than $100.

Depreciation and amortization are computed using the straight-line method over the estimated useful life of the related assets or the lease term, as follows:

Description	Useful Life
Land improvements	40 years
Building	40 years
Building improvements	5 years
Machinery and equipment	3-20 years
Equipment under capital leases	Lease term (useful live or lease term, whichever is shorter)

At the time capital assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the Administration's books and the resulting gain or loss, if any, is credited or charged to operations.

Subscription-Based Information Technology Arrangements (SBITAs)

The Administration is the end user for a SBITAs. Short-term SBITAs, which have a maximum possible term of 12 months or less, are recognized as an outflow of resources when payment is made. For SBITAs with subscription terms extending beyond one year, the Administration recognizes an intangible right-to-use subscription asset and a corresponding subscription liability.

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Subscription-Based Information Technology Arrangements (SBITAs) – (continued)

Initial measurement of the subscription asset/liability is calculated at the present value of payments expected to be paid during the subscription term, discounted using the incremental borrowing rate. The right-to use-asset is amortized on a straight-line basis over the subscription term.

There have been no outflows of resources recognized in the reporting periods for variable payments not previously included in the measurement of the SBITA liability, or other payments such as termination penalties.

Accounting for the impairment of capital assets

The Administration accounts for assets impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also establishes accounting requirements for insurance recoveries. A capital asset generally should be considered impaired if both, (a) the decline in service utility of the capital asset is large in magnitude, and (b) the event of change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value.

Leases

The Administration accounts for leases in accordance with GASB Statement No. 87, *Leases.* A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease, or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Leases – (continued)

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease.

Compensated absences

The vacation and sick leave policy of the Administration provides for the accumulation of thirty (30) days of vacation and eighteen (18) days of sick leave annually. Vacation time is fully vested to the employees from the first day of work. However, as per Law No. 26 of April 29, 2017, the accumulation is reduced to fifteen (15) days of vacation and eighteen (18) days of sick leave annually. Also, for any employee hired after February 4, 2017, the accumulation is reduced to fifteen (15) days of vacation and twelve (12) days of sick leave annually.

Under the collective bargain agreement, which went into effect on January 1, 2013, employees are entitled to the payment of the excess of sixty (60) days of vacation at a rate equal to double of their hourly rate. On the other hand, employees not covered under the collective bargain agreement are entitled to the payment of the excess of sixty (60) days of vacation at their hourly rate. However, as per Law No. 26 of April 29, 2017, payment of the excess of sixty (60) days of vacation can't be completed and the excess of sixty (60) days of vacation would be eliminated at the end of each calendar year.

Under the collective bargain agreement and the Administration policies, all employees are entitled to the payment of the excess of fifteen (15) days in accumulated sick leave, up to a maximum of eighteen (18) days. However, as per Law No. 26 of April 29, 2017, the payment previously mentioned can't be completed and the excess of ninety (90) days of sick leave would be eliminated at the end of each calendar year.

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Compensated absences – (continued)

During the current fiscal year, as part of the adoption of GASB No. 101, *Compensated Absences*, the Administration recognized sick leave liability, based on the 90-day maximum permissible accumulation and a vacation liability on the 60-day maximum permissible accumulation. As of June 30, 2025, accrued vacation and sick leave amounted to approximately $16.5 million and are included as compensated absences in the accompanying statement of net position.

Pension benefits

The Administration is a participant in the Puerto Rico Government Employee's Retirement System (the Pension Plan). Pursuant to the provisions of GASB No. 73, the Administration recognizes a pension liability for its proportionate share of the collective pension liability under the Pension Plan, as well as its proportionate share of the collective deferred outflows of resources, collective deferred inflows of resources, and collective pension expense. The Administration's allocation percentage is based on the ratio of the Administration's benefit payments to total benefit payments under the Pension Plan. Changes in the total pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in the total pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees, in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they arose.

Postemployment Benefits Other Than Pensions

The Administration accounts for other postemployment benefits in accordance with the provisions of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

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, reimbursement costs, discounted charges, and per diem payments. Net patient service revenue 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 follows the requirements of the FASB Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Healthcare Entities.* The standard update requires healthcare entities that recognize a significant amount of patient service revenue at the time the services are rendered, even though they do not assess the patient's ability to pay at that moment, to present as a separate line item on the face of the statement of revenues, expenses and changes in net position, the provision for bad debts, related to patient service revenue, as a deduction from patient revenue (net of contractual allowances and discounts).

The standard update also requires disclosing by major payor source of revenue; the Administration's policy for assessing collectability in determining the timing and amount of patient service revenue to be recognized, and qualitative and quantitative information about significant changes in the allowance for doubtful accounts related to patient accounts receivable.

Operating revenues and expenses

Operating revenues and expenses are those that result from operating service activities. Interest income and expenses related mainly with restricted deposits, obligations under capital leases and other are not included as part of operating revenues and expenses.

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Other governmental entities

Other governmental entities to the Administration consist of governmental agencies, public corporations, and other instrumentalities of the Commonwealth of Puerto Rico.

Insurance

The Administration carries commercial insurance to cover for casualty, theft, claims and other losses. The Commonwealth negotiates the commercial insurance coverage, and the cost is paid by the Administration. The Administration is self-insured for medical malpractice claims and judgments, as discussed in Note 8. The Administration also pays for workers' compensation insurance to another component unit of the Commonwealth.

Non-exchange transactions

GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, establishes accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (for example, grants, and contributions). In a non-exchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal value. Under the provisions of GASB No. 33, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied.

Deposits and investment risks

The Administration follows the GASB Statement No. 40, *Deposit and Investment Risk Disclosure* – an amendment of GASB Statement No. 3. The Statement addresses common deposit and investment risks related to credit, concentration, interest rate and foreign currency. Among other disclosures, the Statement requires certain disclosures applicable to deposits or investments having fair values that are highly sensitive to changes in interest rate.

Deferred outflows and inflows of resources

The Administration adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which requires that, in addition to assets, the statement of net position will sometimes report a separate section of deferred

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Deferred outflows and inflows of resources – (continued)

outflows of resources, which represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Also, in addition to liabilities, the statement of net position will sometimes report a separate section of deferred inflows of resources, which represents an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2025 and 2024, all deferred outflows of resources and all deferred inflows of resources of the Administration are pension and other postemployment benefit related items, as further disclosed in Notes 10 and 11.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform them with the current year presentation.

New accounting standards adopted

GASB Statement No. 101, *Compensated Absences.* This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

Note 1 - <u>Organization and summary of significant accounting policies – (continued)</u>

<u>Summary of significant policies – (continued)</u>

<u>New accounting standards adopted – (continued)</u>

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. Refer to Note 18 for adoption of standard.

GASB Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

This Statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

New accounting standards adopted – (continued)

information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact.

The disclosure should include descriptions of the following:

- The concentration or constraint.
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements.
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

The adoption of this statement did not have a material effect on the basic financial statements of the Administration.

Accounting Pronouncements Issued but not yet Effective

The following new accounting standards have been issued but are not yet effective:

GASB Statement No. 103, *Financial Reporting Model Improvements.* The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

Management's Discussion and Analysis - This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this Statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

Unusual or Infrequent Items - This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position - This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses.

In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this Statement requires that a subtotal for *operating income (loss) and noncapital subsidies* be presented before reporting other nonoperating revenues and expenses. Subsidies are defined as (1) resources received from another party or fund (a) for which the proprietary fund does not provide goods and services to the other party or fund and (b) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise, (2) resources provided to another party or fund (a) for which the other party or fund does not provide goods and services to the proprietary fund and (b) that are recoverable through the proprietary fund's current or future pricing policies, and (3) all other transfers.

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

Major Component Unit Information - This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

Budgetary Comparison Information - This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 104, *Disclosure of Certain Capital Assets.* State and local governments are required to provide detailed information about capital assets in notes to financial statements. Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, requires certain information regarding capital assets to be presented by major class. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets.

This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement No. 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.

This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being

Note 1 - Organization and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 105, *Subsequent Events* - The primary objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users.

This Statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This Statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This Statement also requires the date through which subsequent events have been evaluated to be disclosed. This Statement clarifies the subsequent events that constitute recognized and non-recognized events and establishes specific note disclosure requirements for non-recognized events. The requirements of this Statement are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. Earlier application is encouraged.

Management is evaluating the impact that these statements may have on the Administration's basic financial statements upon adoption.

Note 2 - Cash in commercial banks

Cash in commercial banks as of June 30, 2025 and 2024 consisted of:

Description	Carrying Amount 2025	Carrying Amount 2024	Bank Balance 2025	Bank Balance 2024
Cash - unrestricted	$ 2,446,258	$ 4,728,293	$ 2,595,342	$ 5,298,334
Cash-restricted for:				
Improvements to medical facilities and purchase of equipment	69,095,927	88,631,423	69,226,960	91,451,186
Self-insurance fund	1,182,999	1,861,928	1,183,220	1,862,522
Other	3,160,685	1,583,115	3,160,685	1,583,115
Total restricted cash	73,439,611	92,076,466	73,570,865	94,896,823
Total cash	$ 75,885,869	$ 96,804,759	$ 76,166,207	$ 100,195,157

The Administration's cash is comprised of deposits held in custody by a banking institution insured by the Federal Deposit Insurance Corporation (FDIC).

Act 16-1991 "Law to Regulate Deposits of Public Funds and to Provide for their Security" requires that Puerto Rico private financial institutions deposit collateral securities to secure the deposits of the Commonwealth and all other governmental entities in each of these institutions. The amount of collateral securities to be pledged for the security of public deposits must be established by the rules and regulations promulgated by the Secretary of the Department of Treasury of the Commonwealth of Puerto Rico.

Based on these provisions, deposits are not considered to be subject to custodial credit risk, which is the risk that in the event of a bank's failure, the Administration's deposits may not be returned.

Note 3 - Net patient service revenue

The Administration has agreements with medical insurance companies, governmental entities of the Commonwealth of Puerto Rico and the Medicare program for payments to the Administration, at amounts different from its established rates. A summary of the most significant agreements, with these entities is as follows:

Medicare - Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient capital costs are paid based on the fully prospective method.

Note 3 - Net patient service revenue – (continued)

Medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Administration is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Administration and audits thereof by the Medicare fiscal intermediary.

The Administration's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through 2021. The cost reports from 2022 through 2024 are subject to the Medicare fiscal intermediary examination. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

Member institutions – The Administration has agreements with different governmental entities of the Commonwealth of Puerto Rico for payments to the Administration, at its established rates.

Others – Also, the Administration has entered into payment agreements with some commercial insurance carriers and other healthcare organizations. The basis for payment to the Administration under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

A summary of patient service revenue, net of contractual allowances and discounts, and provision for bad debts, for the years ended June 30, 2025 and 2024 consisted of:

	2025	2024
Third-party payors - member institutions	$ 77,458,292	$ 79,889,756
Third-party payors - health plans	33,120,113	32,759,896
Patient service revenue (net of contractual allowances and discounts and provision for bad debts)	$ 110,578,405	$ 112,649,652

Changes in the allowance for doubtful accounts on patient's account receivable for the years ended June 30, 2025 and 2024 consisted of:

	2025	2024
Balance, beginning of year	$ 289,570,087	$ 278,740,289
Provision for bad debt	19,216,441	10,853,371
Write-off /Adjustments	67,222	(23,573)
Balance, end of year	$ 308,853,750	$ 289,570,087

Note 3 - Net patient service revenue – (continued)

Net patient service revenue from third-party payors is estimated fully collectible and it is recorded when the health care services are provided. Also, health care services provided to uninsured patients are recorded when the services are provided. Provision for bad debts related to receivables from third-party payors and uninsured patients and for patients for whom it was assessed the patient does not have the ability to pay is recorded as a deduction of net patient service revenue in the accompanying statements of revenues, expenses and changes in net position. At June 30, 2025 and 2024, 61% and 62%, of the amounts reserved as uncollectible are related to third-party payors, respectively, and 39% and 38%, are related to self-pay patients, which includes deductibles and co-insurance which the Administration accounts for as patient balance.

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Note 4 - Capital assets

Capital assets as of June 30, 2025 and 2024, and activity during the years then ended consisted of:

Description	Balance June 30, 2024	Increases	Decreases	Balance June 30, 2025
Capital assets not being depreciated:				
Land	$ 6,871,954	$ -	$ -	$ 6,871,954
Capital assets being depreciated:				
Land improvements	13,193,600	526,527	-	13,720,127
Building and improvements	120,773,805	16,417,664	-	137,191,469
Machinery, equipment and intangible	125,488,725	8,921,281	(12,330,772)	122,079,234
Lease - equipment	981,615	826,032	-	1,807,647
Subscription right-of-use assets	2,139,293	2,331,029	-	4,470,322
	262,577,038	29,022,533	(12,330,772)	279,268,799
Accumulated depreciation and amortization:				
Land improvements	12,518,828	243,229	-	12,762,057
Building and improvements	76,765,367	6,105,904	-	82,871,271
Machinery, equipment and intangible	94,515,845	7,061,804	(12,330,772)	89,246,877
Lease - equipment	776,838	284,109	-	1,060,947
Subscription right-of-use assets	748,753	1,117,166	-	1,865,919
	185,325,631	14,812,212	(12,330,772)	187,807,071
Capital assets being depreciated, net	77,251,407	14,210,321	-	91,461,728
Capital assets, net	$ 84,123,361	$ 14,210,321	$ -	$ 98,333,682

Note 4 - Capital assets – (continued)

Description	Balance June 30, 2023 (As restated)	Increases	Decreases	Balance June 30, 2024
Capital assets not being depreciated:				
Land	$ 6,871,954	$ -	$ -	$ 6,871,954
Capital assets being depreciated:				
Land improvements	13,185,980	7,620	-	13,193,600
Building and improvements	113,702,378	7,071,427	-	120,773,805
Machinery, equipment and intangible	115,261,781	10,226,944		125,488,725
Lease - equipment	843,104	138,511	-	981,615
Subscription right-of-use assets	2,139,293	-	-	2,139,293
	245,132,536	17,444,502	-	262,577,038
Accumulated depreciation and amortization:				
Land improvements	12,264,946	253,882	-	12,518,828
Building and improvements	71,919,842	4,845,525	-	76,765,367
Machinery, equipment and intangible	89,689,510	4,826,335	-	94,515,845
Lease - equipment	649,610	127,228	-	776,838
Subscription right-of-use assets	320,894	427,859	-	748,753
	174,844,802	10,480,829	-	185,325,631
Capital assets being depreciated, net	70,287,734	6,963,673	-	77,251,407
Capital assets, net	$ 77,159,688	$ 6,963,673	$ -	$ 84,123,361

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Note 5 - Leases

Lessee

The Administration is a lessee in non-cancellable leases of equipment, for which the Administration recognizes a lease liability and an intangible right-to-use lease asset (lease asset) included in capital assets in the statements of net position.

At the commencement of a lease, the Administration initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgement related to leases include how the Administration determines the discount rate it uses to discount the expected lease payments to present value, the lease term and the lease payments. The Administration uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Administration uses its estimated incremental borrowing rate as the discount rates for leases. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and any termination fees, residual value guarantees and/or purchase option price that the Administration is reasonably certain to exercise.

The Administration monitors changes in circumstances that would require a remeasurement of a lease liability when certain changes occur that are expected to significantly affect the amount of the lease, the liability is remeasured, and a corresponding adjustment is made to the lease asset.

The Administration is a lessee under non-cancellable long-term leases of equipment. The lease term is for 5 years, ending through July 2029 and requiring monthly payments. The discount rate used for the calculation of the lease liabilities varies per lease and ranges from 3.55% to 4.10%.

As of June 30, 2025, the total amount of lease assets, and the related accumulated amortization and changes therein for the year ended, are as follows:

	Balance June 30, 2024	Increases	Decreases	Balance June 30, 2025
Leased - equipment	$ 981,615	$ 826,032	$ -	$ 1,807,647
Leased - equipment accumulated amortization	(776,838)	(284,109)	-	(1,060,947)
Total leased assets, net of accumulated amortization	$ 204,777	$ 541,923	$ -	$ 746,700

Note 5 - Leases – (continued)

Lessee – (continued)

As of June 30, 2023, the total amount of lease assets, and the related accumulated amortization and changes therein for the year then ended, is as follows:

	Balance June 30,2023	Increases	Decreases	Balance June 30,2024
Leased - equipment	$ 843,104	$ 138,511	$ -	$ 981,615
Leased - equipment accumulated amortization	(649,610)	(127,228)	-	(776,838)
Total leased assets, net of accumulated amortization	$ 193,494	$ 11,283	$ -	$ 204,777

Lease liabilities of $763,168 and $179,761 were recorded as of June 30, 2025 and 2024, respectively. The Administration made principal payments of $242,625 and $152,244 as of June 30, 2025 and 2024, respectively and are included in cost of service on the statements of revenues, expenses and changes in net position (deficit). Interest expense from these leases totaled $34,443 and $9,960 as of June 30, 2025 and 2024, respectively, and are included in interest expense on the statements of revenues, expenses, and change in net position (deficit). As of June 30, 2025, the principal and interest requirements to maturity for the lease liability is as follows:

Maturity	Principal	Interest	Total
2026	$ 187,531	$ 27,792	$ 215,323
2027	195,365	19,957	215,322
2028	194,252	11,829	206,081
2029	171,518	4,407	175,925
2030	14,502	50	14,552
	763,168	64,035	827,203
Less current portion	(187,531)	(27,792)	(215,323)
Total long term leases liabilities	$ 575,637	$ 36,243	$ 611,880

Lessor

The Administration is a lessor for various non-cancellable leases of land and building space to third parties. For leases with a maximum possible term of 12 months or less at commencement, the Administration recognizes income based on the provision of the lease contracts. For all other leases, those that are not short-term, the Administration recognizes a lease receivable and a deferred inflow of resources.

Note 5 - Leases – (continued)

Lessor – (continued)

At the commencement of a lease, the Administration initially measures the lease receivable at the present value of payments expected to be received during the lease term and the lease receivable is reduced by the principal portion of lease payments when received. The deferred inflow of resources is initially measured at the initial amount of the lease receivable and is recognized as revenue over the life of the lease term. The Administration recognizes interest income on the lease receivables, and lease revenue from deferred inflows of resources in systematic and rational manner over the term of the lease.

The key estimates and judgements related to leases include how the Administration determines the discount rate used to discount the expected lease receipts to present value, lease term, and lease payments to be received. The Administration uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease and lease receipts included in the measurement of the lease receivable are comprised of fixed payments from the lease.

The Administration monitors changes in circumstances that would require a remeasurement of its leases and will measure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

As discussed above, the Administration is a lessor of various non-cancellable long-term leases of land and building space. These leases have terms between 5 to 40 years, with payments required monthly. The discount rate used for the calculation of the lease receivable varies per lease receivable and ranges from 7% to 10%.

On July 13, 1988, ASEM entered into an agreement with a third-party, under which the third-party leases three parcels of land within the Medical Center for the development, construction and administration of a four-level parking garage containing not less than five hundred parking spaces and other parking facilities for the visitors for a period of forty years. The third party operates and maintains the parking garage in accordance with the agreement and pays a monthly rental fee of $300 for the parcel of land and an income participation of 10% of the net revenues from the operations of the parking garage and the two visitor's parking, including accessory facilities therein. At the expiration of the term of the lease in July 2028, the parking garage, its improvements, and equipment, excluding the equipment, properties and inventories of the commercial facilities, shall become the sole property of the Administration at no cost whatsoever, free and clear of all liens and encumbrances and with no liability to the third-party (PPP asset receivable, refer to Note 1). If the parking operations are terminated by the Administration prior to the expiration of the term of the agreement, the Administration shall reimburse to the third party

Note 5 - Leases – (continued)

Lessor – (continued)

all unamortized costs of the parking garage and all termination expenses. The Administration recognized a lease receivable and deferred inflow of resources of $569,522 and $553,102, respectively as of June 30, 2025 and $479,005 and $385,702, respectively, as of June 30, 2024.

Lease income from non-cancellable long-term leases totaled $259,793 and $227,280 for the years ended June 30, 2025 and 2024, respectively. Interest income from non-cancellable long-term leases totaled $43,320 and $41,714 for the years ended June 30, 2025 and 2024, respectively. Lease income and interest income is included in other income on the statements of revenues, expenses and changes in net position. The Administration did not recognize revenue with residual value guarantees and termination penalties.

Note 6 - Subscription-based Information Technology Arrangement (SBITA)

The Administration entered cloud service contracts that convey control of the right to use another party's IT software in combination with tangible IT assets, for a period of 5 years in an exchange-like transaction.

The Administration recognizes an intangible subscription asset and corresponding subscription liability for its SBITA. The subscription asset is measured as the subscription liability plus direct costs incurred in implementing the subscription asset. The subscription asset is amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying subscription asset. At the subscription commencement, the subscription liability is measured at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The discount rate used in the present value calculation is an estimate of the interest rate that would be charged for borrowing the subscription payment amounts during the subscription term.

The changes in SBITA for the years ended June 30, 2025 and 2024 are as follows, and are included in capital assets of the statement of net position:

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Note 6 - Subscription-based Information Technology Arrangement (SBITA) – (continued)

	2025			
	Balance June 30,2024	Additions	Deductions	Balance June 30,2025
Subscription IT assets	$ 2,139,293	$ 2,331,029	$ -	$ 4,470,322
Less: accumulated amortization	(748,753)	(1,117,166)	-	(1,865,919)
Subscription IT assets, net	$ 1,390,540	$ 1,213,863	$ -	$ 2,604,403

	2024			
	Balance June 30,2023	Additions	Deductions	Balance June 30,2024
Subscription IT assets	$ 2,139,293	$ -	$ -	$ 2,139,293
Less: accumulated amortization	(320,894)	(427,859)	-	(748,753)
Subscription IT assets, net	$ 1,818,399	$ (427,859)	$ -	$ 1,390,540

	2025					
	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year	More than One Year
Subscription liabilities	$ 1,479,173	$ 2,331,029	$ (1,001,905)	$ 2,808,297	$ 994,546	$ 1,813,751

	2024					
	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year	More than One Year
Subscription liabilities	$ 1,864,482	$ -	$ (385,309)	$ 1,479,173	$ 416,256	$ 1,062,917

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Note 6 - Subscription-based Information Technology Arrangement (SBITA) – (continued)

As of June 30, 2025, the principal and interest requirements to maturity for the subscription liability is as follows:

Maturity	Principal	Interest	Total
2026	$ 994,546	$ 212,484	$ 1,207,030
2027	1,091,201	120,749	1,211,950
2028	689,323	33,570	722,893
2029	33,227	277	33,504
	2,808,297	367,080	3,175,377
Less current portion	(994,546)	(212,484)	(1,207,030)
Total long-term subscription liabilities	$ 1,813,751	$ 154,596	$ 1,968,347

Note 7 - Due to other governmental entities

For these financial statements, all Commonwealth of Puerto Rico's agencies, instrumentalities and public corporations are considered related parties of the Administration.

The balance due to other governmental entities as of June 30, 2025 and 2024 consists of the following:

	2025	2024
Puerto Rico Electric Power Authority	$ 990,581	$ 2,317,823
Puerto Rico Aqueduct and Sewer Authority	1,772,394	913,956
Commonwealth of Puerto Rico	3,818,461	5,041,342
Puerto Rico Infrastructure Financing Authority	484,399	484,399
State Insurance Fund Corporation	11,500,851	11,144,158
University of Puerto Rico - RCM	722,030	739,314
Due to other governmental entities	$19,288,716	$ 20,640,992

Note 8 - Self-insurance fund

Beginning in fiscal year 1986, the Administration decided to stop carrying commercial insurance because of its significant cost and approved the creation of a Self-Insurance Fund (the Fund) to account for and finance its uninsured risks of loss related to professional liability claims. Patient and non-patient general liability exposures are insured elsewhere and are not covered by the Fund.

The Administration maintains in the Fund cash of $1,182,999 and $1,861,929 as of June 30, 2025 and 2024, respectively, to provide for the payment of possible claims. Funding requirements are determined based on actuarial reports and the Administration's Internal Council Office. The most recent actuarial report is as of June 30, 2024, and presented an estimated liabilities of $1,623,606, which were related to claims incurred up to the year ended June 30, 2024. The self-insurance valuation is prepared every two years.

The following is the activity of the restricted cash available and liabilities payable from restricted assets under the Self-Insurance Fund for the years ended June 30, 2025 and 2024.

June 30, 2025:

Description	Restricted Cash	Liabilities Payable
Balances as of beginning of year	$ 1,861,929	$ 1,768,675
Funds received from operations	63,774	-
Claims paid and other disbursements	(742,704)	(28,509)
Balance as of end of year	$ 1,182,999	$ 1,740,166

June 30, 2024:

Description	Restricted Cash	Liabilities Payable
Balances as of beginning of year	$ 1,782,522	$ 1,766,425
Funds received from operations	79,734	2,577
Claims paid and other disbursements	(327)	(327)
Balance as of end of year	$ 1,861,929	$ 1,768,675

Note 9 - Retirement plan

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) was created pursuant to Act No. 447 on May 15, 1951, as amended to provide pension and other benefits to retired employees of the Commonwealth, its public corporation and municipalities.

However, on September 30, 2016, ERS was designated by the Oversight Board as a Covered Territorial Instrumentality under PROMESA. On May 21, 2017, the Oversight Board filed a petition for relief under Title III of PROMESA for ERS in the United States District Court of the District of Puerto Rico, commencing a Title III case for ERS. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III cases.

On August 23, 2017, the Governor signed into a law the Act No. 106 of 2017, known as the *Act of Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants* (Act 106-2017), which provides the legal framework for the Commonwealth to implement the PayGo system effective as of July 1, 2017. Under the PayGo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payment by the applicable participant employers, including the Administration.

Act 106-2017, among other things, amended Act No. 447 with respect to ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act 106-2017, the ERS's Board of Trustees was eliminated, and a new retirement board was created (the Retirement Board), which is currently responsible for governing all Commonwealth Retirement Systems.

Act 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017 and created a new defined contribution plan (the New Defined Contribution Plan) for existing active members and new employees hired on or after July 1, 2017. Under the New Defined Contribution Plan, members of the prior programs and new government employees hired on or after July 1, 2017, will be enrolled in the New Defined Contributions Program.

Act 106-207 also ordered a suspension of the ERS's loan programs and ordered a merger of the administrative structures of the Commonwealth's retirement systems. At the Retirement Board's discretion, the administration of benefits under the New Defined Contribution Plan may be managed by a third-party service provider. In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating incentives, opportunities, and retraining program for public workers.

Note 9 - Retirement plan – (continued)

Plan Description Prior to July 1, 2017

This summary of ERS' pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. It should be noted that all eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable law and regulations, and these benefits were not changed or amended with the enactment of Act 106-2017.

For employees who became ERS members prior to July 1, 2013, ERS operated under the following three benefit structures:

- Act No. 447 of May 15, 1951 (Act No. 447), effective on January I, 1952 for members hired up to March 31, 1990;

- Act No. 1 of February 16, 1990 (Act No. I), for members hired on or after April I, 1990, and ending on or before December 31, 1999;

- Act No. 305 of September 24, 1999, (Act No. 305), which amended Act No. 447 and Act No. 1, for members hired from January 1, 2000, up to June 3, 2013.

Employees under Act No. 447 and Act No. 1 were participants in a cost-sharing multiple employers defined benefit plan (the Defined Benefit Program). Act No. 305 members were participants under a pension program known as the System 2000 Program, a hybrid defined contribution plan. Under the System 2000 Program, benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance in the participant's account.

Thereafter, under Act No. 3 of 2013, effective July 1, 2013, the Commonwealth created a hybrid plan where the employee no longer accrued employee benefits, and upon retirement would receive an annuity from the accumulated defined benefits until that date, plus the employee contributions made thereafter, adjusted by investment yields and market fluctuations. Other charges were also made to the Plan. Upon the enactment of Act. No. 3, the Commonwealth discontinued contributing a proportionate share on behalf of the employee, instead employer contributions were redirected to pay accrued pensions. Act No. 3 of 2013 (Act No. 3) amended the provisions of the different benefits structures under the ERS. Act No. 3 moved all participants (employees) under the Defined Benefit Program and System 2000 Program to a new defined contribution hybrid plan (the Contributory Hybrid Program). All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become

Note 9 - Retirement plan – (continued)

Plan Description Prior to July 1, 2017 – (continued)

members of the Contributory Hybrid Program as a condition to their employment. Act No. 3 benefits were terminated with the enactment of Act. No. 106-2017.

On August 3, 2020, Act 80-2020, a retirement incentive program was passed, but was not permitted to be fully implemented. In September 2023 an interim stipulation between the Government of Puerto Rico and the Financial Oversight and Management Board approved a partial implementation of Act 80-2020. Under the partial implementation of Act 80-2020, 1,129 government employees in non-essential positions elected to retired early and on April 1, 2024, they began receiving an annual pension equal to 50% of the employee's highest annual salary in the three years prior to electing Act 80-2020 retirement incentive and a payment of $100 per month until age 62 to the eligible insurance plan selected by the retiree.

Total Pension Liability and Actuarial Information

The total Pension Plan liability recorded by the Administration as of June 30, 2025 and 2024 (measurement date June 30, 2024 and 2023, respectively) amounted to $310,961,488 and $323,238,034, respectively, representing its proportionate share of the total pension liability of the Pension Plan as of such date. The total pension liability as of June 30, 2025 and 2024 (measurement date June 30, 2024 and 2023) was determined by an actuarial valuation as of July 1, 2023 and 2022, that was rolled forward to June 30, 2024 and 2023 (measurement date).

The Administration 's proportion of the total pension liability was actuarially determined based on the ratio of the total pension liability determined directly for each agency based on each agency's members to the total pension liability for all Central Government member's as of the measurement date. Previously, the proportionate share of each measurement date was based on the ratio of each agency's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date. At June 30, 2024 and 2023 (measurement date), the Administration's proportionate share was 1.56574% and 1. 55622%, respectively.

(a) Actuarial methods and assumptions

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement period.

Note 9 - Retirement plan – (continued)

Total Pension Liability and Actuarial Information – (continued)

(a) Actuarial methods and assumptions – (continued)

Discount rate

The discount rate for June 30, 2024 and 2023 (measurement date) was 3.93% and 3.65%, respectively. This represents the municipal bond return rate as selected by the Commonwealth. The source is the Bond Buyer General Obligation 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2024 (measurement date) actuarial valuation were as follows:

Pre-Retirement Mortality - For general employees not covered under Act No. 127 of 1958, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127 of 1958, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127 of 1958.

- Post-Retirement Retiree Mortality - The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

- Post-Retirement Disabled Mortality –The PubG-2010 disable retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement

Note 9 - Retirement plan – (continued)

Total Pension Liability and Actuarial Information – (continued)

(a) Actuarial methods and assumptions – (continued)

- Scale MP-2021 on generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Post-Retirement Beneficiary Mortality – Prior to retiree's death, beneficiary mortality is assumed to be the same as the pot-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other assumptions as of June 30, 2024

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Compensation increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3 of 2017, four-year extension of Act No. 66 of 2014 salary freeze and the current general economy.

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Note 9 - Retirement plan – (continued)

Total Pension Liability and Actuarial Information – (continued)

(b) Sensitivity of the total pension liability to changes in the discount rate

The following presents the Administration's Pension Plan liability calculated using the discount rate of 3.93% and 3.65% for June 30, 2025 and 2024, respectively, as well as what the Administration's proportionate share of the total Pension Plan liability would be if it were calculated using a discount rate of 1% point lower or 1% point higher than the current rate:

June 30, 2025	1% Decrease (2.93%)	Current Discount Rate (3.93%)	1% Increase (4.93%)
Total pension liability	$ 344,887,223	$ 310,961,488	$ 282,450,874

June 30, 2024	1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)
Total pension liability	$ 360,397,116	$ 323,238,034	$ 292,212,497

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Note 9 - Retirement plan – (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2025 and 2024 (measurement dates June 30, 2024 and 2023), the reported deferred outflows of resources and deferred inflows of resources related to pensions consist of the following sources:

	June 30, 2025		June 30, 2024	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -	$ 225,255	$ 2,015,961
Changes of assumptions	-	-	12,342,459	-
Changes in proportion	-	-	2,302,723	390,263
Pension benefits paid subsequent to the measurement date	23,434,113	-	22,919,316	-
Total	$ 23,434,113	$ -	$ 37,789,753	$ 2,406,224

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2025 will be recognized as adjustment to pension expense (benefit) in the Administration's financial statements in future years.

Additional Information

Additional information on the Pension Plan is provided on the stand-alone financial statements of ERS, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan, P.R. 00940-2004.

Note 10 - Other Postemployment Benefits

The Administration participates in the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for retired participants of the ERS, which is an unfunded, defined benefit other postemployment healthcare benefit plan (OPEB). The OPEB Plan is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions*.

Note 10 - Other Postemployment Benefits – (continued)

OPEB Plan Description

The OPEB Plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provide that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The OPEB Plan is financed by the Commonwealth through legislative appropriations. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age. Act. No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

GASB 75 requires participating employers to recognize their proportionate share of the collective total OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources and collective OPEB expense.

Total OPEB Liability and Actuarial Information

The total OPEB liability recorded by the Administration as of June 30, 2025, and 2024 (measurement date June 30, 2024 and 2023, respectively) amounted to $8,415,772 and $9,285,428 representing its proportionate share of the total OPEB liability of the OPEB Plan as of such date. The total OPEB liability as of June 30, 2025 and 2024 (measurement date June 30, 2024 and 2023, respectively) was determined by an actuarial valuation as of July 1, 2023, and 2022, that was rolled forward to June 30, 2024 and 2023 (measurement date).

The Administration's proportion of the OPEB Plan liability was actuarially determined based on the ratio of the total OPEB liability determined directly for each agency based on each agency's members to the total OPEB liability for all Central Government members as of the measurement date. Previously, the proportionate share as of each measurement date was based on the ratio of each agency's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date. At June 30, 2024 and 2023 (measurement date), the Administration 's proportionate share of the OPEB Plan liability was 1.41311% and 1.43612%, respectively.

Note 10 - Other Postemployment Benefits – (continued)

Total OPEB Liability and Actuarial Information – (continued)

(a) Actuarial assumptions

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement period.

Discount rate

The discount rate for June 30, 2024 and 2023 (measurement date) was 3.93% and 3.65%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2024 (measurement date) actuarial valuation were as follows:

- Pre-Retirement Mortality - For general employees not covered under Act No. 127 of 1958, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127 of 1958, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

  100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127 of 1958.

- Post-Retirement Retiree Mortality - The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Note 10 - Other Postemployment Benefits – (continued)

Total OPEB Liability and Actuarial Information – (continued)

(a) Actuarial assumptions – (continued)

- Post-Retirement Disabled Mortality - The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Post-Retirement Beneficiary Mortality - Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

(b) Sensitivity of total OPEB liability to changes in the discount rate

The following presents the Administration's total OPEB Plan liability calculated using the discount rate of 3.93% and 3.65% for June 30, 2025 and 2024 (reporting date), respectively, as well as what the Administration 's proportionate share of the total OPEB Plan liability would be if it were calculated using a discount rate of 1% point lower or 1% point higher than the current rate:

June 30, 2025

	1% Decrease (2.93%)	Current Discount Rate (3.93%)	1% Increase (4.93%)
Total OPEB liability	$ 9,104,966	$ 8,415,772	$ 7,818,222

June 30, 2024

	1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)
Total OPEB liability	$ 10,081,681	$ 9,285,428	$ 8,598,489

Note 10 - <u>Other Postemployment Benefits – (continued)</u>

<u>Deferred Outflows of Resources Related to the OPEB Plan</u>

At June 30, 2025 and 2024 (measurement date June 30, 2024 and 2023), the reported deferred outflows of resources related to the OPEB Plan of $989,000 and $1,036,003, respectively, consist of OPEB benefits paid subsequent to the measurement date.

<u>Additional Information</u>

Additional information on the OPEB Plan can be obtained from the Retirement Board of the Government of Puerto Rico Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

Note 11 - <u>Voluntary Pre-retirement Program (Act No. 211-2015)</u>

On December 8, 2015, Act. No. 211 was approved to create a Voluntary Preretirement Program. Effective June 21, 2019, the voluntary termination benefits were accepted by 160 employees and the Administration entered into the voluntary preretirement program as part of management plans to restructure the Administration.

The program consisted of, for each eligible employee applicant, 60% of the average salary at December 31, 2015 until the age of 61, liquidation of the vacation and sick leave licenses up to the limit permitted by law, exempt from income taxes. The Administration will continue to make the employer contributions for the Social Security and Medicare for the 60% of the salary. In addition, the Administration will pay the medical plan that the employee had up to two years. The Administration's voluntary pre-retirement program liability as of June 30, 2025 and 2024, calculated using the discounted present value of expected future benefit payments amounts to approximately $2.1 million and $3.6 million, respectively. Discount rates used for the years ended June 30,2025 and 2024 were 3.30% and 3.65%, respectively.

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Note 11 - Voluntary Pre-retirement Program (Act No. 211-2015) – (continued)

June 30, 2025

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year	More than One Year
Voluntary termination benefits	$ 3,665,390	$ -	$ (1,537,166)	$ 2,128,224	$ 1,174,184	$ 954,040

June 30, 2024

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year	More than One Year
Voluntary termination benefits	$ 5,824,470	$ -	$ (2,159,080)	$ 3,665,390	$ 1,650,798	$ 2,014,592

Note 12 - Commitments and contingencies

Commitments

Contracts for future purchases

The Administration has long-term contractual obligations with suppliers for future purchases such as medical supplies or services expiring at various dates through year 2030. Total expense for these contracts for the years ended June 30, 2025 and 2024 amounted to approximately $11 million for both years.

Future minimum contractual obligations with suppliers as of June 30, 2025, follows:

Years ending June 30,	Amounts
2026	$ 11,064,743
2027	8,157,736
2028	1,353,454
2029	196,315
2030	45,360
	$ 20,817,608

Note 12 - Commitments and contingencies – (continued)

Commitments – (continued)

Government Development Bank of Puerto Rico loan

On October 14, 2010, the Legislature of the Commonwealth of Puerto Rico approved an article 9A to the Law 66 of June 22, 1978, by which it authorized the Administration to incur on obligations up to $285,000,000, under such terms and conditions approved by the Board of Member Institutions (the Board) of the Administration and the Government Development Bank (GDB), as former fiscal agent of the Government of Puerto Rico and its instrumentalities.

These additional funds were to be used for the following:

a. payment of debts to suppliers, agencies, institutions, reserve fund for the self-insurance (professional responsibility and inter-fund debt) of the Administration; and

b. to provide operational liquidity to ease their fiscal situation, as determined by the agreement with the GDB.

The Commonwealth of Puerto Rico was to honor the payment of the obligations authorized, with legislative appointments made by the Legislative Body of Puerto Rico on the functional budgets of every fiscal year, beginning with the fiscal year 2012-2013 and ending in the fiscal year 2041-2042. Also, for the fiscal years 2012-2013 and 2013-2014, the Director of the Office of Management and Budget of Puerto Rico (OMB), was to consign on the functional budgets of the Commonwealth of Puerto Rico submitted annually by the Governor to the Legislative Body of Puerto Rico, the amount corresponding to interests on the obligations incurred and, beginning on the fiscal year 2014-2015 until fiscal year 2041-2042 the principal and the interest incurred were to be consigned on the budget. If in any moment the legislative contributions or other income of the Administration weren't enough to cover up the payment of the obligations authorized and the accrued interests, the Secretary of Treasury of Puerto Rico was to withdraw from any amounts available in the General Fund of the Commonwealth of Puerto Rico the necessary amounts to repay the principal and interests of the line of credit.

As of June 30, 2025 and 2024 the amount corresponding to the payments of principal and interests for fiscal years 2025 and 2024, were not consigned on the budget nor received from the Secretary of the Treasury of Puerto Rico.

Interest expense for the years ended June 30, 2025 and 2024 amounted to $26,297,057 and $28,195,733, respectively. Interest rate on the line of credit is a fluctuating annual rate equal to the

Note 12 - Commitments and contingencies – (continued)

Commitments – (continued)

Government Development Bank of Puerto Rico loan – (continued)

greater of (i) 1.5% over and above the prime rate, as in effect from time to time, and (ii) 6%. The interest rates as of June 30, 2025 and 2024, were 9% and 9.75%, respectively.

The Administration's real property is pledged as collateral to the Government Development Bank loan.

On November 20, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. Pursuant to the Qualifying Modification and Act No. 109-2017, as amended, GDB retained the Administration's loan.

Construction commitment

As of June 30, 2025, the Administration had construction commitments for approximately $27.7 million related to construction contracts.

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 the claims, many of them involve medical personnel of the member institutions, and in effect, these claims are against said institutions.

Based on a review of current facts and circumstances management has provided for what is believed to be a reasonable estimate of the exposure to loss associated to litigation. The Administration has established an accrual reserve for medical malpractice claim losses in the amount of $1,737,548 and $1,768,675 as of June 30, 2025 and 2024, respectively, and non-medical legal claim reserve in the amount of $1,138,400 and $1,027,000, respectively. The non-medical reserve is recorded in accounts payable in the statements of net position.

Regulatory issues

The healthcare industry is subject to numerous laws and regulations which include, among other things, matters such as government healthcare participation requirements, various licenses and accreditations, reimbursements for patient services and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning

Note 12 - Commitments and contingencies – (continued)

Contingencies – (continued)

Regulatory issues – (continued)

possible violations of fraud and abuse and false claims statues and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be excluded from participating in government healthcare programs, subjected to fines or penalties or required to repay amounts received from government for previously billed patient services. While management of the Administration believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Administration will not be subject to governmental inquires or actions.

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act (HIPAA) was enacted in August 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Organizations are required to be in compliance with HIPAA provisions. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. The Administration's management believes that they are in compliance.

Implementation requirements of an Electronic Health Record System

The Health Information Technology for Economic and Clinical Health Act set meaningful use of interoperable Electronic Health Record (EHR) adoption in the health system as a critical national goal and incentivize the EHR adoption. Its goal is not adoption alone but meaningful use of EHRs, that is, their use by providers to achieve significant improvements in care. Meaningful use compliance is required before the Federal Fiscal Year 2021 or otherwise the Administration will incur penalties for non-compliance that may reduce future Medicare payments and potentially Medicare Advantage program payments.

The Centers for Medicare and Medicaid Services (CMS) manages and has implemented an incentive program for those hospitals that implement EHR and that also, comply with certain specific requirements. CMS EHR Incentive Programs provide incentive payments to eligible hospitals as they adopt, implement, upgrade or demonstrate meaningful use, as defined by CMS, of certified EHR technology. As of June 30, 2025 and 2024, the Administration is under the implementation of its EHR system. The implementation of the new version of the hospital system is expected to meet new meaningful use and interoperability regulations in the coming year.

Note 12 - Commitments and contingencies – (continued)

Contingencies – (continued)

Implementation requirements of an Electronic Health Record System – (continued)

Pursuant to the Consolidated Act of 2016, the Puerto Rico hospitals become eligible under the Medicare EHR Incentive Program. This enables the hospitals to not only receive the incentive payments but also be subject to the Medicare negative payment adjustments. The hospitals may begin participation for EHR reporting periods in 2016 and would have to be successfully demonstrating meaningful use in order to avoid a negative payment adjustment.

The Puerto Rico hospitals could earn up to four consecutive years of Medicare EHR Incentive Program payments. Puerto Rico hospitals will be able to gain incentives when integration between the Department of Health and other PR hospitals is achieved.

Federal grants

During the years ended June 30, 2025 and 2024, the Administration received conditional contribution grants from the U.S. Treasury Department and through the local government. Contributions were received for the purpose of providing financial support to the Administration, rather than for the direct benefit of the grantor, therefore, such grants were considered as nonexchange contributions. The grantors have restricted the use of these funds as conditional contributions. The Administration accounts for conditional contributions received before the specified condition has been substantially met as a refundable advance liability (unearned revenues). Upon complying with the applicable restrictions, the refundable advances are recognized as revenue or gain in the statements of revenues, expenses and changes in net position (deficit).

Funds received from federal funded programs are subject to financial and compliance audits in accordance with the provisions of Title 2 of the U.S. Code of Federal Regulation, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (the Uniform Guidance) or to compliance audits by the corresponding federal agencies and pass-through entities, as applicable. The Uniform Guidance requires compliance audits for entities receiving financial assistance in excess of $750,000 in the aggregate in a single year. Related compliance reports are required to be submitted to the corresponding federal agencies.

Note 12 - Commitments and contingencies – (continued)

Contingencies – (continued)

Federal grants – (continued)

The Administration received in fiscal years 2025 and 2024, $10,256,119 and $1,472,441, respectively, from federal assistance under, then Disaster Grants – Public Assistance and the Coronavirus State and Local Fiscal Recovery Funds - ARP Act, which were incurred for the purchase of equipment and bonus for first responders and contractors and operating expenses, respectively. The remaining balance of $5,222,963 and $619,683 were recorded as unearned revenue in the accompanying statements of net position (deficit) as of June 30, 2025 and 2024, respectively.

Grant revenues for the years ended June 30, 2025 and 2024 are as follows:

	2025	2024
Coronavirus State and Local Fiscal Recovery Funds - ARP Act	$ 10,256,119	$ 256,534
Disaster Grants - Public Assistance	-	1,215,907
	$ 10,256,119	$ 1,472,441

As of June 30, 2025 and 2024, the Administration has recognized unearned revenues for unexpended federal grants as follows:

	2025	2024
Coronavirus State and Local Fiscal Recovery Funds - ARP Act	$ 3,525,672	$ 533
Disaster Grants - Public Assistance	1,697,291	618,750
	$ 5,222,963	$ 619,283

The Administration believes that compliance with the grant's requirements will be achieved within the timeframe prescribed by the grant, however, there is no assurance that compliance will be attained. Since the Administration received and expended federal financial assistance in excess of $750,000, it is subject to compliance audits under the Uniform Guidance.

Federal agencies have the authority to recoup, as well as to limit, suspend, or terminate the federal financial assistance programs. If any unallowed costs are detected as a result of such compliance audits, the Administration may be required to reimburse such amounts to the corresponding federal agencies from its own non-federal resources. The accompanying financial statements do not contain any adjustment that my result from this contingency.

Note 13 - Services to member institutions and medical indigent population

The Administration derives a substantial portion of its revenue from services provided to member institutions. In addition, the Administration provides services to the medical indigent population, which does 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 of the member institutions and/or the Commonwealth of Puerto Rico.

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Note 14 - Contributions from the Commonwealth of Puerto Rico

Governmental contributions during the years ended June 30, 2025 and 2024, consist of the following:

	2025	2024
Funds received in connection with Joint Resolution 39 approved by the Commonwealth's Legislature on June 29, 2023, assigned $68.714 million of which $10.627 million were for the payment of salaries and related benefits, $36.256 million for operating expenses, and $21.831 million for the payment to cover retirement expenses under the Pay-Go system.	$ -	$ 68,714,000
Funds granted in connection with Joint Resolution 39 approved by the Commonwealth's Legislature on June 29, 2023, assigned $33.285 million for capital improvements and medical equipment.	4,462,276	1,794,911
Funds received in connection with Joint Resolution 43 approved by the Commonwealth's Legislature on June 30, 2024, assigned $94.077 million of which $29.690 million were for the payment of salaries and related benefits, $42.065 million for operating expenses, and $22.322 million for the payment to cover retirement expenses under the Pay-Go system.	94,077,000	-
Funds received in connection with Joint Resolution 43 approved by the Commonwealth's Legislature on June 30, 2024, assigned $8.7 million for capital improvements and medical equipment of which $1.756 million were received and expensed during the year-end.	1,755,987	-
Funds received during April 2025 to cover privatized services contracts such as cleaning, security, maintenance, biomedical wastes and others, authorized by the Puerto Rico Office of Management and Budget and Puerto Rico Fiscal Agency and Financial Advisory Authority.	6,927,479	-
Funds received from Intra-Governmental Transfers authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority for the Pay-Go system.	-	1,369,172
Funds granted to the Administration by the Article 23.02 (f) of the Law 24 of 2017, as amended, known as “Ley de Vehículos y Tránsito de Puerto Rico” for the entity’s Trauma Center.	-	7,201,000
Funds received from Intra-Governmental Transfer authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority for the payment of debt owe to the Puerto Rico Electric Power Authority and other governmental entities.	-	1,526,717

Note 14 - Contributions from the Commonwealth of Puerto Rico – (continued)

Description	2025	2024
Funds received during November 2023 and June 2024 from the Puerto Rico Treasury Department for salary retribution and salary retroactive, respectively. Authorized by the PR Office of Management and Budget and Puerto Rico Fiscal Agency and Financial Advisory Authority.	$ -	$ 12,985,799
Funds received during May 2024 for anesthesia vacant position others, authorized by the Puerto Rico Office of Management and Budget and Puerto Rico Fiscal Agency and Financial Advisory Authority.	-	1,244,112
Funds received from Intra-Governmental Transfer authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority to cover the payment of the upside participation bonus.	354,353	365,367
Funds received during December 2023 for a cost model incentive milestone project approved by the Puerto Rico Office of Management and Budget.	-	236,000
Funds received from Intra-Governmental Transfer authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority to cover the payment of the Christmas bonus to the employees.	953,414	937,427
	$ 108,530,509	$ 96,374,505

Note 15 - Going concern and management plans

As of June 30, 2025 and 2024, the Administration has a total deficit of $681,259,111 and $637,258,958, respectively, as well as a working capital deficiency of $290,035,919 and $249,118,246, respectively. These conditions raise substantial doubt about the Administration's ability to continue as a going concern. The Administration's financial condition has been weakened by high operating costs and recurring operating losses, which, in prior periods, have affected its ability to make timely payments to suppliers, government agencies, and other creditors. The Administration's operations depend heavily on 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. These losses stem from high operating costs and the provision of services to the medically indigent population who lack private health insurance coverage or do not participate in the Health Reform Program administered by the Puerto Rico Health Insurance Administration (ASES).

Note 15 - Going concern and management plans – (continued)

To mitigate these conditions and partially subsidize existing and future operating losses, the Administration has identified and begun implementing the following critical strategies:

- Efforts are underway to allow the Administration to partially charge for services provided to medically indigent patients in the private sector. To this end, an allocation of $4 million was requested in the new budget to partially cover an estimated annual loss of approximately $8 million associated with this population.
- The Administration will continue holding monthly revenue cycle meetings to further refine processes, monitor the aging of accounts receivable with health plans, and promptly address any situation that impacts institutional liquidity.
- The orientation and implementation process for the Pyxis systems, both medical-surgical and pharmaceutical, will be completed. This will provide greater visibility and accuracy regarding the actual costs associated with patient care, enabling the Administration to have sustainable financial information for negotiating rates with health plans.
- A comprehensive evaluation of all services provided by the Administration will be initiated with the aim of renegotiating rates with all health plans. This is because significant contractual increases in recent years have resulted in a disconnect between billed charges and the rates contracted.
- Outpatient services will begin to be offered at the Imaging Center, including, among others, magnetic resonance imaging (MRI), computed tomography (CT), X-ray, and ultrasound, which will diversify revenue streams and increase operating income.
- New specialized services, such as interventional radiology, will be incorporated to expand clinical offerings and generate additional revenue.
- Services will resume to participating entities that, over time, opted to acquire services from external providers, in compliance with Law No. 66, which establishes the obligation of these entities to acquire these services directly from the Administration.
- Additionally, the Administration intends to market its services to other healthcare facilities, including private hospitals, without limiting itself exclusively to participating entities.
- Capital projects will be carefully evaluated to maximize the efficient use of available resources.
- The reopening of the Rehabilitation area is being considered as part of the efforts to expand the range of clinical services offered.
- Recruitment efforts will continue in areas of direct patient care to address staff shortages and reduce overtime costs, which have increased significantly.
- The possibility of modifying twelve-hour shifts for registered nurses will be evaluated to address staffing shortages and achieve better and more efficient shift coverage.

Note 15 - Going concern and management plans – (continued)

Finally, the Administration recognizes the need for increased contributions from the Government of Puerto Rico to strengthen its financial stability and ensure the continuity of the essential services it provides.

The ability of the Administration to continue as a going concern is dependent on the success of management's plans. The financial statements do not include any adjustments that might be necessary if the Administration is unable to continue as a going concern.

Note 16 - Concentration of credit – patients' accounts receivable

The Administration grants credit without collateral to its patients, most of whom are residents of Puerto Rico and are insured under third-party payor agreements.

The mix of receivables from patients and third-party payors at June 30, 2025 and 2024, is as follows:

	2025	2024
ACAA	13%	17%
Humana Insurance	0%	1%
Triple S	4%	4%
MCS	3%	3%
Medicare	7%	9%
Correctional Health Sevices	6%	9%
Reform Health Plans	27%	22%
Other Insurances	40%	35%
	100%	100%

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Note 17 - Functional expenses

The Administration provides general health care services. Expenses, related to providing these services for the years ended June 30, 2025 and 2024, are as follow:

	2025	2024
Health care services	$ 195,055,771	$ 175,440,807
General and administrative and depreciation	33,016,941	26,742,124
Pension, OPEB and voluntary termination benefits	23,293,122	(89,695,220)
	$ 251,365,834	$ 112,487,711

Note 18 - Adjustments to and Restatements of Beginning Balances

During the year ended June 30, 2025, the Administration identified errors related to the previous year's financial statements. Adjustments are being recorded against the beginning net position (deficit) in the Administration's financial statements mainly due to depreciation expense that was calculated for equipment recorded in the equipment clearing account for various years, therefore, not depreciated despite the fact that it was in use during previous years, and the implementation of a new accounting pronouncement.

Total net position (deficit) is adjusted and restated effective July 1, 2023, as follows:

Net position (deficit) - July 1, 2023	$ (708,094,517)
Error Correction	(3,495,157)
Change in accounting principle (GASB 101)	(1,023,499)
	(4,518,656)
Net position (deficit) - July 1, 2023, as adjusted and restated	$ (712,613,173)

Effective July 1, 2023, the Administration adopted the provisions of GASB Statement No. 101, *Compensated Absences*. GASB No. 101 provides guidance on the recognition and measurement of compensated absences, including vacation, sick leave, and other leave benefits. As a result of the adoption of GASB No. 101, the Administration recognized additional liabilities for compensated absences that were not previously reported in prior periods. The effect of the retroactive adoption of GASB No. 101 is reflected as a cumulative effect adjustment to the beginning net position (deficit) of the current fiscal year.

The cumulative effect of applying GASB No. 101 resulted in an increase in the liability for compensated absences and a corresponding increase in the beginning net position (deficit).

Note 19 - Subsequent events

The Administration evaluated subsequent events through February 19, 2026, which is the date the financial statements were available to be issued. The following event have occurred subsequent to the statement of net position date that would require additional adjustment to, or disclosure in the financial statements.

Based on directives from the Financial Oversight and Management Board (FOMB), Administración de Seguros de Salud (ASES) is implementing an All Patient Refined Diagnosis-Related Group (APR DRG) reimbursement system to be administered by the Plan Vital managed care organizations (MCOs) effective January 1, 2026. The APR DRG reimbursement system is a prospective rate system in which the hospital-specific base rate is a predetermined amount, but the future calculated payment for each inpatient hospital discharge relies on the APR DRG classification, associated relative weight, and eligibility for other Plan Vital policies (e.g., transfer policy, outlier policy), resulting in varied payments for each discharge. It is important to note that although the hospital-specific base rates are calculated using historical expenditures to target a budget neutral amount across providers, future payments are not limited to this aggregate amount. APR DRG payments effective for Plan Vital on January 1, 2026, will be calculated for each inpatient hospital discharge based on the APR DRG classification, associated relative weight, and eligibility for other Plan Vital policies based on the coding on the claim.

Puerto Rico Medical Services Administration
A Component Unit of the Commonwealth of Puerto Rico

Required Supplemental Information
Schedule of Proportionate Share of the Collective Total Pension Liability

June 30, 2025 and 2024

	2025	2024	2023	2022	2021	2020	2019
Proportion (percentage) of the net collective total pension liability	1.56574%	1.55622%	1.99716%	1.84256%	1.80659%	1.81423%	1.81507%
Proportion (amount) of the net collective total pension liability	$ 310,961,488	$ 323,238,034	$ 442,419,290	$ 500,888,486	$ 507,105,129	$ 450,844,103	$ 444,501,001
Covered employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Proportionate share of the collective total pension liability as a percentage of the covered employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to required supplementary information

1. As a result of the implementation of the PayGo system, as provided by Act No. 106 of 2017 (Act 106), the Pension Plan no longer met the criteria to be considered a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, was required to apply the guidance in GASB 73 effective July 1, 2018. Act 106 eliminated all employer contributions and required ERS to liquidate its assets and to transfer the proceeds to the Commonwealth for the payment of pension benefits.

2. The Administration's proportion of the total pension liability was actuarially determined based on the ratio of the total pension liability determined directly for each agency based on each agency’s members to the total pension liability for all Central Government member’s as of the measurement date.

3. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

4. The amounts presented were determined by an actuarial valuation as of July 1, 2023, that was rolled forward to June 30, 2024, the measurement date.

5. There are no assets accumulated in trust to pay related benefits.

Puerto Rico Medical Services Administration
A Component Unit of the Commonwealth of Puerto Rico

Required Supplemental Information
Schedule of Proportionate Share of the Collective Total OPEB Liability

June 30, 2025 and 2024

	2025	2024	2023	2022	2021	2020	2019	2018	2017
Proportion of the collective total OPEB liability	1.41311%	1.43612%	1.43778%	1.76731%	1.72292%	1.73979%	1.73376%	1.67165%	1.61911%
Proportionate share of the collective total OPEB liability	$ 8,415,772	$ 9,285,428	$ 10,001,223	$ 14,105,213	$ 15,069,169	$ 14,479,080	$ 14,600,907	$ 15,387,854	$ 19,188,409
Covered employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Proportionate share of the collective total OPEB liability as a percentage of the covered employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan's fiduciary net position as a percentage of the total OPEB liability	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to required supplementary information

1. The Administration's proportion of the total OPEB liability was actuarially determined based on the ratio of the total OPEB liability determined directly for each agency based on each agency's members to the total OPEB liability for all Central Government members as of the measurement date.

2. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

3. The amounts presented were determined by an actuarial valuation as of July 1, 2023, that was rolled forward to June 30, 2024, the measurement date.

4. There are no assets accumulated in trust to pay related benefits.

Puerto Rico Medical Services Administration

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2025

Federal Agency (Pass-Through Agency)	Federal Program Title	Assistance Listing Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed Through to Subrecipients
U.S. Department of Treasury (Pass-through from the Puerto Rico Department of Treasury	Coronavirus State and Local Fiscal Recovery Fund - ARP Act	21.027	N/A	$ 10,256,119	$ -	$ 10,256,119	$ -
U.S. Department of Homeland Security (Pass-through from The Central Office of Recovery, Reconstruction and Resiliency)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	1,432,494	-	1,432,494	-
	Total expenditures of federal awards			$ 11,688,613	$ -	$ 11,688,613	$ -

Puerto Rico Medical Services Administration
A Component Unit of the Commonwealth of Puerto Rico

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2025

Note 1 - <u>Basis of presentation</u>

The accompanying schedule of expenditures of federal award (the Schedule) includes the federal grant activity of the Puerto Rico Medical Services Administration (the Administration) under programs of the federal government for the year ended June 30, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operation of the Administration, it is not intended to and does not present the financial position, changes in net position and cash flows of the Administration.

Note 2 - <u>Summary of significant accounting policies</u>

a. The Schedule is prepared from the Administration's accounting records.
b. The financial transactions are recorded by the Administration in accordance with the terms and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
c. Expenditures are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.
d. The Administration has elected not to use the 10-percent de minimis indirect costs rate as allowed under the Uniform Guidance.

Note 3 - <u>Assistance Listing Number</u>

Assistance Listing numbers included in the Schedule are determined based on the program name, review of grant contract information and the public descriptions of federal assistance listings published by the U.S. Government on sam.gov.

Note 4 - <u>Major federal programs</u>

The major federal programs are identified in the Summary of Auditors' Results Section in the Schedule of Findings and Questioned Costs. Federal programs are presented by federal agency.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Secretary of the Puerto Rico Health Department
and Board of Members Institutions of
Puerto Rico Medical Services Administration

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Puerto Rico Medical Services Administration (A Component Unit of the Commonwealth of Puerto Rico) (the Administration), which comprise the statements of financial position as of June 30, 2025 and 2024, and the related statements of revenues, expenses and changes in net position (deficit) and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 19, 2026.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2025-001 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Puerto Rico Medical Services Administration's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* and which are described in the accompanying schedule of findings and questioned costs as item 2025-001.

The Administration's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Administration's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Administration's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

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DLLC322-1955
Puerto Rico Medical Services Administration

San Juan, Puerto Rico
February 19, 2026
License No. LLC-322
Expires December 1, 2026

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

To the Secretary of the Puerto Rico Health Department
and Board of Members Institutions of
Puerto Rico Medical Services Administration

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Puerto Rico Medical Services Administration's (the Administration) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Administration's major federal programs for the year ended June 30, 2025. The Administration's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Administration complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2025.

Basis for Opinion Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Administration and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Administration's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Administration's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Administration's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Administration's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Administration's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Administration's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Administration's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying schedule of findings and questioned costs as items 2025-002 and 2025-003. Our opinion on each major federal program is not modified with respect to these matters. *Government Auditing Standards* requires the auditor to perform limited procedures on the Administration's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Administration's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

DLLC322-1956
Puerto Rico Medical Services Administration

Galíndez LLC

San Juan, Puerto Rico
February 19, 2026
License No. LLC-322
Expires December 1, 2026

Puerto Rico Medical Services Administration
A Component Unit of the Commonwealth of Puerto Rico

Schedule of Findings and Questioned Costs

Year Ended June 30, 2025

Part I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
Material weaknesses identified?	x Yes	___ No
Significant deficiencies identified that are not considered to be material weaknesses?	___ Yes	x No
Noncompliance material to financial statements noted?	___ Yes	x No

Federal Awards

Type of auditors' report issued on compliance for major programs:	Unmodified	
Internal control over compliance:		
Material weakness identified?	___ Yes	x No
Significant deficiencies identified that are not considered to be material weaknesses?	___ Yes	x No
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	x Yes	___ No

Identification of major programs:

Name of Federal Program or Cluster	Assistance Listing Number
Coronavirus State and Local Fiscal Recovery Funds - ARP Act	21.027
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low-risk auditee under the Uniform Guidance § 200.520? ___ Yes x No

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards

Finding No. 2025-001 – Adjustment to and Restatement of Beginning Balances

Type of Finding

Non-Compliance and Internal Control Over Financial Reporting

Category

Material weakness

Criteria

- The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting standards for U.S. state and local governments that follow generally accepted accounting principles (GAAP). These standards ensure that financial statements are accurate, complete, and free from material misstatement.

- The Government Auditing Standards (Yellow Book, 2018 Revision, Technical Update April 2021) require auditors to report significant deficiencies in internal control over financial reporting, and states that management is responsible for designing and maintaining effective internal controls (paras. 6.39–6.41).

- Standards for Internal Control in the Federal Government (Green Book) and the COSO Framework establish as one of the fundamental concepts of internal control that one of the objectives and related risks for internal controls is the “reliability of reporting for internal and external use” and “compliance with applicable laws and regulations”. Also, the Green Book and the COSO Framework confirm that management should design control activities to ensure complete, accurate, and timely financial reporting (e.g., Principles 10–13, 16–17).

- Act No. 230 of July 23, 1974, as amended, requires the accounting systems of Puerto Rico government instrumentalities to provide complete and clear information related to their results of operations.

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards – (continued)

Finding No. 2025-001 – Adjustment to and Restatement of Beginning Balances – (continued)

Condition

During the year ended June 30, 2025, the Administration identified an error related to the previous year's financial statements. Adjustments are being recorded against the beginning net position (deficit) in the Administration's financial statements due to depreciation expense that was calculated for equipment recorded in the equipment clearing account for various years, therefore, not depreciated despite the fact that it was in use during previous years.

Total net position (deficit) is adjusted and restated effective July 1, 2023, as follows:

Net position (deficit) - July 1, 2023	$ (708,094,517)
Error Correction	(3,495,157)
Change in accounting principle (GASB 101)	(1,023,499)
	(4,518,656)
Net position (deficit) - July 1, 2023, as adjusted and restated	$ (712,613,173)

Cause

The misstatement was due to depreciation expense that was calculated for equipment recorded in the equipment clearing account for various years, therefore, not depreciated despite the fact that it was in use during previous years.

Effect

This type of restatement could impact the accuracy of financial reporting.

Context

The Administration's Deficit as of July 1, 2023, has been increased by a total of $3,495,157.

Questioned Cost

None

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards – (continued)

Finding No. 2025-001 – Adjustment to and Restatement of Beginning Balances – (continued)

Recommendation

Management of the Administration must ensure that the financial figures presented in the financial records be adequately supported. Supervision should also be enhanced during the accounting period and year end closing procedures to ascertain that the amounts presented have undergone the corresponding validation analysis.

Views of responsible officials and planned corrective actions.

Management of the Administration agrees with this finding. Refer to the corrective action plan on page 100-103.

Part III - Findings and Questioned Costs Relating to Federal Awards

Finding No. 2025-002 – Failure to Prepare the Schedule of Expenditures of Federal Awards (SEFA)

Federal Programs

ALN 21.027, Coronavirus State and Local Fiscal Recovery Funds - ARP Act
ALN 97.036, Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Name of Federal Agency

US Department of Treasury (Pass-through from the Puerto Rico Coronavirus Relief Fund Disbursement Oversight Committee)

U.S. Department of Homeland Security (Pass-through program from The Central Office of Recovery, Reconstruction and Resiliency)

Category

Internal Control; Compliance.

Compliance Requirement

Reporting

Criteria

Title 2 U.S. Code of Federal Regulations (CFR) Part 200.510(b) requires the auditee to prepare a Schedule of Expenditures of Federal Awards that includes, at a minimum:

- The total federal awards expended for each federal program and CFDA/Assistance Listing number;
- The name of the federal agency and pass-through entity, if applicable;
- The amount provided to subrecipients, if applicable.

Condition

The Administration did not prepare the Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ended June 30, 2025. As a result, the SEFA was not available at the time of the audit and had to be prepared with the assistance of the auditors.

Part III - Findings and Questioned Costs Relating to Federal Awards

Finding No. 2025-002 – Failure to Prepare the Schedule of Expenditures of Federal Awards (SEFA) – (continued)

Cause

Management lacks adequate procedures over the identification, accumulation, and reporting of federal award expenditures necessary to prepare the SEFA.

Effect

The failure to prepare the SEFA increases the risk that federal expenditures may be incomplete or inaccurate, which could result in noncompliance with Uniform Guidance requirements and improper determination of major programs.

Context

The Schedule of Expenditures and Federal Awards was not available at the time of the audit and had to be prepared with the assistance of the auditors.

Identification of repeat finding

None.

Questioned costs

None.

Recommendation

We recommend that management establish and maintain effective internal controls and procedures to ensure the SEFA is prepared, reviewed, and completed in accordance with 2 CFR 200.510(b) on a timely basis.

Views of responsible officials and planned corrective actions

We agreed with the auditors’ finding and recommendation. See further details regarding this matter within the Corrective Action Plan provided on pages 100-103.

Part III - Federal Award Findings and Questioned Costs – (continued)

Finding No. 2025-003 – Internal control deficiencies over accounting and identification of federal funds received from the Federal Emergency Management Agency (FEMA) that should be included on SEFA

Federal Programs

ALN 97.036, Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Name of Federal Agency

U.S. Department of Homeland Security (Pass-through program from The Central Office of Recovery, Reconstruction and Resiliency)

Category

Internal Control; Compliance.

Compliance Requirement

Activities Allowed/Unallowed, Allowable Costs/Cost Principles, Period of Performance, Project Accounting.

Criteria

2 CFR Part 200 Subpart D Subsection 200.302 states the following:
The recipient's and subrecipient's financial management system must provide for the following:

1. Identification of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Assistance Listings title and number, Federal award identification number, year the Federal award was issued, and name of the Federal agency or pass-through entity.

2. Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements in §§ 200.328 and 200.329. When a federal agency or pass-through entity requires reporting on an accrual basis from a recipient or subrecipient that maintains its records other than on an accrual basis, the recipient or subrecipient must not be required to establish an accrual accounting system. This recipient or subrecipient may develop accrual data for its reports based on an analysis of the documentation on hand.

Part III – Federal Award Findings and Questioned Costs – (continued)

Finding No. 2025-003 – Internal control deficiencies over accounting and identification of federal funds received from the Federal Emergency Management Agency (FEMA) that should be included on SEFA – (continued)

Criteria – (continued)

3. Maintaining records that sufficiently identify the amount, source, and expenditure of Federal funds for Federal awards. These records must contain information necessary to identify Federal awards, authorizations, financial obligations, unobligated balances, as well as assets, expenditures, income, and interest. All records must be supported by source documentation.

4. Effective control over and accountability for all funds, property, and assets. The recipient or subrecipient must safeguard all assets and ensure they are used solely for authorized purposes. See § 200.303.

5. Comparison of expenditures with budget amounts for each Federal award.

6. Written procedures to implement the requirements of § 200.305.

7. Written procedures for determining the allowability of costs in accordance with subpart E and the terms and conditions of the Federal award.

Condition

During our procedures concerning the Administration's funds received from FEMA we noticed that the reimbursement funds received from FEMA were not recognized as income during the year ended June 30, 2025.

Cause

The Administration recognized the reimbursement as an accrual and not as income during the year ended June 30, 2025. They have recognized only the amount that they disbursed during the year at their discretion. This accounting is correct when the funds received are capital advances.

Effect

This can result in amounts not to be included in the Schedule of Expenditures and Federal Awards in the correct period and understate SEFA. Also, the Administration could be subject to penalties or sanctions from the Federal Grantor.

Part III - Findings and Questioned Costs Relating to Federal Awards

Finding No. 2025-003 – Internal control deficiencies over accounting and identification of federal funds received from the Federal Emergency Management Agency (FEMA) that should be included on SEFA – (continued)

Context

The Administration identified $6,543 as federal expenditures from prior years capital advances of FEMA awards but did not identify as expended the amount of $11,063 from advances. In addition, the Administration received reimbursements of $1,413,451 in the fiscal year, however management did not identify this amount as federal expenditures until the audit procedures was performed.

Identification of repeat finding

None.

Questioned costs

None, as adjustments were made during the audit to correct the misstatement.

Recommendation

We recommend validating, with the staff in charge of Engineering, the type of funds received from FEMA, if they are reimbursements or capital advances. When the funds received are reimbursements they should be recognized as income in the year received. If the funds are capital advances they should be recognized as unearned revenue and as income in the year in which they are disbursed.

Views of responsible officials and planned corrective actions

We agreed with the auditors' finding and recommendation. See further details regarding this matter within the Corrective Action Plan provided on pages 100-103.

ADMINISTRACIÓN DE SERVICIOS MÉDICOS DE PUERTO RICO
ASEM
GOBIERNO DE PUERTO RICO

Galíndez LLC
URB. Pérez Morris
19 Ponce St.
San Juan, PR 00917

Dear CPA Marcos Claudio:

Through this letter, the Puerto Rico Service Administration confirms that we have thoroughly reviewed the findings presented in the recent audit. We fully acknowledge the observations noted and agree with the results obtained during the process.

We also reaffirm our commitment to continuous improvement and to complying with all applicable standards. Accordingly, we have adopted the proposed corrective action plan and will work diligently to implement each of the recommended measures within the established timeframe.

We appreciate the opportunity to strengthen our processes and reiterate our willingness to collaborate in any necessary follow-up.

Accordingly, it was never the intention of ASEM to incur the indicated findings.

Sincerely,

Milenes E. Colón Morán
Interim Director of Fiscal Resources and Budget

Barrio Monacillos Centro Médico PO Box 2129 San Juan, Puerto Rico 00922-2129
(787) 777-3535 https://www.asem.pr.gov

Corrective Action Plan (CAP)

Finding Name: Finding No. 2025-001 –Adjustment and Restatement of Beginning Balances (Depreciation Expense).

Fiscal Year: 2024-2025

Action Item	Corrective Action Description	Responsible Party	Anticipated Completion Date
1. Immediate Adjustment	The administration has already processed the restatement of the beginning net position as of July 1, 2023, for the **$3,495,157** depreciation error.	Accounting Supervisor	Completed
2. Reconciliation Clearing Account	Proceed with reconciling the “Equipment Clearing Account” to ensure that the equipment can be put into operation.	Accounting Analyst	December 31, 2026
3. Clearing Account Policy	Implement a mandatory monthly reconciliation of the "Equipment Clearing Account" to establish depreciation while the equipment is transferred.	Accounting Analyst	June 30, 2026
4. Internal Controls Upgrade	Establish a formal reconciliation process to verify that all equipment received and placed in service is transferred out of the clearing account.	Accounting Supervisor	September 30, 2026
5. Staff Training	Conduct a training session for the finance team specifically focused on the lifecycle of capital assets and the impact of clearing accounts on financial reporting.	Director of Finance	September 30, 2026

Finding No: 2025-002 – Failure to Prepare the Schedule of Expenditures of Federal Awards (SEFA)
Fiscal Year: 2024-2025

Action Item	Corrective Action Description	Responsible Party	Anticipated Completion Date
1. SEFA Template Design	Create a standardized **SEFA template** that includes all required fields: Assistance Listing Number, Federal Program, Federal Agency (Pass-through Agency), and total expenditures.	Director of Finance	Immediately
2. Monthly Reconciliation	Implement a **monthly reconciliation** between the general ledger (GL) and federal drawdowns to ensure the SEFA data is updated in real-time throughout the year.	Accounting Analyst	June 30, 2026
3. Pre-Audit Deadline	Establish a policy requiring the SEFA to be completed and reviewed by the Director of Finance **30 days prior** to the start of the annual audit.	Accounting Supervisor	September 30, 2026
4. Internal Review Process	Implement a "double-check" system where the Federal Programs Director verifies that all active federal grants are included in the draft SEFA before submission.	Federal Programs Director	August 31, 2026
5. Uniform Guidance Training	Provide specialized training for the finance team on **2 CFR 200.502 (Uniform Guidance)** requirements for SEFA preparation and reporting.	Finance Director	September 30, 2026

Finding No: 2025-003 – Internal control deficiencies over accounting and identification of federal funds received from the Federal Emergency Management Agency (FEMA) that should be included on SEFA.
Fiscal Year: 2024-2025

Action Item	Corrective Action Description	Responsible Party	Anticipated CompletionDate
1. Revenue Recognition Cleanup	Conduct a full review of all FEMA funds received in FY 2024-2025 to properly reclassify them as **Federal Revenue/Income** in the General Ledger.	Accounting Supervisor	Immediately
2. Grant Classification Protocol	Implement a mandatory review of **FEMA Project Worksheets (PWs)** and Obligation Notifications to distinguish between "Reimbursements" and "Capital Advances" upon receipt.	Accounting Supervisor	June 30, 2026
3. Specific GL Accounts	Create separate **General Ledger (GL) accounts** for FEMA disaster/project and Federal Funds to track expenditures vs. drawdowns in real-time.	Accounting Supervisor	June 30, 2026
4. Semi-Annual Reconciliation	Establish a semi-annual meeting between the FEMA Coordinator and **Finance** departments to verify that all FEMA-funded work performed matches the reported expenditures.	FEMA Coordinator / Accounting Analyst	June 30, 2026
5. SEFA/FEMA Alignment	Update the SEFA preparation process to ensure FEMA expenditures are reported in the **period they were incurred**, regardless of when the reimbursement was received.	Accounting Analyst	June 30, 2026
6. Uniform Guidance Training	Provide specialized training for the finance team on Federal Funds accounting.	Finance Director	September 30, 2026

Puerto Rico Medical Services Administration
A Component Unit of the Commonwealth of Puerto Rico

Schedule of Prior Year Findings and Questioned Costs

Year Ended June 30, 2025

There was no prior year audit finding.