Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Financial Statements

June 30, 2020 and 2019

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Galíndez LLC

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Cardiovascular Center Corporation of Puerto Rico and the Caribbean (the Corporation), a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Cardiovascular Center Corporation of Puerto Rico and the Caribbean, as of June 30, 2020 and 2019, and the changes in net deficiency, and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Uncertainty About Ability to Continue as a Going Concern

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or "the Act"), was enacted into law. This Act establishes an oversight board to assist the Government of Puerto Rico, including instrumentalities, in managing its public finances, and for other purposes. On September 30, 2016, the Corporation was identified as one of the covered entities subject to oversight under this Act.

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note 17 to the financial statements, the Corporation has suffered recurring losses and has a negative financial position. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 17. These financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Corporation be unable to continue as a going concern.

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 Corporation. 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.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information, and the schedules of the Corporation's proportionate share of the collective total pension liability and the other postemployment benefits (OPEB) collective net liability, as listed on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries 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.

San Juan, Puerto Rico
June 14, 2022
License No. LLC-322
Expires December 1, 2023

Our discussion and analysis of Cardiovascular Center Corporation of Puerto Rico and the Caribbean's (the Corporation) financial performance provides an overview of the Corporation's financial activities for the fiscal years ended June 30, 2020 and 2019. Please read it along with the Corporation's financial statements, which begin on page 10.

Using this Annual Report

The Corporation's financial statements consist of three statements: Statement of Net Position (page 10), Statement of Revenues, Expenses and Changes in Net Deficiency (page 11), and a Statement of Cash Flows (pages 12 and 13). These financial statements and related notes (pages 14 to 64) provide information about the activities of the Corporation, including resources held by the Corporation but restricted for specific purposes by enabling legislation.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Deficiency

The statement of net position and the statement of revenues, expenses and changes in net deficiency report information about the Corporation's resources and its activities in a way that helps to understand if the finances improved or worsen off as a result of the year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Corporation's net position (deficiency) and changes thereto. You can think of the Corporation's net position (deficiency), which is the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources, as one way to measure the Corporation's financial health, or financial position. Over time, increases or decreases in the Corporation's net position (deficiency) are indicators of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Corporation's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall financial health of the Corporation.

Statement of Cash Flow

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and capital and non-capital related financing activities. This statement presents the sources and uses of cash in four categories: (a) operating activities; (b) non-capital financing activities; (c) capital and related financing activities, and (d) investing activities.

Condensed Financial Information

At June 30, 2020 and 2019 and for the years then ended, the Corporation's financial information is summarized as follows:

	2020	2019	Variance	%
Current assets	$ 44,518,349	$ 20,468,482	$ 24,049,867	117%
Non-current assets:				
Capital assets, net	12,876,737	13,340,658	(463,921)	-3%
Total assets	57,395,086	33,809,140	23,585,946	70%
Deferred outflows of resources	3,787,203	2,145,824	1,641,379	76%
Current liabilities	95,147,964	75,353,569	19,794,395	26%
Other non-current liabilities	32,023,470	29,147,380	2,876,090	10%
Total liabilities	127,171,434	104,500,949	22,670,485	22%
Deferred inflows of resources - pension related	1,558,050	1,556,564	1,486	0%
Net position (deficiency)				
Net investment in capital assets	12,876,737	13,340,658	(463,921)	-3%
Net deficiency	(80,423,932)	(83,443,207)	3,019,275	-4%
Total net (deficiency)	$ (67,547,195)	$ (70,102,549)	$ 2,555,354	-4%
Operating revenues, net	$ 77,859,244	$ 81,164,097	$ (3,304,853)	-4%
Operating expenses	77,528,974	75,075,615	2,453,359	3%
Operating income	330,270	6,088,482	(5,758,212)	-95%
Non-operating income	2,225,084	116,026,226	(113,801,142)	100%
Decrease in net deficiency	2,555,354	122,114,708	(119,559,354)	-98%
Total net (deficiency)	$ (67,547,195)	$ (70,102,549)	$ 2,555,354	-4%

Analysis of Net Position and Results of Operations

Net Position

As indicated in the condensed financial information, the net position of the Corporation changed as follows:

Total assets increased by approximately $23.6 million or 70% in comparison to fiscal year 2019. The reason for such increase relates principally to an increase on unrestricted cash, cash equivalents and restricted cash amounting to approximately $20.5 million, which is mostly the result of the receipt of advances from medical plans in relation to the COVID – 19 pandemic, receipts of contributions from the Commonwealth of Puerto Rico and other federal grants and incentives received during the year ended on June 30, 2020. Also, accounts receivable as of June 30, 2020 increased by approximately $3 million in comparison to fiscal year 2019.

Analysis of Net Position and Results of Operations – (continued)

Net Position – (continued)

Current liabilities increased by approximately $19.8 million or 26% in comparison to fiscal year 2019. The increase in current liabilities is mostly related to an increase in the current portion of the total pension liability for approximately $1.6 million, an increase in accounts payable and accrued payroll and other expenses for approximately $3.8 million, an increase in the amount due to the Employees Retirement System amounting to approximately $1 million, and an increase in unearned revenues from advances of medical plans and federal and state grants for approximately $13.2 million.

Other non-current liabilities increased by approximately $2.9 million or 10% when compared to 2019, which is mostly related to an increase in total pension liability of approximately $1.6 million. Following is the summary of the Corporation's pension related items in the financial statements:

	2020	2019	Variance	%
Deferred outflows of resources - pension related	$ 3,727,224	$ 2,087,748	$ 1,639,476	79%
Deferred inflows of resources - pension related	$ 1,558,050	$ 1,556,564	$ 1,486	0%
Total pension liability (current and non-current)	$ 26,073,701	$ 24,692,768	$ 1,380,933	6%

Results of Operations

The Corporation generates all of its operating revenues from activities related to patient services either directly or ancillary, which are typical of a hospital unit, such as cafeteria facility rent, physicians facility rent, parking facility rent, etc. In addition, the expenses incurred in those activities are accounted for as general operating expenses and are segregated between healthcare services and general and administrative. During the years ended June 30, 2020 and 2019, the Corporation reflected operating income of approximately $300,000 and $6.1 million, respectively.

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Analysis of Net Position and Results of Operations – (continued)

Results of Operations – (continued)

The following table presents comparative information of the patient services:

Indicator Description	June 30, 2020	June 30, 2019	Variance	% of Change
Admissions	2,352	3,291	-939	-29%
Discharges	2,428	3,534	-1,106	-31%
Patient days	24,138	29,229	-5,091	-14%
Occupancy percentage	40%	49%	-9%	-18%
Surgery procedures	1,595	1,874	-279	-15%
Invasive laboratory procedures	9,342	11,363	-2,021	-18%

As observed in the table above, during the fiscal year ended on June 30, 2020 the Corporation had significant reductions in patient services, mostly related to the start of the Coronavirus (COVID – 19) pandemic during March 2020.

Also, for the fiscal year ended June 30, 2020, total operating expenses of the Corporation reflected an increase of approximately $2.5 million or 3%, when compared to those of the fiscal year 2019. The most relevant change in operating expenses for the fiscal year ended June 30, 2020, compared to those of fiscal year ended June 30, 2019 are related to increases in salaries and wages expense, utilities, rent and other and pension expense.

In addition, for the fiscal year ended on June 30, 2020, non-operating income of the Corporation reflected a decrease of approximately $113.8 million, when compared to fiscal year 2019. The main reason for such decrease is the recognition during the fiscal year ended on June 30, 2019 of a decrease in total pension liability as a result of the implementation of the PayGo system, as provided by Act No. 106 of 2017. During the year ended June 30, 2020, the Corporation recognized as non-operating income Electronic Health Record incentive payment amounting to approximately $718,000 and contributions from the Commonwealth of Puerto Rico amounting to $1,507,500.

Factors Affecting the Change in Net Position and the Availability of Funds

The investment made by the Puerto Rico Government in the Corporation was based on a higher operating level than the actual. Originally, the Corporation was created as the principal provider of cardiovascular services in Puerto Rico with extended services offer to patients from the Caribbean, Central and South America. The original capital investment was approximately $65,000,000 in capital assets and the related effect in working capital that this type of investment needs. During the first eight years of operations, the Corporation was subsided by the Puerto Rico Government for the payment of rent related to the Public Building Authority lease for the hospital and parking facilities. In the year 2000, the Central Government discontinued such subsidy to the Corporation resulting in an adverse effect in the Corporation's working capital.

As part of the approval of the Law No. 72 of September 7, 1993 (Health Reform), as amended, the Central Government changed its policy and became a purchaser of health insurance instead of a provider of healthcare services. The Corporation was no longer the exclusive provider of cardiovascular services for the medically indigent population. In addition, the situation deteriorated when licenses were approved to other hospitals in Puerto Rico to provide catheterization, angioplasty and cardiovascular surgery services. Finally, the Corporation lost almost all the patients from the Medicaid program. However, the Corporation is the only provider of services to patients with congenital diseases and the only that has a program of heart transplant and services to cardiovascular patients with acute conditions.

Finally, the adoption of the Governmental Accounting Standards Board (GASB) statements No. 71 and No. 68 by the Commonwealth of Puerto Rico and its instrumentalities brought change from the then existing "funding based" accounting model, where the Annual Required Contribution (ARC) was compared to the actual payments made and that difference determined the net pension obligation; to an "accrual basis" model, where the total pension obligation (actuarially determined) is compared to the plan net position and the difference represents the total pension liability. The Primary Government of the Commonwealth of Puerto Rico, as well as its component units and the municipalities, are considered "cost sharing" employers of the Employees Retirement System (ERS); therefore, the Corporation reports its allocated share of the ERS's total pension liability and the related pension amounts. Furthermore, because of the implementation of the pay-as-you-go (PayGo) system, as provided by Act No. 106 of 2017 (Act 106), the ERS no longer met the criteria to be considered a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, it was required to apply the guidance in GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective July 1, 2018. The adoption of GASB No. 73 resulted in a net decrease in the total pension liability and related deferred outflows and inflows of resources of $116,049,367 as of July 1, 2018.

Analysis of Net Position and Results of Operations – (continued)

Results of Operations – (continued)

Factors Affecting the Change in Net Position and the Availability of Funds – (continued)

Changes in the Corporation's cash flows are consistent with changes in operating losses and non-operating revenues and expenses and capital contributions, as discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2020 and 2019, the Corporation had approximately $12.9 million and $13.3 million, respectively, in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. During fiscal years 2020 and 2019, the Corporation made cash outlays for capital assets of $995,799 and $760,495, respectively. Furthermore, during the year ended on June 30, 2020, the Corporation received a contribution from the Commonwealth of Puerto Rico amounting to $3 million, which is conditioned to expenses of capital projects and equipment acquired after June 30, 2020, and such is included as part of restricted cash and unearned revenue - federal grants and other assistance programs in the accompanying statement of net position as of June 30, 2020.

Contacting the Corporation's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Corporation's Finance Director Office at P.O. Box 366528, San Juan Puerto Rico 00936-6528, phone no. (787) 754-8500 extension 3006.

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statements of Net Position

June 30, 2020 and 2019

	2020	2019
Assets:		
Current assets:		
Unrestricted cash and cash equivalents	$ 29,547,436	$ 13,557,218
Restricted cash	4,482,548	-
Patients accounts receivable, net	6,551,248	3,290,567
Estimated third-party payor - Medicare	856,267	745,383
Other accounts receivable, net of estimated uncollectibles of $2,829,529 and $2,725,737 in 2020 and 2019, respectively	538,053	513,839
Inventory of supplies	1,942,593	1,922,980
Prepaid expenses and other current assets	600,204	438,495
Total current assets	44,518,349	20,468,482
Capital assets, net of depreciation and amortization	12,876,737	13,340,658
Total assets	57,395,086	33,809,140
Deferred outflows of resources:		
Pension related	3,727,224	2,087,748
Other postemployment benefit related	59,979	58,076
Total deferred outflows of resources	3,787,203	2,145,824

Liabilities and Net Deficiency

	2020	2019
Current liabilities:		
Total other postemployment benefit liability	59,979	58,076
Total pension liability	3,727,224	2,087,748
Due to Employee´s Retirement System	5,365,097	4,420,069
Due to related parties	41,284,795	41,245,051
Accounts payable	25,123,490	23,085,675
Accrued payroll and other expenses	6,103,305	4,341,450
Unearned revenues of advances from medical plans	8,387,660	-
Medicare Accelerated and Advance Payments Program	363,680	-
Unearned revenue - federal grants and other assistance programs	4,482,548	-
Reserve for claim losses	250,186	115,500
Total current liabilities	95,147,964	75,353,569
Medicare Accelerated and Advance Payments Program, net of current portion	3,071,320	-
Reserve for claim losses	5,876,207	5,842,518
Total other postemployment benefit liability	640,466	610,842
Total pension liability	22,346,477	22,605,020
Due to Medicare	89,000	89,000
Total liabilities	127,171,434	104,500,949
Deferred inflows of resources - pension related	1,558,050	1,556,564
Net position (deficiency):		
Net investment in capital assets	12,876,737	13,340,658
(Deficiency)	(80,423,932)	(83,443,207)
Total net (deficiency)	$ (67,547,195)	$ (70,102,549)

See notes to financial statements

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statements of Revenues, Expenses and Changes in Net Deficiency

Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenues		
Patient service revenue, net of contractual adjustments	$ 75,661,608	$ 79,016,206
Less: provision for bad debts	16,865	1,070,861
Net patient service revenue	75,644,743	77,945,345
Capitation revenue	102,610	158,370
Other revenue	2,111,891	3,060,382
Total operating revenues	77,859,244	81,164,097
Operating expenses		
Salaries and wages	23,174,708	21,029,052
Employee benefits	5,986,415	5,831,931
Professional fees and contracted services	5,602,747	5,937,332
Supplies, food and drugs	26,604,806	29,118,920
Repairs and maintenance	2,667,822	2,854,084
Utilities	3,953,289	3,618,450
Depreciation and amortization	1,459,720	1,282,385
Insurance	251,584	171,990
Provision for claim losses	283,875	196,913
Bad debt expense	103,792	-
Rent and other	6,187,744	5,935,371
Pension expense (benefit)	1,222,849	(893,727)
Other postemployment benefit expense (credit)	29,623	(7,086)
Total operating expenses	77,528,974	75,075,615
Operating income	330,270	6,088,482
Non-operating income (loss)		
Decrease in total pension liability as a result of the implementation of the PayGo system as provided by Act No. 106 of 2017	-	116,049,367
E.H.R. incentive payment	717,584	-
Contributions from the Commonwealth of Puerto Rico	1,507,500	-
Loss on disposal of assets	-	(23,141)
Total non-operating income, net	2,225,084	116,026,226
Decrease in net deficiency	2,555,354	122,114,708
Net deficiency, at beginning of year	(70,102,549)	(192,217,257)
Net deficiency, at end of year	$ (67,547,195)	$ (70,102,549)

See notes to financial statements

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Receipts from patient services	$ 72,375,788	$ 79,191,059
Advances from medical plans	11,822,660	-
Other receipts	1,983,885	3,093,851
Payments to suppliers	(43,371,755)	(49,827,025)
Payments to employees and employee benefits	(27,934,145)	(27,783,614)
Payments on malpractice claims	(115,500)	(87,321)
Net cash provided by operating activities	14,760,933	4,586,950
Cash flows from capital and related financing activities:		
Cash outlays for capital assets	(995,799)	(760,495)
E.H.R. incentive payment	717,584	-
Contribution from the Commonwealth of Puerto Rico	3,000,000	-
Principal paid on note payable	-	(150,000)
Net cash provided by (used in) capital and related financing activities	2,721,785	(910,495)
Net cash provided by non capital financing activities:		
Contributions from the Commonwealth of Puerto Rico and federal grants	2,990,048	-
Net change in cash, cash equivalents and restricted cash	20,472,766	3,676,455
Cash, cash equivalents and restricted cash, at beginning of year	13,557,218	9,880,763
Cash, cash equivalents and restricted cash, at end of year	$ 34,029,984	$ 13,557,218
Reconciliation of cash, cash equivalents and restricted cash to the statements of net position:		
Unrestricted cash and cash equivalents	$ 29,547,436	$ 13,557,218
Restricted cash	4,482,548	-
Total cash, cash equivalents and restricted cash	$ 34,029,984	$ 13,557,218

(Continues)

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Statements of Cash Flows (Continued)

Years Ended June 30, 2020 and 2019

	2020	2019
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 330,270	$6,088,482
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,459,720	1,282,385
Provision for bad debts - patients accounts receivable	16,865	1,070,861
Provision for bad debts - other accounts receivable	103,792	-
Provision for claim losses	283,875	196,913
Changes in assets and liabilities		
(Increase) decrease in:		
Patient accounts receivable	(3,277,546)	(866,760)
Estimated third-party payor - Medicare	(110,884)	883,243
Other accounts receivable, net	(128,006)	33,469
Inventory of supplies	(19,613)	(765,625)
Prepaid expenses and other current assets	(161,709)	(167,007)
Deferred outflows of resources	(1,641,379)	(964,779)
Increase (decrease) in:		
Due to Employees Retirement System	945,028	(491,126)
Due to related parties	39,744	1,025,964
Accounts payable	2,037,815	(2,284,210)
Accrued payroll and other expenses	1,761,855	881,378
Unearned revenues of advances from medical plans	8,387,660	-
Medicare Accelerated and Advance Payments Program	3,435,000	-
Reserve for claim losses	(115,500)	(87,321)
Total other postemployment benefits liability	31,527	(59,097)
Total pension liability	1,380,933	(2,746,384)
Deferred inflows of resources	1,486	1,556,564
Total adjustments	14,430,663	(1,501,532)
Net cash provided by operating activities	$ 14,760,933	$4,586,950

See notes to financial statements

Note 1 - Description of reporting entity and summary of significant accounting policies

Reporting entity

Cardiovascular Center Corporation of Puerto Rico and the Caribbean (the Corporation) is a public corporation created by Act No. 51 (the Act) of June 30, 1986, to provide treatment for cardiovascular diseases in Puerto Rico and the Caribbean. The Corporation operates a hospital facility with 202 certified beds as an independent and separate unit from any agency or instrumentality of the Commonwealth of Puerto Rico (the Commonwealth).

Summary of significant policies

The accounting and reporting policies of the Corporation 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 Corporation'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 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 position into three components: net invested in capital assets, restricted, and unrestricted.

These classifications are defined as follows:

- Net investment in capital assets – This component of net assets 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, 2020 and 2019, net assets invested in capital assets, net of related debt consisted of the balance of capital assets.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Basis of presentation - (continued)

- Restricted – This component of net assets 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, 2020 and 2019, the Corporation did not have restricted net position.

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

Measurement focus and basis of accounting

The financial statements of the Corporation 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.

Use of estimates

The preparation of 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include investments in highly liquid instruments with original maturities of three months or less.

Restricted cash

Funds set aside are federal grants and state contributions for the payment of certain expenses in relation of the COVID – 19 pandemic, improvements to medical facilities and purchase of equipment.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Valuation of accounts receivable

The Corporation makes judgments as to the collectability of accounts receivable based on historical trends and future expectations. Management estimates an allowance for doubtful accounts, which represents the collectability of patient service accounts receivable. 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 Corporation's accounts receivable aging.

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

The Corporation's capital assets are reported at historical cost. Depreciation is provided over the estimated useful life of each class of depreciable asset, ranging from 3 to 30 years, and is computed using the straight-line method. The Corporation capitalizes those capital assets with an individual cost in excess of $300. At the time capital assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the Corporation's books and the resulting gain or loss, if any, is credited or charged to operations.

Accounting for the impairment of capital assets

The Corporation 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 services utility has declined significantly and unexpectedly. This statement also establishes accounting requirements for insurance recoveries.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting for the impairment of capital assets – (continued)

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. As of June 30, 2020 and 2019, no capital assets were considered impaired by the Corporation.

Compensated absences

The Corporation's employees were entitled to 2.5 days per month, up to a maximum of 60 days, for vacations, and 1.5 days per month, up to a maximum of 90 days for sick leave annually. Vacation time was fully vested to the employees from the first day of work. However, as per Law No. 26 of April 29, 2017, Fiscal Plan Compliance Law, 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, employees were 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 were 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 cannot 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 Corporation policies, all employees were 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 cannot be completed and the excess of ninety (90) days of sick leave would be eliminated at the end of each calendar year.

Termination benefits

The Corporation accounts for termination benefits in accordance with the provisions of GASB 47, *Accounting for Termination Benefits*, which states that employers should recognize a liability and expense for voluntary termination benefits when the offer is accepted, and the amount can be estimated.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Termination benefits – (continued)

A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

Pension benefits

The Corporation is a participant in the Commonwealth of Puerto Rico Employees Retirement System (the Pension Plan), a multiemployer retirement plan. Until June 30, 2018, the Corporation accounted for its participation in the Pension Plan in accordance with the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*, however, because of the implementation of the pay-as-you-go (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, it was required to apply the guidance in GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective July 1, 2018. The adoption of GASB 73 resulted in a net decrease in the total pension liability and related deferred outflows and inflows of resources of $116,049,367 as of July 1, 2018, which is presented as a separate component of non-operating income in the accompanying statement of revenues, expenses, and changes in net deficiency for the year ended June 30, 2019.

Pursuant to the provisions of GASB 73, the Corporation 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 Corporation's allocation percentage is based on the ratio of the Corporation'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.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Other postemployment benefits (OPEB)

The Corporation also participates in the Commonwealth's postemployment benefits other than pensions plan (the OPEB Plan). The Corporation accounts for postemployment benefits under the OPEB Plan in accordance with the provisions of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense.

For defined benefit OPEB, GASB 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.

Operating revenues and expenses

The Corporation's statement of revenues, expenses and changes in net deficiency distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Corporation's principal activity. Operating expenses are all the expenses incurred to provide health care services, other than financing costs.

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 the 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. Non-exchange revenues include contributions received from the Commonwealth of Puerto Rico for purposes other than capital assets acquisition, which are reported as non-operating revenues when received.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Net patient service revenue

The Corporation has agreements with third-party payors that provide for payments to the Corporation 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 Corporation follows the requirements of the Financial Accounting Standard Board (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 separate line items on the face of the statement of revenues, expenses and changes in net position (deficiency), 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 Corporation'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.

Capitation revenue

The Corporation has an agreement with an insurance carrier to provide medical services to enrolled members. Under this agreement, the Corporation receives fixed monthly capitation payments, regardless of services performed by the Corporation. The Corporation's health care premiums (capitation revenues) are reported as revenue in the month that enrolled members are entitled to health care benefits.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Related parties

Related parties to the Corporation consist of governmental agencies, public corporations, and other instrumentalities of the Commonwealth of Puerto Rico.

Risk management

The Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption, errors and omissions, and natural disasters, among others. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial insurance coverage since various preceding years. The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Since August 23, 2005, the Corporation is insured by the Commonwealth of Puerto Rico.

Tax exemption

The Corporation is exempt from all income, municipal and excise taxes, including license fees, imposed by the Commonwealth of Puerto Rico (the Commonwealth) or any of its subdivisions, which includes all operations, fixed and movable property, capital, revenue and surplus. The Corporation has elected the reimbursement method for purposes of state unemployment taxes.

Deposits and investment risks

The Corporation follows 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

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources, which represent 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.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Deferred outflows and inflows of resources – (continued)

Also, in addition to liabilities, the statement of net position will sometimes report a separate section of deferred inflows of resources, which represent 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, 2020 and 2019, deferred outflows of resources are pension and other postemployment benefits related, and all deferred inflows of resources of the Corporation are pension related items.

New accounting standards adopted

GASB 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments.

Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The requirements of this statement were effective for reporting periods beginning after June 15, 2019, as amended by GASB 95.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

New accounting standards adopted – (continued)

GASB 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance related consequences, and significant subjective acceleration clauses.

For the notes to financial statements related to debt, this statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this statement were effective for reporting periods beginning after June 15, 2019, as amended by GASB 95.

The adoption of these statements did not have a material effect on the basic financial statements of the Corporation.

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Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting pronouncements issued but not yet effective

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

- GASB 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a Business-type activity that normally expects to hold custodial assets for three months or less. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, as amended by GASB 95.

- GASB 87, Leases. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease assets, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB 95.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting pronouncements issued but not yet effective – (continued)

- GASB 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5- 22 of GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this statement.

  This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this statement are effective for reporting periods beginning after December 15, 2020, as amended by GASB 95.

- GASB 90, *Majority Equity Interest*. The primary objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting pronouncements issued but not yet effective – (continued)

This statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in financial statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, as amended by GASB 95.

- GASB 91, *Conduit Debt Obligations*. This statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

- GASB 92, *Omnibus 2020*. This statement addresses a variety of topics and includes specific provisions about the following, the effective date of GASB 87 and Implementation Guide No. 2019-3, *Leases*, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPES) plan; the applicability of GASB 73 and GASB 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, to reporting assets accumulated for postemployment benefits. The applicability of certain requirements of GASB 84 to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to AROs in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The portion of this statement that relates to the effective date of GASB 87 and its associated implementation guidance are effective upon issuance. Provisions related to intra-entity transfers of assets and applicability of GASB 73 and 74 are effective for fiscal years beginning after June 15, 2020. The remaining requirements related to asset retirement obligations are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021, as amended by GASB 95.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting pronouncements issued but not yet effective – (continued)

- GASB 93, *Replacement of Interbank Offered Rates*. The objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR). Some governments have entered into agreements in which variable payments made or received depend on an IBOR-most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB 95.

- GASB 94, *Public-Private and Public-Public Partnerships and Availability Payments Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange like transaction. This statement requires that PPPs that meet the definition of a lease apply the guidance in GASB 87, *Leases*, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a service concession arrangement (SCA). This statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of GASB 87, as amended (as clarified in this statement). This statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. This statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting pronouncements issued but not yet effective – (continued)

- GASB 95, *Postponements of Effective Dates of Certain Authoritative Guidance*. The primary objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

  The effective dates of certain provisions contained in the following pronouncements are postponed by one year after the original implementation date:

  - GASB 83, *Certain Asset Retirement Obligations*
  - GASB 84, *Fiduciary Activities*
  - GASB 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
  - GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
  - GASB 90, *Majority Equity Interests*
  - GASB 91, *Conduit Debt Obligations*
  - GASB 92, *Omnibus 2020*
  - GASB 93, *Replacement of Interbank Offered Rates*
  - GASB Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
  - GASB Implementation Guide No. 2018-1, *Implementation Guidance Update-2018*
  - GASB Implementation Guide No. 2019-1, *Implementation Guidance Update-2019*
  - GASB Implementation Guide No. 2019-2, *Fiduciary Activities*

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting pronouncements issued but not yet effective – (continued)

The effective dates of the following pronouncements are postponed by 18 months after the original implementation date:

- GASB 87, *Leases*
- GASB Implementation Guide No. 2019-3, *Leases*.

- GASB 96, *Subscription Based Information Technology Arrangements*. The primary objective of this statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right- to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in GASB 87, *Leases*, as amended. The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate cost associated with the reporting of certain defined contribution pension plans other than pension plans or OPEB plans (other employee benefits plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this statement that are related to the accounting and financial reporting for Sections 457 plans are effective for fiscal years beginning after June 15, 2021.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting pronouncements issued but not yet effective – (continued)

GASB 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.

GASB 99, *Omnibus 2022*. This statement establishes or amends accounting and financial reporting requirements for specific issues related to financial guarantees, derivative instruments, leases, public-public and public-private partnerships, SBITA arrangements, the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program, nonmonetary transactions, pledges of future revenues, the focus of government-wide financial statements, and terminology. The requirements of this statement apply to the financial statements of all state and local governments. This statement supersedes certain provisions of GASB 24 and GASB 62. In addition, GASB 99 amends specific provisions of GASB 10, 24, 30, 33, 34, 53, 62, 72, 87, 93 and 96, and certain implementation guides. Certain requirements of GASB 99 are effective upon issuance, while others are effective for fiscal years beginning after June 15, 2022 and June 15, 2023.

GASB 100, *Accounting Changes and Error Corrections* – An Amendment of GASB Statement No. 62. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This statement also addresses corrections of errors in previously issued financial statements.

Note 1 - Description of reporting entity and summary of significant accounting policies – (continued)

Summary of significant policies – (continued)

Accounting pronouncements issued but not yet effective – (continued)

GASB 100, *Accounting Changes and Error Corrections – (continued)*

This statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles. The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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

Note 2 - Net patient service revenue

The Corporation has agreements with medical insurance companies, governmental entities of the Commonwealth of Puerto Rico and the Medicare program for payments to the Corporation, 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. Medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Corporation is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Corporation and audits thereof by the Medicare fiscal intermediary. The Corporation's Medicare cost reports have been audited by the Medicare fiscal intermediary through 2017. The cost reports from 2018 through 2020 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 by a material amount in the near term.

Also, the Corporation is subject to periodic audits by the U.S. Office of the Inspector General (OIG). At June 30, 2020 and 2019, the Corporation provided for a reserve in the amount of $89,000 in both periods, in relation with the expected recovered amounts by the Medicare Program through the Recovery Audit Contractor Program or RAC. These amounts are recorded as Due to Medicare in the accompanying statements of net position.

Others - The Corporation has entered into payment agreements with some commercial insurance carriers and other healthcare organizations. The basis for payment to the Corporation 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, for the years ended June 30, 2020 and 2019 follows:

	2020	2019
Third-party payors	$ 75,292,139	$ 78,517,977
Self-pay patients	369,469	498,229
Patient service revenue (net of contractual allowances and discounts)	$ 75,661,608	$ 79,016,206

Note 3 - Patients accounts receivable

Patients' accounts receivable at June 30, 2020 and 2019 consist of:

	2020	2019
Patient and third-party payors	$ 29,912,582	$ 27,484,937
Less: allowance for doubtfull accounts	23,361,334	24,194,370
Patient and third-party payors, net	$ 6,551,248	$ 3,290,567

Changes in allowance for doubtful accounts on patients' accounts receivable for the years ended June 30, 2020 and 2019 were as follows:

	2020	2019
Balance, beginning of year	$ 24,194,370	$ 23,960,850
Small balance write-offs	(849,901)	(837,341)
Provision for bad debts	16,865	1,070,861
Balance, end of year	$ 23,361,334	$ 24,194,370

Net patient service revenue from third-party payors and uninsured patients is recorded when the health care services are provided. The Corporation records provision for bad debts related to receivables from third-party payors and uninsured patients as a deduction of net patient service revenue in the accompanying statements of revenues, expenses and changes in net deficiency, for accounts with balances over 365 days, for which collection efforts have been followed in accordance with the Corporation's policies.

At June 30, 2020 and 2019, approximately 97%, of the amounts reserved as uncollectible are related to third-party payors and approximately 3%, are related to self-pay patients, which includes deductibles and co-insurance which the Corporation accounts for as patient balance.

Note 4 - Cash and cash equivalents – custodial credit risk deposits

The Corporation is authorized to deposit funds only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico. Such deposits should be kept in separate accounts in the name of the Corporation. During the years ended June 30, 2020 and 2019, the Corporation invested its funds in interest bearing bank accounts. These deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, with the remaining balance collateralized with financial instruments held by a trust of the Commonwealth. 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 Corporation's deposits may not be returned.

The Corporation had the following depository accounts in commercial banks. All deposits are carried at cost plus accrued interest.

Depository Accounts	Bank Balance at June 30, 2020	Bank Balance at June 30, 2019
Insured	$ 250,000	$ 250,000
Collateralized:		
Collateral held in the Corporation's name	34,878,655	15,405,575
Total deposits	$ 35,128,655	$ 15,655,575

The current amounts of deposits at June 30, 2020 and 2019, shown above are included in the Corporation's statements of net position under unrestricted cash and cash equivalents, amounting to $29,547,436 and $13,557,218, respectively, and restricted cash, amounting to $4,482,548 and nil, respectively.

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Note 5 - Capital assets

Capital assets, additions, retirements and balances for the years ended June 30, 2020 and 2019 were as follows:

	2019	Additions	Retirements	2020
Land	$ 94,123	$ -	$ -	$ 94,123
Improvements to leased property	9,568,700	241,620	-	9,810,320
Fixed equipment	775,981	-	-	775,981
Movable equipment	31,293,446	754,179	(71,983)	31,975,642
Library	14,736	-	-	14,736
Vehicles	67,290	-	-	67,290
Works of art	8,849	-	-	8,849
Total cost	41,823,125	995,799	(71,983)	42,746,941
Less acummulated depreciation and amortization for:				
Improvements to leased property	3,804,035	316,333	-	4,120,368
Fixed equipment	775,981	-	-	775,981
Movable equipment	23,828,652	1,143,387	(71,983)	24,900,056
Library	6,509	-	-	6,509
Vehicles	67,290	-	-	67,290
Total accumulated depreciation and amortization	28,482,467	1,459,720	(71,983)	29,870,204
Capital assets, net	$ 13,340,658	$ (463,921)	$ -	$ 12,876,737

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Note 5 - Capital assets – (continued)

	2018	Additions	Retirements	2019
Land	$ 94,123	$ -	$ -	$ 94,123
Improvements to leased property	9,538,100	30,600	-	9,568,700
Fixed equipment	775,981	-	-	775,981
Movable equipment	30,693,252	729,895	(129,701)	31,293,446
Library	14,736	-	-	14,736
Vehicles	67,290	-	-	67,290
Works of art	8,849	-	-	8,849
Total cost	41,192,331	760,495	(129,701)	41,823,125
Less acummulated depreciation and amortization for:				
Improvements to leased property	3,592,290	211,745	-	3,804,035
Fixed equipment	775,981	-	-	775,981
Movable equipment	22,864,572	1,070,640	(106,560)	23,828,652
Library	6,509	-	-	6,509
Vehicles	67,290	-	-	67,290
Total accumulated depreciation and amortization	27,306,642	1,282,385	(106,560)	28,482,467
Capital assets, net	$ 13,885,689	$ (521,890)	$ (23,141)	$ 13,340,658

Note 6 - Compensated absences

Compensated absences correspond to accrued vacations at June 30, 2020 and 2019 and are as follow:

Years ended June 30:	Beginning Balance	Additions	Deductions	Ending Balance
2020	$ 1,279,013	$ 1,500,746	$ 858,237	$ 1,921,522
2019	$ 1,316,357	$ 2,045,601	$ 2,082,945	$ 1,279,013

Compensated absences amounts are included in accrued payroll and other expenses in the accompanying statements of net position.

Note 7 - Reserve for claim losses

A summary of the reserve for claim losses at June 30, 2020 and 2019 follows:

Year ended June 30, 2020	Beginning Balance	Additions	Payments	Ending Balance
Reserve for claim losses	$ 5,958,018	$ 283,875	$ 115,500	$ 6,126,393
Year ended June 30, 2019				
Reserve for claim losses	$ 5,848,426	$ 196,913	$ 87,321	$ 5,958,018

Note 8 - Related party transactions

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

The accounts receivable of the Corporation include, at June 30, 2020 and 2019, the following amounts due from other governmental entities considered related parties:

	2020	2019
Patients accounts receivable	$ 1,287,839	$ 1,100,055
Other accounts receivable	2,297,893	2,194,102
Less: reserve for uncollectible accounts	2,170,255	2,170,255
Other accounts receivable, net	127,638	23,847
Total amounts due from related parties, net	$ 1,415,477	$ 1,123,902

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Note 8 - Related party transactions – (continued)

The balance due to related parties as of June 30, 2020 and 2019 consists of the following:

	2020	2019
Autoridad de Energía Eléctrica (A.E.E.)	$ 8,361,560	$ 9,157,300
Autoridad de Acueductos y Alcantarillados de Puerto Rico (A.A.A.)	219,316	78,403
P.R. Public Building Authority	32,568,456	30,776,727
Accounts payable to other governmental entitties	135,463	1,232,621
Total	$ 41,284,795	$ 41,245,051

Due to A.E.E. and A.A.A.

The balance due to A.E.E. and A.A.A. at June 30, 2020 and 2019 corresponds to electricity and water services, respectively. During the years ended June 30, 2020 and 2019, the Corporation incurred approximately $3,124,000 and $2,751,000, respectively, for electricity services. During the years ended June 30, 2020 and 2019, the Corporation incurred approximately $752,000 and $787,000, respectively, for water services.

Due to the Puerto Rico Public Building Authority

Since 1992, the Corporation maintains an agreement with the Puerto Rico Public Building Authority (the Authority) regarding the operating lease for the building and parking facilities in which the Corporation operates. The Authority financed the construction of these facilities through a bond issuance. The rent expense for the years ended June 30, 2020 and 2019 amounted to $2,217,461 in both years.

The lease contract between the Corporation and the Authority is subject to the resolutions of the bond issuance by the Authority to finance the building and parking facilities. In any circumstances in which the lease agreement is in contest with the bond resolution, the latest will prevail. Rent commitment for fiscal years subsequent to June 30, 2020 will be determined by the Authority's annual calculation of the portion corresponding to the Corporation's share of the resolution of the bond issuance applicable to the building and parking facilities.

Note 9 - Commitments and contingencies

Commitments

Operating leases

The Corporation leases equipment under cancellable operating leases, with terms ranging from one to five years, expiring at various dates through April 2024. Total rent expense for the years ended June 30, 2020 and 2019 for all operating leases was approximately $1,432,000 and $1,375,000, respectively. The rent commitment related to non-cancellable operating leases as of June 30, 2020 is as follows:

Years ending June 30,	Amount
2021	$ 1,031,403
2022	328,020
2023	25,994
2024	39,350
	$ 1,424,767

Parking rental agreement

The Corporation subleases the parking facilities to Fontán Associates, Inc. for a five-year term which expired in February 2021. There is one renewal clause for an additional five years. Fontán Associates, Inc. will pay the Corporation a monthly rental fee, which will increase annually. Parking rent income for the years ended June 30, 2020 and 2019 was approximately $393,000 and $403,000, respectively.

Future minimum parking rent income as of June 30, 2020, follows:

Year ending June 30,	Amount
2021	$ 287,019

As of the date these financial statements are available to be issued, the abovementioned rental agreement has been extended for one renewal clause for an additional five years term.

Note 9 - Commitments and contingencies – (continued)

Commitments – (continued)

Parking rental agreement – (continued)

The Corporation records rent as income over the lease term as it becomes receivable according to the provisions of the underlying lease agreement. Accounting principles generally accepted in the United States of America require that income from leases with schedules rent increases be recognized on a straight-line basis over the lease term. However, the difference in methodology used does not have a material effect in the accompanying financial statements.

Food and nutrition service facility rental agreement

The Corporation subleased the food and nutrition services facilities to Metropolitan Food Services, Inc. on a one-year term agreement. Under such agreement, Metropolitan Food Services, Inc. paid a monthly rental fee of $5,000, plus a staggered percentage of the gross earnings for food sales and utilities. Total income related to this agreement for the years ended June 30, 2020 and 2019, was approximately $192,000 and $124,900, respectively.

Fourth floor facilities rental agreement

The Corporation subleased the fourth-floor facilities to Hostales de Puerto Rico, Inc. on a twenty-year term agreement expiring on August 31, 2027. Hostales de Puerto Rico, Inc. was scheduled to pay a staggered monthly rental fee of $5,000 up to $8,500 between 2008 and 2027, however, effective on September 30, 2021, this agreement was cancelled. Furthermore, effective in March 2022, the Corporation entered into a new agreement with Ficus Hospitality LLC for the sublease of the fourth floor facilities, for a term of eight (8) years. Total income related to the agreement for the years ended June 30, 2020 and 2019 amounted to approximately $84,000 and $89,000, respectively.

Other rental agreements

The Corporation leases space to various other unrelated parties under operating leases with average terms from three (3) to five (5) years. Rent income for the years ended June 30, 2020 and 2019 on the other rental agreements was approximately $707,000 and $739,600, respectively.

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Note 9 - Commitments and contingencies – (continued)

Commitments – (continued)

Future minimum rent income as June 30, 2020, follows:

Years ending June 30,	Amount
2021	$ 100,051
2022	7,200
	$ 107,251

Contingencies

Malpractice and legal claims

The Corporation's medical malpractice insurance coverage expired in February 2002; thus, the Corporation is self-insured for claims received for the period through February 2002 that were not reported to its insurance carrier and for claims for the period from March 2002 through August 22, 2005. Since August 23, 2005, the Corporation is insured by the Commonwealth of Puerto Rico. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

The Corporation is also involved in other legal and administrative proceedings arising out of the normal operation of its business. Based on a review of current facts and circumstances management has provided for what it is believed to be a reasonable estimate of the exposure to loss associated to litigation. The Corporation has established an accrual reserve for claim losses in the amount of $6,126,393 and $5,958,018 at June 30, 2020 and 2019, respectively.

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 license and accreditations, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes 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

Note 9 - Commitments and contingencies – (continued)

Contingencies – (continued)

Regulatory issues – (continued)

to repay amounts received from government for previously billed patient services. While management of the Corporation believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Corporation will not be subject to governmental inquiries 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 Corporation'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. 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, 2020 and 2019, the Corporation is under the implementation of its EHR system. During the year ended on June 30, 2020, the Corporation received an EHR incentive payment amounting to $717,584, included in non-operating income in the accompanying statement of revenues, expenses and changes in net deficiency for the year then ended. 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 successfully demonstrate meaningful use in order to avoid a negative payment adjustment in 2022. The Puerto Rico hospitals could earn up to four consecutive years of Medicare EHR Incentive Program payments.

Note 9 - Commitments and contingencies – (continued)

Contingencies – (continued)

Pharmacy management services

On December 1, 2018, the Corporation entered into an agreement with Cardinal Health Puerto Rico (Cardinal Health), whereby they agreed that Cardinal Health will manage, direct and operate the pharmacy area and inventory of the Corporation. The agreement included a monthly department charge, plus the drugs utilization cost, based on a pre-determined cost. The total expense for the monthly department charge related to this agreement amounted to approximately $1,600 for both years ended June 30, 2020 and 2019. Also, the drugs utilization fees amounted to approximately $4,060,000 and $3,848,000 for the years ended June 30, 2020 and 2019, respectively.

Note 10 - Due to Employee's Retirement System

Due to Employee's Retirement System as of June 30, 2020, and 2019 amounting to $5,365,097 and $4,420,069, respectively, consists of employer's and employee's contributions from 2012 to 2018. Amounts due to the Employee's Retirement System are non-interest bearing, have no specific repayment terms and are expected to be settled in the normal course of business as funds become available.

Note 11 - Employees' retirement plan

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) was created pursuant to Act No. 447 in May 15, 1951, as amended. ERS sponsors the Pension Plan, which is a cost-sharing multiemployer defined benefit pension plan, as amended by Act 106. Act 106 provides for a substantial pension reform for all of the Commonwealth's retirement systems, which include ERS, the Retirement System for the Judiciary of the Commonwealth, and the Puerto Rico System of Annuities and Pensions for Teachers (collectively referred to as the Retirement Systems). This reform modified most of the Retirement System's activities, eliminated all employer contributions and created the legal framework to implement the PayGo system. Act 106 required ERS to liquidate its assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Under the PayGo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the participating employers.

The Commonwealth, including the Corporation, accounts for pensions based on actuarial valuations using a measurement date as of the beginning of the year.

Note 11 - Employees' retirement plan – (continued)

Before July 1, 2017, ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire.

Substantially all full-time employees of the Commonwealth and its instrumentalities were covered by ERS. The benefits under the aforementioned benefit structures were paid by ERS until June 30, 2017.

Before August 23, 2017, membership was mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment in ERS' prior programs.

Pension plan benefits

The benefits provided to members of ERS were statutorily established by the Commonwealth and may be amended only by the Legislature with the Governor's approval. Act No. 3 of 2013, in conjunction with other recent funding and design changes, provided for a comprehensive reform of ERS. This summary details the provisions under Act No. 3 of 2013, which were in effect prior to August 23, 2017.

Certain provisions are different for the three groups of members who entered ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 of 1951 are generally those members hired before April 1, 1990 (contributory, defined benefit program.)
- Members of Act No. 1 of 1990 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).
- Members of Act No. 305 of 1999 (Act No. 305 of 1999 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (the System 2000 Program).

Note 11 - Employees' retirement plan – (continued)

Pension plan benefits – (continued)

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, became members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who on June 30, 2013 were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Before July 1, 2017, the assets of the Defined Benefit Program, the System 2000 Program, and the Contributory Hybrid Program were pooled and invested by ERS. Each member has a nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. Benefits at retirement age are not guaranteed.

(i) Service retirements eligibility requirements

The following summary of ERS plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts should be determined in strict accordance with the applicable laws and regulations.

a) Eligibility for Act No. 447 of 1951 Members: Act No. 447 of 1951 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 of 1951 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 58 with 10 years of credited service; (3) any age with 30 years of credited service; (4) for Public Officers in High Risk Positions (the PRPOB and Commonwealth Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service; and (5) for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor.

   In addition, Act No. 447 of 1951 members who would attain 30 years of credited service by December 31, 2013 would be eligible to retire at any time.

   Act No. 447of 1951 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

Note 11 - Employees' retirement plan – (continued)

Pension plan benefits – (continued)

(i) Service retirements – (continued)

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 of 1951 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

b) Eligibility for Act No. 1 of 1990 Members: Act No. 1 of 1990 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 65 with 10 years of credited service; (3) for public officers in high-risk positions, any age with 30 years of credited service; and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 of 1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 of 1990 public officers in high-risk positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

c) Eligibility for System 2000 Members: System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for public officers in high-risk positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for public officers in high-risk positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Note 11 - Employees' retirement plan – (continued)

Pension plan benefits – (continued)

(i) Service retirements – (continued)

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

d) Eligibility for Members Hired after June 30, 2013: Attainment of age 58 if a public officer in a high-risk position and attainment of age 67 otherwise.

(ii) Compulsory retirement

All Act No. 447 of 1951 and Act No. 1 of 1990 Public Officers in High-Risk Positions were required to retire upon attainment of age 58 and 30 years of credited service. A two-year-extension may be requested by the member from the Superintendent of the PRPOB, the Chief of the Firefighter Corps, or supervising authority as applicable.

(iii) Service retirement annuity benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement plus, for Act No. 447 of 1951 and Act No. 1 of 1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account was $10,000 or less, it would have been paid as a lump sum instead of as an annuity.

a) Accrued Benefit as of June 30, 2013 for Act No. 447 of 1951 Members: The accrued benefit as of June 30, 2013 was determined based on the average compensation, as defined, for Act No. 447 of 1951 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Mayors, the highest compensation, as defined, for Act No. 447 of 1951 members, determined as of June 30, 2013.

Note 11 - Employees' retirement plan – (continued)

Pension plan benefits – (continued)

(iii) Service retirement annuity benefits – (continued)

If the Act No. 447 of 1951 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 of 1951 member had less than 30 years of credited service as of June 30, 2013 and attained 30 years of credited service by December 31, 2013, the accrued benefit equaled 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 of 1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service were considered pre July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447 of 1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for the PRPOB policemen and Commonwealth Firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58.

For participants selecting the Coordination Plan, the basic benefit is recalculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for police and firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58.

Note 11 - Employees' retirement plan – (continued)

Pension plan benefits – (continued)

(iii) Service retirement annuity benefits – (continued)

For Act No. 447 of 1951, Mayors with at least 8 years of credited service as a mayor, the accrued benefit was not to be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a mayor in excess of 10 years. Maximum benefit was 90% of highest compensation as a mayor.

b) Accrued Benefit as of June 30, 2013 for Act No. 1 of 1990 Members: The accrued benefit as of June 30, 2013 is determined based on the average compensation for Act No. 1 of 1990 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For mayors, the highest compensation as a mayor was determined as of June 30, 2013.

If the Act No. 1 of 1990 member is a police officer or firefighter member that had at least 30 years of credited service as of June 30, 2013, the accrued benefit equaled 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For all other Act No. 1 of 1990 members, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service. The benefit was actuarially reduced for each year payment commences prior to age 65.

For Act No. 1 of 1990 Mayors with at least 8 years of credited service as a mayor, the accrued benefit was not to be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a mayor.

(iv) Special benefits

a) Minimum benefits

i. *Past Ad hoc Increases* - The Legislature, from time to time, increased pensions for certain retirees as described in Act No. 124-1973 and Act No. 23 of 1983.

Note 11 - Employees' retirement plan – (continued)

Pension plan benefits – (continued)

(iv) Special benefits – (continued)

ii. *Minimum Benefit for Members Who Retired before July 1, 2013 (Act No. 156 of 2004, Act No. 35 of 2007, and Act No. 3 of 2013)* - The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007).

iii. Coordination Plan Minimum Benefit - A minimum monthly benefit was payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, was not less than the benefit payable prior to SSRA.

b) Cost of Living Adjustments (COLA) to Pension Benefits - The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007, and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act No. 35 of 2007).

c) Special bonus benefits

i. *Christmas Bonus (Act No. 144 of 2005, as Amended by Act No. 3 of 2013):* An annual bonus of $200 for each retiree, beneficiary, and disabled member has historically been paid in December provided the member retired prior to July 1, 2013.

ii. *Medication Bonus (Act No. 155 of 2003, as Amended by Act No. 3 of 2013)*: An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

Note 12 - Total pension liability and actuarial information

The total pension plan liability recorded by the Corporation as of June 30, 2020 and 2019 (measurement date June 30, 2019 and 2018, respectively) amounted to $26,073,701 and $24,692,768, 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, 2020 and 2019 (measurement date June 30, 2019 and 2018) was determined by actuarial valuations as of July 1, 2018 and 2017, that were rolled forward to June 30, 2019 and 2018, respectively (measurement date).

Total pension plan liability activity for the years ended in June 30, 2020 and 2019 are as follow:

Years ended June 30:	Beginning Balance	Additions	Deductions	Ending Balance	Due within One Year
2020	$ 24,692,768	$ 2,771,827	$ (1,390,894)	$ 26,073,701	$ 3,727,224
2019	$ 27,439,152	$ -	$ (2,746,384)	$ 24,692,768	$ 2,087,748

The Corporation's proportion of the total pension liability was actuarially determined based on the ratio of the Corporation’s benefit payments to the total benefit payments made by all participating employers under the pension plan for the year ending on the measurement date. At June 30, 2019 and 2018 (measurement date), the Corporation's proportionate share was .10492% and .10083%, respectively.

Actuarial methods and assumptions

The following actuarial methods and assumptions were used in developing the estimate of the total pension liability of the Commonwealth of Puerto Rico’s Retirement System, from which an allocation of the total pension liability was made to the Corporation and other instrumentalities of the Commonwealth of Puerto Rico.

Discount rate

The discount rate for June 30, 2019, and 2018 (measurement date) was 3.50% and 3.87%, 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.

Note 12 - Total pension liability and actuarial information – (continued)

Actuarial methods and assumptions – (continued)

Mortality

The mortality tables used in the June 30, 2019 (measurement date) actuarial valuation were as follows:

- Pre-Retirement Mortality - For general employees not covered under Act No. 127 of 1958, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis. For members covered under Act No. 127 of 1958, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 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 Healthy Mortality - Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Pension Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Post-Retirement Disabled Mortality - Rates, which vary by gender are assumed for disabled retirees based on a study of the Pension Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvements. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements before and after the measurement date.

Note 12 - Total pension liability and actuarial information – (continued)

Actuarial methods and assumptions – (continued)

Other assumptions as of June 30, 2019

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

Sensitivity of the total pension liability to changes in the discount rate

The following table presents the Corporation's proportionate share of the total pension liability as of June 30, 2020 (measurement date June 30, 2019) for ERS, calculated using the discount rate of 3.50%, as well as what the Corporation's proportionate share of the total pension liability would be if it was calculated using a discount rate of 1% point lower (2.50%) or 1% point higher (4.50%) than the current rate:

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Corporation's proportionate share of total pension liability	$ 29,649,227	$ 26,073,701	$ 23,167,770

The following table presents the Corporation's proportionate share of the total pension liability as of June 30, 2019 (measurement date June 30, 2018) for ERS calculated using the discount rate of 3.87%, as well as what the Corporation's proportionate share of the total pension liability would be if it were calculated using a discount rate of 1% point lower (2.87%) or 1% point higher (4.87%) than the current rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Corporation's proportionate share of total pension liability	$ 28,098,475	$ 24,692,768	$ 21,929,042

Note 12 - Total pension liability and actuarial information – (continued)

Deferred outflows of resources and deferred inflows of resources from pension activities

Deferred outflows and deferred inflows of resources from pension activities reported in the Corporation's statements of net position as of June 30, 2020 and 2019 are as follows:

	Deferred outflows of resources	
	June 30, 2020	June 30, 2019
Changes in assumptions	$ 846,678	$ -
Changes in proportion	1,422,727	832,942
Pension benefits paid subsequent to the measurement date	1,457,819	1,254,806
	$ 3,727,224	$ 2,087,748

	Deferred inflows of resources	
	June 30, 2020	June 30, 2019
Net difference between projected and actual earnings on pension plan investments	$ 1,556,564	$ 746,836
Changes in assumptions	1,486	809,728
	$ 1,558,050	$ 1,556,564

Pension benefits paid subsequent to the measurement date of $1,457,819 have been excluded from the table below.

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2019 (measurement date) will be recognized in the pension expense as follows:

Years ending June 30,	Amount
2020	$ (177,839)
2021	(177,839)
2022	(177,839)
2023	(177,838)
	$ (711,355)

Note 13 - Total other postemployment benefit liability

The Corporation participates in the other postemployment benefit (OPEB) plan of the Commonwealth of Puerto Rico for retired participants of the Employee's Retirement System, which is unfunded, multi-employer defined benefit other postemployment healthcare benefit plan. The OPEB plan is administered on a pay-as-you-go basis. Accordingly, there are no assets accumulated in a qualifying trust for the OPEB plan that meet the criteria in paragraph 4 of GASB 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions*. 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. However, the Commonwealth claims reimbursements from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer.

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.

GASB Statement No. 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 Corporation as of June 30, 2020 and 2019 (measurement dates June 30, 2019 and June 30, 2018, respectively) amounted to $700,445 and $668,918, respectively, representing its proportionate share of the total OPEB liability of the OPEB Plan as of such dates. The total OPEB liability as of June 30, 2020 and 2019 (measurement dates June 30, 2019 and June 30, 2018, respectively) was determined by actuarial valuations as of July 1, 2018 and July 1, 2017 that were rolled forward to June 30, 2019 and June 30, 2018, respectively (measurement dates).

Note 13 - Total other postemployment benefit liability – (continued)

Total other postemployment benefit liability activity for the years ended in June 30, 2020 and 2019 are as follow:

Years ended June 30:	Beginning Balance	Additions	Deductions	Ending Balance	Due within One Year
2020	$ 668,918	$ 89,603	$ (58,076)	$ 700,445	$ 59,979
2019	$ 728,015	$ -	$ (59,097)	$ 668,918	$ 58,076

The Corporation's proportion of the OPEB plan liability was actuarially determined based on the ratio of the Corporation's benefit payments to the total benefit payments made by all participating employers under the OPEB plan for the year ending on the measurement dates. At June 30, 2019 and June 30, 2018 (measurement dates), the Corporation's proportionate share of the OPEB Plan liability was 0.08416% and 0.07943%, respectively.

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, 2019 and 2018 (measurement dates) was 3.50% and 3.87%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Note 13 - Total other postemployment benefit liability – (continued)

Mortality

The mortality tables used in the June 30, 2019 (measurement date) actuarial valuation were as follows:

- Pre-Retirement Mortality - For general employees not covered under Act No. 127 of 1958, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis. For members covered under Act No. 127 of 1958, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 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 Healthy Mortality - Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the OPEB Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Post-Retirement Disabled Mortality - Rates, which vary by gender, are assumed for disabled retirees based on a study of the OPEB Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvements. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements before and after the measurement date.

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Note 13 - Total other postemployment benefit liability – (continued)

Sensitivity of total OPEB liability to changes in the discount rate

The following table presents the Corporation's proportionate share of the OPEB liability at June 30, 2020 (measurement date June 30, 2019) for ERS calculated using the discount rate of 3.50%, as well as what the Corporation's proportionate share of the OPEB liability would be if it were calculated using a discount rate of 1% point lower (2.50%) or 1% point higher (4.50%) than the current rate:

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Corporation's proportionate share of OPEB liability	$ 768,210	$ 700,445	$ 642,816

The following table presents the Corporation's proportionate share of the OPEB liability at June 30, 2019 (measurement date June 30, 2018) for ERS, calculated using the discount rate of 3.87%, as well as what the Corporation's proportionate share of the OPEB liability would be if it was calculated using a discount rate of 1% point lower (2.87%) or 1% point higher (4.87%) than the current rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Company's proportionate share of OPEB liability	$ 733,669	$ 668,918	$ 613,945

Deferred outflows of resources and deferred inflows of resources

Because all participants are inactive, there are no deferred inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. Deferred outflows of resources for other postemployment benefits paid subsequent to the measurement dates amounted to $59,979 and $58,076 as of June 30, 2020 and 2019, respectively.

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Note 14 - Concentration of credit risk – patients' accounts receivable

The Corporation grants credit without collateral to its patients, most of who 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, 2020 and 2019 is as follows:

	2020	2019
Triple S	21%	23%
MMM Healthcare	10%	12%
Medical Card System	4%	7%
Medicare	3%	8%
Self Pay (mostly deductibles, non-covered charges and private patient accounts)	26%	26%
Other third-party payors	36%	24%
	100%	100%

Note 15 - Functional expenses

The Corporation provides general health care services to patients with cardiovascular conditions. Operating expenses related to providing these services for the years ended June 30, 2020 and 2019 are as follow:

	2020	2019
Health care services	$ 67,052,690	$ 68,840,255
General and administrative	10,476,284	6,235,360
	$ 77,528,974	$ 75,075,615

Note 16 - Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform them to the 2020 financial statements presentation.

Note 17 - Going concern and management plans

The financial condition of the Corporation has weakened by high operating costs and past recurring operating losses, which have affected its ability to pay its suppliers, governmental agencies and other creditors on a regular basis. As of June 30, 2020 and 2019, the Corporation has a total deficit of approximately $68 million and $70 million, respectively. These conditions raise substantial doubt about the Corporation's ability to continue as a going concern. The Corporation's operations will depend on the following management plans and critical factors to partially subsidize existing and future operating losses:

- Maximize collections from patients, medical plans and rent agreements.
- Achieve governmental agencies deferred debt payments agreements for amounts owed to the Puerto Rico Power Electric Authority and Public Buildings Authority, among others.
- Maintain and improve the control of costs and maximization of the resources available.
- Acquire new technological medical equipment and devices, in an effort towards innovation and competitiveness in times when cardiovascular diseases have increased.
- Accomplish a more continuous monitoring of services, procedures and patient census in order to identify areas of opportunity.
- Recruitment of cardiovascular surgeons in order to increase patients access to procedures and treatments. As of May 2022, the Corporation has three (3) cardiovascular surgeons to service patients.

The ability of the Corporation 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 Corporation is unable to continue as a going concern.

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Note 18 - COVID – 19 pandemic

In March 2020, the World Health Organization declared the coronavirus disease COVID-19 a global pandemic. This highly contagious disease has spread across the world and into Puerto Rico and has resulted in local government enforced business lockdowns and curfews on non-essential services, as well as other restrictions on social and business activities involving large numbers of individuals and/or participants.

These conditions have negatively affected the normal operations of the Corporation and other private and governmental entities, however, the potential impact on the Corporation's financial statements cannot be reasonably estimated at this time.

During the year ended June 30, 2020, the Corporation received conditional contribution grants from the U.S. Treasury Department, the U.S. Department of Health and Human Services (HHS), and through the local government. Contributions were received for the purpose of providing financial support to the Corporation, 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 Corporation 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 deficiency.

During the year ended June 30, 2020, the Corporation received $1,465,048 from the CARES Act Provider Relief Fund (PRF), which constitutes a federal assistance program. As of June 30, 2020, the PRF grant funds have not been expended and thus, are included as as part of restricted cash and as unearned revenue – federal grants and other assistance programs, in the accompanying statement of net position for the year then ended, because the Corporation has not yet complied with the conditions of the grant. The Corporation believes that the compliance with the grant requirements will be achieved within the timeframe prescribed by the grant, however, there is no assurance that compliance will be attained.

Moreover, the Corporation applied for and received $3,435,000 through the Medicare Accelerated and Advance Payment Program under the CARES Act for the year ended June 30, 2020. The purpose of the program is to assist in providing needed liquidity to care delivery providers. In October 2020, the Centers for Medicare and Medicaid Services (CMS) released updated payment guidance to extend the repayment period beginning one year from the date the accelerated or advance payment was issued. After that first year, Medicare will automatically recoup 25 percent of Medicare payments otherwise owed to the provider for eleven months. At the end of the eleven-month period, recoupment will increase to 50 percent for another six months. If the provider or supplier is unable to repay the total amount of the accelerated or advance payment during this time-period (a total of 29 months), CMS will issue demand letters requiring repayment of any outstanding balance, subject

Note 18 - COVID – 19 pandemic – (continued)

to an interest rate of four percent consistent with the Continuing Appropriations Act, 2021. The Corporation's required repayment period started in April 2021.

Furthermore, after June 30, 2020 and as of the date these financial statements are available to be issued, the Corporation has received approximately $12,000,000 from the Coronavirus Relief Fund (CRF) grant, the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) grant and other Commonwealth grants.

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 expending federal 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. Since the Corporation received and expended federal financial assistance in excess of $750,000, it is subject to compliance audits under the Uniform Guidance for the fiscal year ended on June 30, 2021.

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 Corporation may be required to reimburse such amounts to the corresponding federal agencies from its own non-federal resources.

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Note 19 - Contributions from the Commonwealth of Puerto Rico

Governmental contributions, included in non-operating income in the statements of revenues, expenses and changes in net deficiency for the years ended June 30, 2020 and 2019, consist of the following:

Description	2020	2019
Funds received from the Puerto Rico Treasury Department for the payment of the employees' Christmas Bonus.	$ 341,000	$ -
Funds received during May and June 2020 from the COVID-19 Emergency Measures Support Package FY2020 authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority and assigned under the custody of the Office of Management and Budget for the payment of bonus for public sector nurses and other medical personnel.	1,166,500	-
	$ 1,507,500	$ -

Total funds received under the COVID - 19 Emergency Measures Support Package FY 2020 amounted to $1,184,000, however, the Corporation recognized funds amounting to $17,500 as part of restricted cash and unearned revenue - federal grants and other assistance programs, for funds not used for the designated purpose as of June 30, 2020. The unearned revenue funds were returned to the Commonwealth of Puerto Rico during the fiscal year 2021.

Also, on April 28, 2020, the Corporation received a contribution from the Commonwealth of Puerto Rico amounting to $3,000,000 for capital and medical equipment expenditures which, as of June 30, 2020, have not been expended and thus, is included as part of restricted cash and unearned revenue - federal grants and other assistance programs in the accompanying statement of net position for the year then ended.

Note 20 - Subsequent events

The Corporation evaluated subsequent events through June 14, 2022, which is the date the financial statements were available to be issued. Except as described below and in Notes 9, 18 and 19, no events have occurred subsequent to the statement of net position date that would require additional adjustment to, or disclosure in the financial statements.

Note 20 - Subsequent events – (continued)

The certified Fiscal Plan for the Commonwealth of Puerto Rico dated January 27, 2022, requires that the Department of Health consolidate six of the healthcare agencies with centralized support functions: Department of Health (DOH); Medical Services Administration (ASEM); Health Insurance Administration (ASES); Mental Health and Addiction Services Administration (ASSMCA); Puerto Rico and the Caribbean Cardiovascular Center Corporation; and Center for Research, Education, and Medical Services for Diabetes. Consolidating these six agencies should provide the opportunity for rightsizing support functions, as well as centralizing procurement to provide savings on costly medical materials, equipment and services. This new DOH should enable efficiencies while maintaining a high-quality public healthcare system. To date, the Government has achieved no progress toward this requirement. Legislation presented in December 2019 that was needed to execute the first phase of the consolidation (consolidation of ASES and DOH) was not recommended by the Senate's Health Commission, and legislation to consolidate the remaining health agencies has not been drafted.

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Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

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

June 30, 2020

	2020	2019
Proportion (percentage) of the net collective total pension liability	0.1049200%	0.1008300%
Proportion (amount) of the net collective total pension liability	$ 26,073,701	$ 24,692,768

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 Corporation's proportion of the total pension liability was actuarially determined based on the ratio of the Corporation's benefit payments to the total benefit payments made by all participating employers under the Pension Plan for the year ending on 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 actuarial valuations as of July 1, 2018 and July 1, 2017 that were rolled forward to June 30, 2019 and 2018, the measurement dates, respectively.

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

Cardiovascular Center Corporation
of Puerto Rico and the Caribbean

Required Supplementary Information
Schedule of Proportionate Share of the Collective Net OPEB Liability

June 30, 2020

	2020	2019	2018	2017
Proportion of the collective net OPEB liability	0.08416%	0.07943%	0.07909%	0.07496%
Proportionate share of the collective net OPEB liability	$ 700,445	$ 668,918	$ 728,015	$ 888,328
Covered employee payroll	N/A	N/A	N/A	N/A
Proportionate share of the collective net OPEB liability as a percentage of the covered employee payroll	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

Notes to required supplementary information

1. The Corporation's proportion of the net OPEB liability was actuarially determined based on the ratio of the Corporation's benefit payments to the total benefit payments made by all participating employers under the OPEB plan for the year ending on 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 for 2020 and 2019 were determined by actuarial valuations as of July 1, 2018 and July 1, 2017 that were rolled forward to June 30, 2019 and 2018, the measurement dates, respectively.

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