Puerto Rico Medical Services Administration
A Component Unit of the
Puerto Rico Department of Health

Financial Statements

June 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Puerto Rico Medical Services Administration (the Administration), a component unit of the Puerto Rico Department of Health (the Department), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Administration'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.

Auditor's 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 auditor's 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 the Puerto Rico Medical Services Administration, as of June 30, 2019 and 2018, and the related changes in net position (deficit), and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Uncertainty about Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Administration will continue as a going concern. As discussed in Note 15 to the financial statements, the Administration has suffered recurring losses from operations, has a net position deficiency, and has stated that substantial doubt exists about the Administration's ability to continue as a going concern regarding these matters are also described in Note 15.

The Administration is a component unit of the Commonwealth, and one of the primary Administration's source of income represents appropriations received from the general fund of the Commonwealth. The Commonwealth has incurred recurring deficits, has a negative financial position and has experienced a further deterioration of its economic condition, with limited access to credit markets.

Furthermore, on June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act, Law 114-187 ("PROMESA" or the "Act"), was enacted into law. The Act establishes a Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") to oversee the finances of the Commonwealth and its efforts to achieve fiscal responsibility and obtain access to capital markets. The Oversight Board, on behalf of the Commonwealth and certain of its instrumentalities, has filed voluntary petitions for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Court). On September 30, 2016, the Administration was identified as one of the covered entities subject to oversight under this Act.

Title III of PROMESA provides for similar procedures to Chapter 9 and 11 of the Federal Bankruptcy Code seeking an orderly restructuring of the local public finances, which includes a debt adjustment process under the supervision of the Court.

These conditions raise substantial doubts about the Commonwealth's, and therefore the Administration's ability to continue as a going concern for a reasonable period of time. Management's evaluation of the events and conditions, management's plans and the Commonwealth's plans regarding these matters are also described in Note 15. The financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Services to Member Institutions and Medical Indigent Population

As described in Note 13 to the financial statements, the Administration derives a substantial portion of its revenues from services rendered to member institutions. In addition, the Administration provides services to the medical indigent population, some of them uninsured, which do not have formal means of repayment. Amounts due from member institutions and medical indigent population may be subject to periodic revisions and/or adjustments, based on the availability of funds from the member institutions and/or the entities adhered to the Commonwealth of Puerto Rico.

Puerto Rico Department of Health

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

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Matters – (continued)

Required Supplementary Information – (continued)

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.

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San Juan, Puerto Rico
September 24, 2021
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Expires December 1, 2023

Management's Discussion and Analysis

The following discussion and analysis of the Puerto Rico Medical Services Administration (the Administration) provides an overview of the Administration's financial performance during the years ended June 30, 2019 and 2018. Please read it in conjunction with the basic financial statements, which follow this section.

Financial Highlights

1. The Administration's net position (deficit) as of June 30, 2019 and 2018 amounted to approximately ($856) million and ($993) million, respectively.

2. During the years ended June 30, 2019 and 2018, the Administration experienced operating losses of approximately $41 million and $96 million, respectively.

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

4. During the years ended June 30, 2019 and 2018, the Administration received approximately $108 million and $84 million, respectively, in contributions from governmental agencies, for payment of new recruitments, payroll contributions and other operating expenses.

Required Financial Statements

The required basic financial statements of the Administration consist of:

1. Statement of net position – The statement of net position includes all of the Administration's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the net assets' structure of the Administration and assessing its liquidity and financial flexibility.

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

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

Statements of Net Position

The Administration's statements of net position as of June 30, 2019 and 2018 consisted of (in thousands):

	2019	2018	Increase (Decrease)	%
Current assets	$ 114,498	$ 94,960	$ 19,538	21%
Non-current assets:				
Capital assets, net	53,371	54,945	(1,574)	-3%
Restricted cash	25,867	17,381	8,486	49%
	79,238	72,326	6,912	10%
Total assets	193,736	167,286	26,450	16%
Deferred outflows of resources	24,914	209,043	(184,129)	-88%
Current liabilities	303,142	303,916	(774)	0%
Non-current liabilities	738,502	977,822	(239,320)	-24%
Total liabilities	1,041,644	1,281,738	(240,094)	-19%
Deferred inflows of resources	32,818	87,608	(54,790)	-63%
Net position:				
Net investment in capital assets	52,941	54,945	(2,004)	-4%
Restricted	13,779	13,170	609	5%
Unrestricted (deficit)	(922,532)	(1,061,132)	138,600	-13%
Total net position (deficit)	$ (855,812)	$ (993,017)	$ 137,205	-14%

The Administration's statements of net position as of June 30, 2018 and 2017 consisted of (in thousands):

	2018	2017	Increase (Decrease)	%
Current assets	$ 94,960	$ 67,281	$ 27,679	41%
Non-current assets:				
Capital assets, net	54,945	52,053	2,892	6%
Restricted cash	17,381	9,926	7,455	75%
Other non-current assets	-	950	(950)	-100%
	72,326	62,929	9,397	15%
Total assets	167,286	130,210	37,076	28%
Deferred outflows of resources	209,043	160,920	48,123	30%
Current liabilities	303,916	250,946	52,970	21%
Non-current liabilities	977,822	988,488	(10,666)	-1%
Total liabilities	1,281,738	1,239,434	42,304	3%
Deferred inflows of resources	87,608	13,030	74,578	572%
Net position:				
Net investment in capital assets	54,945	52,053	2,892	6%
Restricted	13,170	4,819	8,351	173%
Unrestricted (deficit)	(1,061,132)	(1,018,206)	(42,926)	4%
Total net position (deficit)	$ (993,017)	$ (961,334)	$ (31,683)	3%

Statements of Net Position

The increase in current assets as of June 30, 2019, consisted of (in thousands):

	2019	2018	Increase (Decrease)	%
Unrestricted cash	$ 19,416	$ 11,753	$ 7,663	65%
Receivable from member institutions and private insurances	89,409	77,319	12,090	16%
Note receivable	950	1,850	(900)	-49%
Accounts receivable others	126	30	96	320%
Inventories	3,451	3,217	234	7%
Prepaid expenses	1,146	791	355	45%
	$ 114,498	$ 94,960	$ 19,538	21%

The increase in current assets as of June 30, 2018, consisted of (in thousands):

	2018	2017	Increase (Decrease)	%
Unrestricted cash	$11,753	$ 1,345	$ 10,408	774%
Receivable from member institutions and private insurances	77,319	61,377	15,942	26%
Note receivable	1,850	900	950	6%
Accounts receivable others	30	77	(47)	-61%
Inventories	3,217	3,207	10	0%
Prepaid expenses	791	375	416	111%
	$94,960	$67,281	$ 27,679	41%

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Statements of Net Position – (continued)

The net increase (decrease) in accounts receivable from member institutions and private insurances, consisted of the following activity during the years ended June 30, 2019 and 2018 (in thousands):

June 30, 2019:

	Member Institutions	Private Insurance	Total
Gross services revenues	$ 86,075	$ 95,326	$181,401
Revenue accounts reclassification	917	(917)	-
Contractual adjustments	(2,341)	(49,881)	(52,222)
Collections from prior years	122	659	781
Non cash transactions	8,516	-	8,516
Provision for bad debt expense	(8,140)	(14,022)	(22,162)
Collections	(70,232)	(33,992)	(104,224)
	$ 14,917	$ (2,827)	$ 12,090

June 30, 2018:

	Member Institutions	Private Insurance	Total
Gross services revenues	$ 96,487	$ 105,817	$202,304
Revenue accounts reclassification	620	(620)	-
Contractual adjustments	(2,457)	(55,192)	(57,649)
Collections from prior years	-	3,769	3,769
Non cash transactions	(2,947)	-	(2,947)
Provision for bad debt expense	(11,949)	(19,123)	(31,072)
Collections	(56,927)	(41,536)	(98,463)
	$ 22,827	$ (6,885)	$ 15,942

The decrease of $12.1 million in accounts receivable in fiscal year 2019 is mainly because collections increased during 2019, especially collections from Member's institutions. The decrease during the year in the contractual adjustment amount Private Insurance is mainly attributable to new service contract negotiations entered during the year.

Statements of Net Position – (continued)

The increase of $15.9 million in accounts receivable in fiscal year 2018 is mainly because Collections decreased during 2018, especially collections from Members institutions, which as a result of the financial difficulties experienced by them during the year, decreased by approximately $20 million. The decrease in the contractual adjustment from Private Insurance during the year is mainly attributable to new service contract negotiations entered during the year.

Non-Current Assets - Capital Assets

As of June 30, 2019:

Description	Balance June 30, 2018	Increase	Decrease	Balance June 30, 2019
Capital assets not being depreciated	$ 6,872	$ -	$ -	$ 6,872
Capital assets being depreciated	190,607	4,731	(147)	195,191
Accumulated depreciation	(142,534)	(6,254)	96	(148,692)
Capital assets being depreciated, net	48,073	(1,523)	(51)	46,499
Capital assets, net	$ 54,945	$ (1,523)	$ (51)	$ 53,371

As of June 30, 2018:

Description	Balance June 30, 2017	Increase	Decrease	Balance June 30, 2018
Capital assets not being depreciated	$ 6,872	$ -	$ -	$ 6,872
Capital assets being depreciated	183,172	7,442	(7)	190,607
Accumulated depreciation	(137,990)	(4,551)	7	(142,534)
Capital assets being depreciated, net	45,182	2,891	-	48,073
Capital assets, net	$ 52,054	$ 2,891	$ -	$ 54,945

The decrease in capital assets during the year ended June 30, 2019, is mainly due to the fact that current year's depreciation expense exceeded acquisitions of equipment and building improvements.

Statements of Net Position – (continued)

Liabilities

Current liabilities

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

	2019	2018	Increase (Decrease)	%
Due to related parties	$ 65,590	$ 64,860	$ 730	1%
Accounts payable	15,839	35,367	(19,528)	-55%
Accrued expenses	2,498	3,320	(822)	-25%
Accrued interest	83,484	64,213	19,271	30%
Current portion accrued pension costs	97,099	100,101	(3,002)	-3%
Total pension liability	23,713	24,203	(490)	-2%
Other post employment benefit	1,201	1,213	(12)	-1%
Current portion of compensated absences	7,397	8,553	(1,156)	-14%
Current portion of voluntary termination benefits	4,618	-	4,618	100%
Liabilities payable from restricted assets	1,616	2,086	(470)	-23%
Capital leases	87	-	87	100%
	$ 303,142	$ 303,916	$ (774)	0%

	2018	2017	Increase (Decrease)	%
Due to related parties	$ 64,860	$ 55,008	$ 9,852	18%
Accounts payable	35,367	34,417	950	3%
Accrued expenses	3,320	4,047	(727)	-18%
Accrued interest	64,213	47,038	17,175	37%
Current portion accrued pension costs	100,101	99,579	522	1%
Total pension liability	24,203	-	24,203	100%
Other postemployment benefit	1,213	-	1,213	100%
Current portion of compensated absences	8,553	10,504	(1,951)	-19%
Liabilities payable from restricted assets	2,086	353	1,733	491%
	$ 303,916	$ 250,946	$ 52,970	21%

Statements of Net Position – (continued)

Current liabilities - (continued)

The decrease of $19.5 million in accounts payable was due to a restructuring of the payables to suppliers. The increase of $19.3 million in accrued interest is because the Commonwealth of Puerto Rico didn't make the payment corresponding to the GDB line of credit on this year. The increase of $4.6 million in voluntary termination benefits was due to the acceptance of a group of employees of Act No. 211 from 2015.

Non-current liabilities

The decrease in non-current liabilities as of June 30, 2019, consisted of (in thousands):

	2019	2018	Increase (Decrease)	%
Government Development Bank of Puerto Rico line of credit in connection with Law #66 of June 22, 1978, as amended	$ 282,448	$ 282,448	$ -	0%
Total pension liability	420,788	674,897	(254,109)	-38%
Other postemployment benefit obligation	13,400	14,175	(775)	100%
Compensated absences, net of current portion	4,325	4,160	165	4%
Voluntary termination benefits, net of current portion	15,154	-	15,154	100%
Liabilities payable from restricted assets - Self insurance fund	2,044	2,142	(98)	-5%
Capital leases	343	-	343	100%
	$ 738,502	$ 977,822	$ (239,663)	-25%

Decrease in pension liability of $254.6 million or 36% is due to the implementation of the PayGo system as provided by Act 106. Until June 30, 2018, the Administration accounted for its participation in the Commonwealth of Puerto Rico (the Commonwealth) Employees Retirement System (the Pension Plan), a multiemployer retirement plan, in accordance with the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*. Pursuant to the provisions of GASB 68, the Administration recognized a net pension liability for its proportionate share of the collective net pension liability under the Pension Plan, as well as its proportionate share of the related deferred outflows of resources, deferred inflows of resources, and pension expense. The Administration's allocation percentage under GASB 68 was based on the ratio of the Administration's contributions to total contributions to the Pension Plan.

Statements of Net Position – (continued)

Non-Current Liabilities

Because of the implementation of the PayGo system, 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, *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 Pension Plan liability and related deferred outflows and inflows of resources of $84.7 million as of July 1, 2018, which is presented as a separate component of non-operating revenue in the accompanying statement of revenues, expenses, and changes in net position for the year ended June 30, 2019.

Under GASB 73, the Administration's proportionate share of the Pension Plan liability and related deferred outflows and inflows and expense are recorded based on the ratio of the Administration's benefit payments to total benefit payments of the Pension Plan.

Effective June 21, 2019, the Administration entered the voluntary preretirement program as part of management plans to restructure the Administration. The Administration's voluntary pre-retirement program liability as of June 30, 2019, calculated using the discounted present value of expected future benefit payments amounts to approximately $19.8 million.

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Statements of Net Position – (continued)

Non-Current Liabilities

The following detailed the activity of non-current liabilities for the years ended June 30, 2019 and 2018 (in thousands):

June 30, 2019:

Description	Balance June 30, 2018	Increase	Decrease	Balance June 30, 2019
Self-insurance fund	$ 2,142	$ -	$ (98)	$ 2,044
Compensated absences, net of current portion	4,160	165	-	4,325
Government Development Bank of Puerto Rico line of credit in connection with Law #66 of June 22, 1978 as amended	282,448	-	-	282,448
Total pension liability	674,897	-	(254,109)	420,788
Other postemployment benefit obligation	14,175	-	(775)	13,400
Voluntary termination benefits, net of current portion		15,154	-	15,154
Capital leases, net of current portion	-	343	-	343
	$ 977,822	$ 15,662	$ (254,982)	$ 738,502

June 30, 2018:

Description	Balance June 30, 2017	Increase	Decrease	Balance June 30, 2018
Self-insurance fund	$ 2,192	$ -	$ (50)	$ 2,142
Compensated absences, net of current portion	3,885	275	-	4,160
Government Development Bank of Puerto Rico line of credit in connection with Law #66 of June 22, 1978 as amended	282,448	-	-	282,448
Total pension liability	680,775	-	(5,878)	674,897
Other postemployment benefit obligation	19,188	-	(5,013)	14,175
	$ 988,488	$ 275	$ (10,941)	$ 977,822

Revenues, Expenses and Changes in Net Position (Deficit)

The Administration's statements of revenue, expenses, and changes in net position for the years ended June 30, 2019 and 2018, consisted of (in thousands):

	2019	2018	Increase (Decrease)	%
Total revenues	$ 107,690	$ 116,522	$ (8,832)	-8%
Operating costs and expenses:				
Cost of services	129,382	132,479	(3,097)	-2%
General and administrative	9,475	10,119	(644)	-6%
Depreciation and amortization	6,254	4,551	1,703	37%
Pension (benefit) expense	(16,168)	68,255	(84,423)	-124%
Voluntary termination benefits	19,772	-	19,772	100%
Other postemployment expense (benefit)	426	(2,511)	2,937	-117%
	149,141	212,893	(63,752)	-30%
Operating loss	(41,451)	(96,371)	54,920	57%
Non-operating income (expenses):				
Contributions from the Commonwealth of Puerto Rico	108,261	84,182	24,079	29%
Other income	1,160	97	1,063	1096%
Loss on disposition of capital assets	(50)	-	(50)	-100%
Decrease in pension liability as a result of the implementation of the GASB 73	84,740	-	84,740	100%
Gain on extinguishment of supplier's debt	3,965	-	3,965	100%
Interest expense	(19,420)	(19,591)	171	-1%
	178,656	64,688	113,968	176%
Net change in net position	137,205	(31,683)	168,888	-533%
Net position (deficit), at beginning of year	(993,017)	(961,334)	(31,683)	3%
Net position (deficit), at end of year	$ (855,812)	$ (993,017)	$ 137,205	-14%

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

The Administration's statements of revenue, expenses, and changes in net position for the years ended June 30, 2018 and 2017, consisted of (in thousands):

	2018	2017	Increase (Decrease)	%
Total revenues	$ 116,522	$ 120,353	$ (3,831)	-3%
Operating costs and expenses:				
Cost of services	132,479	152,995	(20,516)	-13%
General and administrative	10,119	12,703	(2,584)	-20%
Depreciation and amortization	4,551	5,444	(893)	-16%
Pension expense	68,255	36,264	31,991	88%
Other postemployment benefit credit	(2,511)	-	(2,511)	100%
	212,893	207,406	5,487	3%
Operating loss	(96,371)	(87,053)	(9,318)	-11%
Non-operating income (expenses):				
Contributions from the Commonwealth of Puerto Rico	84,182	41,350	42,832	104%
Other income (loss)	97	692	(595)	-86%
Interest expense	(19,591)	(25,175)	5,584	-22%
Loss on disposition of capital assets	-	(7)	7	-100%
	64,688	16,860	47,828	284%
Net change in net position	(31,683)	(70,193)	38,510	-55%
Net position (deficit), at beginning of year, as previously state	(961,334)	(873,242)	(88,092)	10%
Cumulative effect of change in accounting principles	-	(17,899)	17,899	100%
Net position (deficit), at beginning of year, as adjusted	(961,334)	(891,141)	(70,193)	8%
Net position (deficit), at end of year	$ (993,017)	$ (961,334)	$ (31,683)	3%

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

Net patient service revenues

The decrease in net service revenues for the year ended June 30, 2019, consisted of (in thousands):

	2019	2018	Increase (Decrease)	%
Member institutions	$ 85,957	$ 95,752	$ (9,795)	-10%
Private and insurance	34,714	41,210	(6,496)	-16%
Subtotal	120,671	136,962	(16,291)	
Capitation revenue	8,400	8,400	-	0%
Provision for bad debts	(22,162)	(32,609)	10,447	-32%
Collection from prior years	781	3,769	(2,988)	0%
Subtotal	(21,381)	(28,840)	7,459	
Total revenues	$ 107,690	$ 116,522	$ (8,832)	-8%

Approximately 71% of the Administration's net patient service revenues for 2019 are derived from services rendered to member institutions. The decrease of $16.3 million in patient service revenue was due to the reduction in patients census and services experienced during the year.

The net decrease of $7.5 million in the provision for bad debt is principally caused by the fact that no material reserve adjustments was deemed necessary for Members Institutions.

The decrease in net service revenues for the year ended June 30, 2018, consisted of (in thousands):

	2018	2017	Increase (Decrease)	%
Member institutions	$ 95,752	$ 94,730	$ 1,022	1%
Private and insurance	41,210	35,866	5,344	15%
Subtotal	136,962	130,596	6,366	
Capitation revenue	8,400	8,400	-	0%
Provision for bad debts	(32,609)	(19,201)	(13,408)	70%
Collection from prior years	3,769	558	3,211	0%
Subtotal	(28,840)	(18,643)	(10,197)	
Total revenues	$ 116,522	$ 120,353	$ (3,831)	-3%

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

Net patient service revenues – (continued)

Approximately 70% of the Administration's net patient service revenues for 2018 are derived from services rendered to member institutions. The increase of $6.4 million in patient service revenue was due to the efforts of the Administration to improve the billing process, institutional arrangements and increasing sales prices to recover cost. The net increase of $10.2 million in the provision for bad debt is principally caused by the increase in reserve of Member Institutions.

Operating Costs and Expenses

Decrease in operating costs and expenses for the year ended June 30, 2019, consisted of (in thousands):

	2019	2018	Increase (Decrease)	%
Salaries payroll taxes and fringe benefits	$ 79,874	$ 85,602	$ (5,728)	-7%
General and administrative	9,475	10,119	(644)	-6%
Costs of materials and services	43,153	41,443	1,710	4%
Depreciation and amortization	6,253	4,551	1,702	37%
Utilities	6,356	5,434	922	17%
Pension (benefit) expense	(16,168)	68,255	(84,423)	-124%
Voluntary termination benefits (Law 211)	19,772	-	19,772	100%
Other postemployment benefit expense (credit)	426	(2,511)	2,937	-117%
	$ 149,141	$ 212,893	$ (63,752)	-30%

Increase in operating costs and expenses for the year ended June 30, 2018, consisted of (in thousands):

	2018	2017	Increase (Decrease)	%
Salaries payroll taxes and fringe benefits	$ 85,602	$ 113,415	$ (27,813)	-25%
General and administrative	10,119	12,703	(2,584)	-20%
Costs of materials and services	41,443	33,940	7,503	22%
Depreciation and amortization	4,551	5,444	(893)	-16%
Utilities	5,434	5,640	(206)	-4%
Pension expense	68,255	36,264	31,991	88%
Other postemployment benefit credit	(2,511)	-	(2,511)	100%
	$ 212,893	$ 207,406	$ 5,487	3%

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

Non-Operating Income (Expenses)

The increase in non-operating income (expenses) for the years ended June 30, 2019 and 2018 consists of (in thousands):

	2019	2018	Increase (Decrease)	%
Contributions from the Government of Puerto Rico	$ 108,261	$ 84,182	$ 24,079	29%
Other income	1,160	97	1,063	1096%
Loss on disposition of capital assets	(50)	-	(50)	100%
Decrease in pension liability as a result of the implementation of the GASB 73	84,740	-	84,740	100%
Gain on extinguishment of supplier's debt	3,965	-		
Interest expense	(19,420)	(19,591)	171	-1%
	$ 178,656	$ 64,688	$110,003	170%

	2018	2017	Increase (Decrease)	%
Contributions from the Government of Puerto Rico	$ 84,182	$ 41,350	$ 42,832	104%
Other income	97	692	(595)	-86%
Interest expense	(19,591)	(25,175)	5,584	-22%
Loss on disposition of capital assets	-	(7)	7	-100%
	$ 64,688	$ 16,860	$ 47,828	284%

The governmental contributions consisted of the following activity during the year ended June 30, 2019:

- $96.560 million received in connection with Joint Resolution No. 50 approved by the Commonwealth's Legislature Assembly on July 2, 2018, assigning to the Administration $54,565,000 for the payment of salaries and related benefits, $16,271,000 for operating expenses and $25,724,000 for the payment to cover retirement expenses under the Pay-Go system.

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

Non-Operating Income (Expenses)

- $3,604,162.45 granted in connection with Joint Resolution No. 141 approved by the Commonwealth's Legislature Assembly in 2019, for the payment to the Puerto Rico Aqueducts Sewers Authority debt.

- $8,097,249 received throughout the year from the Department of Health for the implementation of the Electronic Health Record.

Non-Operating Income (Expenses)

Interest expense during the years ended on June 30, 2019 and 2018 consisted mainly of approximately $19.3 million and $17.2 million, respectively, billed by the Government Development Bank of Puerto Rico and $2.3 as of June 30, 2018 for not complying with the payments of the obligations of the Employees' Retirement System.

Contacting the Administration's Financial Management

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

Puerto Rico Medical Services Administration
A Component Unit of the Puerto Rico Department of Health

Statements of Net Position

June 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash in commercial banks	$ 19,415,922	$ 11,753,031
Accounts receivable:		
Member institutions, net	83,510,854	68,597,713
Private insurance, net	5,898,346	8,721,027
Note receivable from Municipality of San Juan	950,000	1,850,000
Other, net	126,666	29,985
Inventory of supplies	3,450,718	3,217,529
Prepaid expenses and other current assets	1,145,622	790,745
Total current assets	114,498,128	94,960,030
Non-current assets:		
Cash in commercial banks - restricted	25,866,961	17,381,464
Capital assets, net	53,371,399	54,944,630
Total non-current assets	79,238,360	72,326,094
Total assets	193,736,488	167,286,124
Deferred outflows of resources:		
Pension related	23,713,313	207,830,545
Other postemployment benefit related	1,200,504	1,212,721
Total deferred outflows of resources	24,913,817	209,043,266
Liabilities and Net Position (Deficit)		
Current liabilities:		
Due to related parties, net	65,589,885	64,860,424
Accounts payable	15,839,846	35,367,458
Accrued expenses	2,497,907	3,320,619
Accrued interest	83,483,908	64,212,737
Due to Employee's Retirement System	97,099,292	100,100,602
Total pension liability	23,713,313	24,202,626
Other postemployment benefit obligation	1,200,504	1,212,721
Compensated absences	7,396,667	8,553,007
Voluntary termination benefits	4,617,762	-
Liabilities payable from restricted assets - improvements to medical facilities and equipment	1,615,834	2,085,704
Capital lease	87,302	-
Total current liabilities	303,142,220	303,915,898
Non-current liabilities:		
Line of credit	282,447,692	282,447,692
Total pension liability	420,787,688	674,897,941
Other postemployment benefit liability	13,400,403	14,175,133
Compensated absences	4,325,607	4,159,931
Voluntary termination benefits	15,154,092	-
Liabilities payable from restricted assets - Self-insurance fund	2,044,350	2,142,200
Capital lease	342,848	-
Total non-current liabilities	738,502,680	977,822,897
Total liabilities	1,041,644,900	1,281,738,795
Deferred inflows of resources - pension related	32,817,776	87,607,866
Net position:		
Net investment in capital assets	52,941,249	54,944,630
Restricted for permanent improvements	13,776,934	13,163,108
Restricted for others	2,161	6,912
Unrestricted (deficit)	(922,532,715)	(1,061,131,921)
Total net position (deficit)	$ (855,812,371)	$ (993,017,271)

See notes to financial statements

Puerto Rico Medical Services Administration
A Component Unit of the Puerto Rico Department of Health

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

For the years ended June 30, 2019 and 2018

	2019	2018
Patient service revenue, net of contractual allowances	$ 120,670,656	$ 136,961,639
Less: provision for bad debts	21,381,134	28,839,970
Net patient service revenue	99,289,522	108,121,669
Capitation revenue	8,400,000	8,400,000
Total revenues	107,689,522	116,521,669
Operating costs and expenses:		
Cost of services	129,382,284	132,478,672
General and administrative	9,475,017	10,119,376
Depreciation and amortization	6,253,644	4,550,593
Pension (benefit) expense	(16,167,982)	68,255,131
Voluntary termination benefits	19,771,854	-
Other postemployment benefit expense (credit)	425,774	(2,511,194)
Total operating cost and expenses	149,140,591	212,892,578
Operating loss	(41,451,069)	(96,370,909)
Non-operating revenue (expenses):		
Contributions from the Commonwealth of Puerto Rico	108,261,411	84,181,854
Other income, net	1,159,820	97,425
Loss on disposition of capital assets	(50,950)	-
Decrease in pension liability as a result of the implementation of the GASB 73	84,740,085	-
Gain on extinguishment of supplier's debt	3,965,436	-
Interest expense	(19,419,833)	(19,591,257)
Total non-operating revenue, net	178,655,969	64,688,022
Net change in net position	137,204,900	(31,682,887)
Net position (deficit), at beginning of year	(993,017,271)	(961,334,384)
Net position (deficit), at end of year	$ (855,812,371)	$ (993,017,271)

See notes to financial statements

Puerto Rico Medical Services Administration
A Component Unit of the Puerto Rico Department of Health

Statements of Cash Flows

For the years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from service revenues	$ 96,402,381	$ 100,626,882
Payments to suppliers for goods and services	(66,320,708)	(34,768,887)
Payment to employees for salaries and related benefits	(118,904,640)	(122,415,238)
Net cash used in operating activities	(88,822,967)	(56,557,243)
Cash flows from non capital and related financing activities:		
Intergovernmental contributions	100,587,742	79,296,351
Interest paid	(148,662)	(2,416,868)
Net cash provided by non capital and related financing activities	100,439,080	76,879,483
Cash flows from capital and related financing activities:		
Intergovernmental contributions	7,673,669	4,885,502
Acquisition of machinery and equipment	(3,556,284)	(7,123,166)
Improvements to emergency room and other facilities	(744,930)	(318,668)
Net cash provided by (used in) capital and related financing activities	3,372,455	(2,556,332)
Cash flows from investing activities-		
Receipts from interest and other income	1,159,820	97,426
Net change in cash	16,148,388	17,863,334
Cash and restricted cash, beginning of year	29,134,495	11,271,161
Cash and restricted cash, end of year	$ 45,282,883	$ 29,134,495
Reconciliation of cash and restricted cash to the Statement of Net Position:		
Cash in commercial banks	$ 19,415,922	$ 11,753,031
Cash in commercial banks - restricted	25,866,961	17,381,464
Total cash	$ 45,282,883	$ 29,134,495

(Continues)

Puerto Rico Medical Services Administration
A Component Unit of the Puerto Rico Department of Health

Statements of Cash Flows (Continued)

For the years ended June 30, 2019 and 2018

	2019	2018
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (41,451,069)	$ (96,370,909)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	6,253,644	4,550,593
Provision for bad debts	21,381,134	28,839,970
Decrease in pension liability as a result of the implementation of the GASB 73	84,740,085	-
Gain on extinguishment of supplier's debt	3,965,436	-
Interest on operating leases		
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(33,568,275)	(44,734,757)
Note receivable	900,000	-
Inventory of supplies	(233,189)	(10,945)
Prepaid expenses and other current assets	(354,877)	(415,357)
Deferred outflows of resources	184,129,449	(49,412,653)
Increase (decrease) in:		
Due to related parties	729,461	9,852,837
Accounts payable	(19,527,612)	949,475
Accrued expenses and other	13,602,502	(197,785)
Total pension liability	(254,599,566)	18,325,155
Other postemployment benefits liability	-	(2,511,194)
Deferred inflows of resources	(54,790,090)	74,578,327
	(47,371,898)	39,813,666
Net cash used in operating activities	$ (88,822,967)	$ (56,557,243)

Non-cash capital investing and financing activities

	2019	2018
Retirement of capital assets	$ 146,859	$ 702
Capital lease acquisition	$ 492,362	$ -

See notes to financial statements

Note 1 - Organization and summary of significant accounting policies

Organization

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

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

Summary of significant policies

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

Basis of presentation

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

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

Summary of significant policies – (continued)

Basis of presentation – (continued)

These classifications are defined as follows:

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

  If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net invested in capital assets; rather, that portion of the debt is included in the same net assets component as the unspent proceeds. As of June 30, 2019 and 2018, net assets invested in capital assets, net of related debt consisted of the balance of capital assets.

- Restricted – This component of net position consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributions, or laws or regulations of other governments of constraints imposed by law through constitutional provisions or enabling legislation. As of June 30, 2019 and 2018, net position restricted consisted mainly of cash available from governmental contributions received for improvements to the Administration's facilities and other capital additions.

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

Measurement focus and basis of accounting

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

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

Summary of significant policies – (continued)

Use of estimates

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

Restricted cash

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

Account receivables

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

As of June 30, 2019 and 2018, approximately $56,085,098 and $186,453,726 and $48,122,150 and $173,090,962 representing receivables from member institutions and private insurance, respectively, are not expected to be collected, which are included as part of the allowance for doubtful accounts within accounts receivable in the accompanying statements of net position.

Valuation of accounts receivable

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

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

Summary of significant policies – (continued)

Fair value of financial instruments

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

Inventory of supplies

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

Capital assets

Capital assets are stated at cost and equipment under capital leases, at the present value of minimum lease payments, in accordance with the provision of the Financial Accounting Standards Board *FASB Accounting Standards Codification Topic of Accounting for Leases*. Capital assets are defined by the Administration as assets with an individual cost of more than $100.

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

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

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

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

Summary of significant policies – (continued)

Accounting for the impairment of capital assets

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

Compensated absences

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

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

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

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

Summary of significant policies – (continued)

Pension benefits

The Administration is a participant in the Puerto Rico Government Employee's Retirement System (the Pension Plan), a multiemployer retirement plan. Until June 30, 2018, the Administration 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 Pension Plan liability and related deferred outflows and inflows of resources of $84.7 million as of July 1, 2018, which is presented as a separate component of non-operating expenses in the accompanying statement of revenues, expenses, and changes in net position for the year ended June 30, 2019.

Pursuant to the provisions of GASB 73, the Administration recognizes a pension liability for its proportionate share of the collective pension liability under the Pension Plan, as well as its proportionate share of the collective deferred outflows of resources, collective deferred inflows of resources, and collective pension expense. The Administration's allocation percentage is based on the ratio of the Administration's benefit payments to total benefit payments under the Pension Plan. Changes in the total pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in the total pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees, in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they arose.

Postemployment Benefits Other Than Pensions

The Administration accounts for other postemployment benefits in accordance with the provisions of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards

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

Summary of significant policies – (continued)

Postemployment Benefits Other Than Pensions – (continued)

for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

Net patient service revenue

The Administration has agreements with third-party payors that provide for payments to the Administration at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursement costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

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

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

Summary of significant policies – (continued)

Capitation revenue

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

Operating revenues and expenses

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

Related parties

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

Insurance

The Administration carries commercial insurance to cover for casualty, theft, claims and other losses. The Commonwealth negotiates the commercial insurance coverage, and the cost is paid by the Administration. The Administration is self-insured for medical malpractice claims and judgments, as discussed in Note 7. The Administration also pays for workers' compensation insurance to another component unit of the Commonwealth.

Non-exchange transactions

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

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

Summary of significant policies – (continued)

Deposits and investment risks

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

Deferred outflows and inflows of resources

The Administration adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which requires that, in addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources, which represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Also, in addition to liabilities, the statement of net position will sometimes report a separate section of deferred inflows of resources, which represents an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2019, and 2018, all deferred outflows of resources and all deferred inflows of resources of the Administration are pension and other postemployment benefit related items, as further disclosed in Notes 9 and 10.

Accounting Pronouncements Issued but not yet Effective

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

- 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

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

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 are effective for reporting periods beginning after June 15, 2019, as amended by GASB 95.

- 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.

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

- 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.

- 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 are effective for reporting periods beginning after June 15, 2019, as amended by GASB 95.

- 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*

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

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. 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.

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

Transactions presented in flows 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 - Organization 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

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

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.

- 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 - Organization 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.

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

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

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform them to the 2019 financial statements presentation.

Note 2 - Cash in commercial banks

Cash in commercial banks as of June 30, 2019 and 2018 consisted of:

	Carrying Amount		Bank Balance	
Description	2019	2018	2019	2018
Cash - unrestricted	$ 19,415,922	$ 11,753,031	$ 22,797,534	$ 13,367,580
Cash-restricted for:				
Improvements to medical facilities and purchase of equipment	23,568,993	14,907,615	23,888,238	15,075,014
Self-insurance fund	2,027,207	2,130,186	2,077,257	2,130,636
Recycle fund	-	3,383	-	3,383
Other	270,761	340,280	270,761	340,280
	25,866,961	17,381,464	26,236,256	17,549,313
Total cash	$ 45,282,883	$ 29,134,495	$ 49,033,790	$ 30,916,893

The Administration's restricted cash is comprised of deposits held in custody by a banking institution. 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 Administration's deposits may not be returned.

Note 3 - Net patient service revenue

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

Note 3 - Net patient service revenue – (continued)

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 Administration is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Administration and audits thereof by the Medicare fiscal intermediary.

The Administration's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through 2018.

The cost report from 2019 is subject to the Medicare fiscal intermediary examination. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

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

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

A summary of patient service revenue, net of contractual allowances and discounts, and provision for bad debts, for the years ended June 30, 2019 and 2018 consisted of:

	2019	2018
Third-party payors - member institutions	$ 77,817,216	$ 81,245,507
Third-party payors - health plans	21,462,728	26,880,526
Self-pay patients	9,578	(4,364)
Patient service revenue (net of contractual allowances and discounts and provision for bad debts)	$ 99,289,522	$ 108,121,669

Note 3 - <u>Net patient service revenue – (continued)</u>

Changes in the allowance for doubtful accounts on patient's account receivable for the years ended June 30, 2019 and 2018 consisted of:

	2019	2018
Balance, beginning of year	$ 221,213,112	$ 219,631,560
Provision for bad debts	21,381,134	28,839,970
Reclassification of RCM bad debt allowance to contractual allowance	-	(27,251,233)
Other reclassification	(55,422)	(7,185)
Balance, end of year	$ 242,538,824	$ 221,213,112

Net patient service revenue from third-party payors is estimated fully collectible and it is recorded when the health care services are provided. Also, health care services provided to uninsured patients are recorded when the services are provided. Provision for bad debts related to receivables from third-party payors and uninsured patients and for patients for whom it was assessed the patient does not has the ability to pay is recorded as a deduction of net patient service revenue in the accompanying statements of revenues, expenses and changes in net position. At June 30, 2019 and 2018, 72% and 73%, of the amounts reserved as uncollectible are related to third-party payors, respectively, and 28% and 27%, are related to self-pay patients, which includes deductibles and co-insurance which the Administration accounts for as patient balance.

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Note 4 - Capital assets

Capital assets as of June 30, 2019 and 2018, and activity during the years then ended consisted of:

Description	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019
Capital assets not being depreciated:				
Land	$ 6,871,955	$ -	$ -	$ 6,871,955
Capital assets being depreciated:				
Land improvements	11,916,569	60,888	-	11,977,457
Building and improvements	95,128,186	744,931	-	95,873,117
Machinery, equipment and intangible	65,490,346	3,495,395	(146,858)	68,838,883
Equipment under capital leases	18,077,706	430,149	-	18,507,855
	190,612,807	4,731,363	(146,858)	195,197,312
Accumulated depreciation and amortization:				
Land improvements	11,906,734	9,835	-	11,916,569
Building and improvements	60,154,427	1,800,451	-	61,954,878
Machinery, equipment and intangible	52,401,265	4,443,358	(95,908)	56,748,715
Equipment under capital leases	18,077,706	-	-	18,077,706
	142,540,132	6,253,644	(95,908)	148,697,868
Capital assets being depreciated, net	48,072,675	(1,522,281)	(50,950)	46,499,444
Capital assets, net	$ 54,944,630	$ (1,522,281)	$ (50,950)	$ 53,371,399

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Note 4 - Capital assets – (continued)

Description	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not being depreciated:				
Land	$ 6,871,955	$ -	$ -	$ 6,871,955
Capital assets being depreciated:				
Land improvements	11,916,569	-	-	11,916,569
Building and improvements	94,809,518	318,668	-	95,128,186
Machinery and equipment	58,367,882	7,123,166	(702)	65,490,346
Equipment under capital leases	18,077,706	-	-	18,077,706
	183,171,675	7,441,834	(702)	190,612,807
Accumulated depreciation and amortization:				
Land improvements	11,896,900	9,834	-	11,906,734
Building and improvements	58,221,705	1,932,722	-	60,154,427
Machinery and equipment	49,793,930	2,608,037	(702)	52,401,265
Equipment under capital leases	18,077,706	-	-	18,077,706
	137,990,241	4,550,593	(702)	142,540,132
Capital assets being depreciated, net	45,181,434	2,891,241	-	48,072,675
Capital assets, net	$ 52,053,389	$ 2,891,241	$ -	$ 54,944,630

Note 5 - Note receivable from the Municipality of San Juan

On November 14, 2013, the Administration and the Municipality of San Juan (MSJ) signed an agreement to settle the accounts receivable from the Hospital of the Municipality of San Juan related to medical services rendered by the Administration to the MSJ covering inpatient and outpatient services, laboratory, pharmacy, general services and other ancillary services billed to the MSJ. The settlement was for the amount of $11,500,000 and covers the period from July 1, 2002 to June 30, 2012. The agreement is payable in five installments beginning in fiscal year 2014 for $8 million, $800,000 in 2016, $850,000 in 2017, $900,000 in 2018 and the last payment is due August 2019 for $950,000, bearing no interest. During 2019 $900,000 were collected.

Note 6 - 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 Administration.

The balance due to (from) related parties as of June 30, 2019 and 2018 consists of the following:

	2019	2018
Puerto Rico Electric Power Authority	$ 33,403,479	$ 32,989,777
Puerto Rico Aqueduct and Sewer Authority	(55,507)	4,517,941
Puerto Rico Treasury Department	4,434,802	5,700,080
Puerto Rico Infrastructure Financing Authority	484,398	484,399
State Insurance Fund Corporation	1,534,552	3,009,765
University of Puerto Rico - RCM	25,788,161	18,158,462
Due to related parties, net	$ 65,589,885	$ 64,860,424

Note 7 - Self-insurance fund

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

The Administration maintains in the Fund cash of $2,027,207 and $2,130,186 as of June 30, 2019 and 2018, respectively, to provide for the payment of possible claims. Funding requirements are determined based on actuarial reports and the Administration's Internal Council Office. The most recent actuarial report as of June 30, 2019, presented estimated liabilities of $1.6 million, which were related to claims incurred up to the year ended June 30, 2019.

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Note 7 - Self-insurance fund - (continued)

The following is the activity of the restricted cash available and liabilities payable from restricted assets under the Self-Insurance Fund for the years ended June 30, 2019 and 2018.

June 30, 2019:

Description	Restricted Cash	Liabilities Payable
Balances as of beginning of year	$ 2,130,186	$ 2,142,200
Funds received from operations	26,318	-
Claims paid and other disbursements	(129,297)	(97,850)
Balance as of end of year	$ 2,027,207	$ 2,044,350

June 30, 2018:

Description	Restricted Cash	Liabilities Payable
Balances as of beginning of year	$ 1,027,762	$ 2,192,318
Funds received from operations	1,155,299	-
Claims paid and other disbursements	(52,875)	(50,118)
Balance as of end of year	$ 2,130,186	$ 2,142,200

Note 8 - Due to Employee's Retirement System

Due to Employee's Retirement System as of June 30, 2019 and 2018 amounting to $97,099,292 and $100,100,602, respectively, consists of employer's and employee's contributions from 2012 to 2018. Amounts due to the Retirement System are non-interest bearing, have no specific repayment terms and is expected to be settled in the normal course of business as funds become available.

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Note 9 - Retirement plan

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) was created pursuant to Act No. 447 on 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. Charges under the PayGo program for the year ended June 30, 2019, amounted to $22,760,146 which have been included as part of deferred outflows of resources for the year ended June 30, 2019.

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

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.

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 013, which were in effect prior to August 23, 2017.

Note 9 - Retirement plan – (continued)

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).

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.

Pension Plan Benefits

(i) Service retirements

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.

Note 9 - Retirement plan – (continued)

Pension Plan Benefits – (continued)

(i) Service retirements – (continued)

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.

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.

Note 9 - Retirement plan – (continued)

Pension Plan Benefits – (continued)

(i) Service retirements – (continued)

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.

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.

Note 9 - Retirement plan – (continued)

Pension Plan Benefits – (continued)

(iii) Service retirement annuity benefits – (continued)

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.

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

Note 9 - Retirement plan – (continued)

Pension Plan Benefits – (continued)

(iii) Service retirement annuity benefits – (continued)

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.

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.

Note 9 - Retirement plan – (continued)

Pension Plan Benefits – (continued)

(iv) Termination benefits

a) Lump sum withdrawal

Eligibility - A Member was eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contribution account is $10,000 or less.

Benefit - The benefit equaled a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

b) Deferred retirement

Eligibility - A Member was eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447 of 1951 and Act No. 1 of 1990 members) prior to the applicable retirement eligibility, provided the member had not taken a lump sum withdrawal of the accumulated contributions from the hybrid contribution account.

Benefit - An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age 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.

(v) Death benefits

a) Pre-retirement - death benefit

Eligibility - Any current nonretired member was eligible.

Benefit - A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447 of 1951 and Act No. 1 of 1990 members.

Note 9 - Retirement plan – (continued)

Pension Plan Benefits – (continued)

(v) Death benefits – (continued)

b) High risk death benefit under Act No. 127 of 1958

Eligibility - Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127 of 1958, as amended.

Spouse's Benefit - 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit - 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro rata among eligible children. The annuity was payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children - The parents of the member should each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Post-death Increases - Effective July 1, 1996, and subsequently every three-years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three-years.

The cost of these benefits was paid by the Commonwealth.

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Note 9 - Retirement plan – (continued)

Pension Plan Benefits – (continued)

(v) Death benefits – (continued)

c) Postretirement death benefit for members who retired prior to July 1, 2013

Eligibility - Any retiree or disabled member receiving a monthly benefit who had not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit - The benefit is as follows (Act No. 105, as amended by Act No. 4):

i. For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan - 30%, prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the Commonwealth for former government employees or by the public enterprise or municipality for their former employees. See Act No. 105 of 1969, as amended by Act No. 158 of 2003.

ii. The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case may the benefit be less than $1,000. Either the Commonwealth for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. ERS pays for the rest. See Article 2-113 of Act No. 447 of 1951, as amended by Act No. 524 of 2004.

Note 9 - Retirement plan – (continued)

Pension Plan Benefits – (continued)

(v) Death benefits – (continued)

d) Postretirement death benefit for members who retired after June 30, 2013

Eligibility - Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447 of 1951 and Act No. 1 of 1990 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment must be payable to a beneficiary or the member's estate.

e) Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(vi) Disability benefits

a) Disability

Eligibility - All members are eligible upon the occurrence of disability.

Benefit - The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity, or a deferred annuity at the election of the participant. Act No. 447 of 1951 and Act No. 1 of 1990 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

b) High risk disability under Act No. 127 of 1958

Eligibility - Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127 of 1958 (as amended).

Note 9 - Retirement plan – (continued)

Pension Plan Benefits – (continued)

(vi) Disability benefits – (continued)

Benefit - 80% (100% for Act No. 447 of 1951 members) of compensation as of date of disability, payable as an annuity. If the member died while still disabled, this annuity benefit continued to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three-years, the disability benefit was increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three-years (Act No. 127 of 1958, as amended). The cost of these benefits was paid by the Commonwealth.

c) Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013, continue to be eligible to receive such benefits.

(vii) 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. The benefits were paid 50% by the Commonwealth and 50% by ERS.

ii. *Minimum Benefit for Members Who Retired before July 1, 2013 (Act No. 156 of 2003, 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). The increase in the minimum monthly benefit from $200 per month to $300 per month was paid by the Commonwealth for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month was to be paid by ERS for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees.

Note 9 - Retirement plan – (continued)

Pension Plan Benefits – (continued)

(vii) Special benefits – (continued)

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 were 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). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees are to be paid by ERS.

All other COLAs granted in 1995 and later were required to be paid by the Commonwealth for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees.

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. This benefit is paid from the supplemental contributions received from the Commonwealth for former government and certain public corporations without their own treasuries, or by certain public corporations with their own treasuries or municipalities for their former employees.

Note 9 - Retirement plan – (continued)

Pension Plan Benefits – (continued)

(vii) Special benefits – (continued)

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.

This benefit is paid from the Supplemental Contributions received from the Commonwealth for former government and certain public corporations without their own treasuries, or by certain public corporations with their own treasuries or municipalities for their former employees.

Before July 1, 2017, the Commonwealth made contributions to ERS for the special benefits granted by special laws. The funding of the special benefits was provided to ERS through legislative appropriations each January 1 and July 1. Special benefits to eligible Act 447 of 1951 participants are being paid by each employer as they become due since July 1, 2017.

(viii) Contributions

Prior to July 1, 2017, the plan contributions requirements were as follows:

a) *(Article 5 of 105 of Law 447, as amended by Law No. 3 of 2013, amended by Law No. 106 of 2017 and amended by Law 71 of 2019)* - Effective July 1, 2013, through June 30, 2017, contributions by members consisted of 10% of compensation.

However, for Act No. 447 members who selected the Coordination Plan, the member contributions were 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Effective July 1, 2015, for members who selected the Coordination Plan, member contribution increased to 10% of compensation.

Members may voluntarily make additional contributions to their Defined Contribution Hybrid Contribution Account.

Note 9 - Retirement plan – (continued)

Pension Plan Benefits – (continued)

(viii) Contributions – (continued)

Prior to July 1, 2013, contributions by Act No. 447 members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have made voluntary contributions of up to 1.725% of compensation prior to July 1, 2013.

b) *Employer Contributions (Article 2 116, as Amended by Act No. 116 of 2010 and Act No. 3 of 2013)*: Prior to July 1, 2011, employer contributions were 9.275% of compensation. Effective July 1, 2011, employer contributions are 10.275% of compensation. For the next four fiscal years effective July 1, 2012, employer contributions will increase annually by 1% of compensation. For the next five fiscal years, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.53% of compensation effective July 1, 2020.

Act 106 eliminated all employer contributions to ERS as of July 1, 2017. Instead, participating employers are responsible for the payment of the PayGo fee to the newly created accumulated pension benefits payment account, which is computed based on the amount of actual benefits paid to retirees, disabled and beneficiaries of each participating employer.

c) *Supplemental Contributions from the Commonwealth Certain Public Corporations, and Municipalities (Act No. 3 of 2013)*: Effective July 1, 2013, ERS received a supplemental contribution of $2,000 each year for each pensioner (including beneficiaries receiving survivor benefits) that was previously benefitting an Act No. 447 of 1951 or Act No. 1 of 1990 member while an active employee. This supplemental contribution was paid by the Commonwealth Fund for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees.

Act 106 eliminated the special benefits contribution requirement to ERS, instead they will be allocated to the new PayGo System through legislative appropriations, as necessary.

Note 9 - Retirement plan – (continued)

Pension Plan Benefits – (continued)

(viii) Contributions – (continued)

d) *Additional Uniform Contribution (Act No. 32 of 2013, as Amended)*: The additional uniform contribution (AUC) was to be certified by the external actuary of ERS each fiscal year from fiscal year 2015 through 2033 as necessary to avoid the projected gross assets of ERS, falling below $1 billion during any subsequent fiscal year. The AUC was to be paid by the Commonwealth, public corporations with their own treasuries, and municipalities. Only a fraction of the AUC from prior years had been received by ERS. Total AUC due to ERS from fiscal years 2015, 2016 and 2017 was approximately $776 million in the aggregate. The AUC determined for fiscal year 2018 is $685 million payable at the end of the year. As result of the enactment of Act 106, all employers' contributions, including the additional uniform contribution were eliminated effectively on July 1, 2017.

(ix) Early retirement programs

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined.

Act No. 70 also established that early retirement benefits will be provided to eligible employees that have completed between 15 and 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth (the General Fund) and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 of 1951 or age 65 for members under Act No. 1 of 1990, or the date the plan member would have completed 30 years of service had the member continued employment.

In addition, the public corporations will also be required to continue making the required employee and employer contributions to ERS. The General Fund will be required to continue making its required employer contributions. ERS will be responsible for benefit payments afterward.

On December 8, 2015, the Commonwealth enacted the Voluntary Early Retirement Law, Act No. 211 of 2015 (Act No. 211), establishing a voluntary program to provide pre-retirement benefits to eligible employees, as defined. Act 106 repealed Act No. 211, while creating an incentives, opportunities and retraining program for public workers.

Note 9 - Retirement plan – (continued)

Pension Plan Benefits – (continued)

Total Pension Liability and Actuarial Information

The total Pension Plan liability recorded by the Administration as of June 30, 2019 (measurement date June 30, 2018) amounted to $444,501,001 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, 2019 (measurement date June 30, 2018) was determined by an actuarial valuation as of July 1, 2017, that was rolled forward to June 30, 2018 (measurement date).

The Administration 's proportion of the total pension liability was actuarially determined based on the ratio of the Administration’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, 2018 (measurement date), the Administration 's proportionate share was 1.81507%.

(a) Actuarial methods and 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, 2018 (measurement date) was 3.87%. This represents the municipal bond return rate as selected by the Commonwealth. The source is the Bond Buyer Obligation 20 Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

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Note 9 - Retirement plan – (continued)

Total Pension Liability and Actuarial Information – (continued)

(a) Actuarial methods and assumptions – (continued)

Mortality

The mortality tables used in the June 30, 2018 (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-2018 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-2018 from the 2006 base year and projected forward using MP-2018 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-2018 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-2018 on a generational basis. As a generational table, it reflects mortality improvements before and after the measurement date.

Note 9 - Retirement plan – (continued)

Total Pension Liability and Actuarial Information – (continued)

Other assumptions

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.

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

The following presents the Administration's Pension Plan liability calculated using the discount rate of 3.87%, as well as what the Administration's proportionate share of the total Pension Plan liability would be if it were calculated using a discount rate of 1% point lower (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%)
Total pension liability	$ 505,808,776	$ 444,501,001	$ 394,751,034

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Note 9 - Retirement plan – (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2019 (measurement date June 30, 2018), the reported deferred outflows of resources and deferred inflows of resources related to pensions consist of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 13,444,000
Changes of assumptions	-	14,576,125
Changes in proportion	-	4,797,651
Pension benefits paid subsequent to the measurement date	23,713,313	-
Total	$ 23,713,313	$ 32,817,776

Pension benefits paid subsequent to the measurement date of $23,713,313 have been excluded from the table below.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2018 (measurement date) will be recognized as adjustment to pension expense in the Administration's financial statements as follows:

Years Ending June 30	Amount
2019	$ (6,563,555)
2020	(6,563,555)
2021	(6,563,555)
2022	(6,563,555)
2023	(6,563,556)
Total	$ (32,817,776)

Note 9 - Retirement plan – (continued)

Pension Expense (Benefit)

The composition of the Administration's proportional share of the Pension Plan's expense (benefit) for the year ended June 30, 2019 (measurement date June 30, 2018) are as follows:

Service cost	$ 1,320,136
Interest on total pension liability	16,899,381
Effect of plan changes	(27,823,964)
Recognition (amortization) of deferred inflows/outflows of resources:	
Difference between expected and actual experience	(2,688,805)
Changes in assumptions	(2,915,200)
Pension benefit	(15,208,452)
Net amortization from changes in proportion	(959,530)
Net pension benefit	$ (16,167,982)

Additional Information

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

Note 10 - Other Postemployment Benefits

The Administration participates in the OPEB Plan of the Commonwealth for retired participants of ERS, which is an unfunded, multi-employer defined benefit other postemployment healthcare benefit plan created under Act No. 95 of 1963. 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*.

Note 10 - Other Postemployment Benefits – (continued)

OPEB Plan Description

The OPEB Plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provide that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The OPEB Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursements from each employer on a monthly basis for the corresponding 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 75 requires participating employers to recognize their proportionate share of the collective total OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources and collective OPEB expense.

Total OPEB Liability and Actuarial Information

The total OPEB liability recorded by the Administration as of June 30, 2019 (measurement date June 30, 2018) amounted to $14,600,907 representing its proportionate share of the total OPEB liability of the OPEB Plan as of such date. The total OPEB liability as of June 30, 2019 (measurement date June 30, 2018) was determined by an actuarial valuation as of July 1, 2017, that was rolled forward to June 30, 2018 (measurement date).

The Administration’s proportion of the OPEB Plan liability was actuarially determined based on the ratio of the Administration’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. At June 30, 2018 (measurement date), the Administration 's proportionate share of the OPEB Plan liability was 1.73376%.

Note 10 - Other Postemployment Benefits – (continued)

Total OPEB Liability and Actuarial Information – (continued)

(a) Actuarial assumptions

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

Discount rate

The discount rate for June 30, 2018 (measurement date) was 3.87%. This represents the municipal bond return rate as selected by the Commonwealth. The source is the Bond Buyer Obligation 20 Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2018 (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-2018 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-2018 from the 2006 base year and projected forward using MP-2018 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-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Note 10 - Other Postemployment Benefits – (continued)

Total OPEB Liability and Actuarial Information – (continued)

(a) Actuarial assumptions – (continued)

Mortality – (continued)

- 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-2018 on a generational basis. As a generational table, it reflects mortality improvements before and after the measurement date.

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

The following presents the Administration's OPEB Plan liability calculated using the discount rate of 3.87%, as well as what the Administration 's proportionate share of the OPEB Plan 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%)
Total OPEB liability	$ 16,014,175	$ 14,600,907	$ 13,400,897

Deferred Outflows of Resources Related to the OPEB Plan

At June 30, 2019 (measurement date June 30, 2018), the reported deferred outflows of resources related to the OPEB Plan of $1,178,520 consist of OPEB benefits paid subsequent to the measurement date.

Note 10 - Other Postemployment Benefits – (continued)

Pension Expense (Benefit)

The composition of the Administration's proportional share of the Pension Plan's expense (benefit) for the year ended June 30, 2019 (measurement date June 30, 2018) are as follows:

Interest on total OPEB liability	$ 549,835
Effect of economic/demographics gains and losses	(267,996)
Effect of assumptions changes or inputs	(427,767)
OPEB benefit	(145,928)
Net amortization from changes in proportion	571,702
Net OPEB expense	$ 425,774

Additional Information

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

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

On December 8, 2015, Act. No. 2011 was approved to create a Voluntary Preretirement Program. Effective June 21, 2019, the voluntary termination benefits were accepted by 160 employees and the Administration entered into the voluntary preretirement program as part of management plans to restructure the Administration.

The program consisted of, for each eligible employee applicant, 60% of the average salary at December 31, 2015 until the age of 61, liquidation of the vacation and sick leave licenses up to the limit permitted by law, exempt from income taxes. The Administration will continue to make the employer contributions for the Social Security and Medicare for the 60% of the salary. In addition, the Administration will pay the medical plan that the employee had up to two years. The Administration's voluntary pre-retirement program liability as of June 30, 2019, calculated using the discounted present value of expected future benefit payments amounts to approximately $19.8 million.

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year	More than One Year
Voluntary termination benefits	$ -	$ 19,771,854	$ -	$ 19,771,854	$ 4,617,762	$ 15,154,092

Note 12 - Commitments and contingencies

Commitments

Capital lease obligations

The Administration is obligated under capital leases with third parties that expire in 2024 for equipment. The present value of future minimum capital lease payments at June 30, 2019 are as follows:

Year ending June 30,	
2020	$ 110,150
2021	110,150
2022	110,150
2023	110,150
2024	48,756
Total future minimum lease payments	489,356
Less: amount representing interest cost	(59,206)
Present value of net minimum lease payments	430,150
Less: current portion	(87,302)
Long-term capital lease obligation, net of current portion	$ 342,848

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Note 12 - Commitments and contingencies

Commitments

Operating leases

The Administration leases equipment under cancellable operating leases, with terms ranging from one to five years, expiring at various dates through May 2018. Total rent expense for the year ended June 30, 2018 for all operating leases was approximately $99,416. Since the leases are cancellable, no commitment related to operating leases exists as of June 30, 2018.

Contracts for future purchases

The Administration has long-term contractual obligations with suppliers for future purchases such as medical supplies or services expiring at various dates through year 2024. Total expense for these contracts for the years ended June 30, 2019 and 2018 amounted to approximately $1.3 million and $1.2 million, respectively.

Future minimum contractual obligations with suppliers as of June 30, 2019, follows:

Years ending June 30,	Amount
2020	$ 1,109,769
2021	835,120
2022	324,436
2023	179,673
2024	145,980
	$ 2,594,978

Note 12 - Commitments and contingencies

Commitments

Facilities rental agreements

The Administration lease spaces to various unrelated parties under operating leases with average terms from five (5) to ten (10) years expiring at various dates through May 2025. Rent income for the years ended June 30, 2019, and 2018 on the rental agreements was approximately $460,000 and $443,000, respectively.

Note 12 - Commitments and contingencies – (continued)

Commitments – (continued)

Facilities rental agreements – (continued)

Future minimum rent income as of June 30, 2019, follows:

Year ending June 30,	Amount
2020	$ 376,429
2021	392,609
2022	392,609
2023	392,609
2024	392,609
Thereafter	289,042
	$ 2,235,907

Government Development Bank Line of Credit

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

These additional funds were deposited in a special GDB account and were to be used for the following:

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

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

Note 12 - Commitments and contingencies – (continued)

Commitments – (continued)

Government Development Bank Line of Credit – (continued)

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

As of June 30, 2019 and 2018, the amount corresponding to the payments of principal and interests for fiscal years 2019 and 2018, were not consigned on the budget nor received from the Secretary of the Treasury of Puerto Rico.

Interest expense for the years ended June 30, 2019 and 2018 amounted to $19,271,171 and $17,174,389, respectively. Interest rate on the line of credit is a fluctuating annual rate equal to the greater of (i) 1.5% over and above the prime rate, as in effect from time to time, and (ii) 6%. The interest rates as of June 30, 2019 and 2018 were 7% and 6.5%, respectively.

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

Contingencies

The Administration is a party in certain legal actions and claims related to medical malpractice arising in the ordinary conduct of its business. Although the Administration appears as a defendant in the claims, many of them involve medical personnel of the member institutions, and in effect, these claims are against said institutions.

Note 12 - Commitments and contingencies – (continued)

Contingencies – (continued)

Based on a review of current facts and circumstances management has provided for what is believed to be a reasonable estimate of the exposure to loss associated to litigation. The Administration has established an accrual reserve for claim losses in the amount of $2,044,350 and $2,142,200 as of June 30, 2019 and 2018, 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 licenses and accreditations, reimbursements for patient services and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statues and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be excluded from participating in government healthcare programs, subjected to fines or penalties or required to repay amounts received from government for previously billed patient services. While management of the Administration believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Administration will not be subject to governmental inquires or actions.

Health Insurance Portability and Accountability Act

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

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Note 12 - Commitments and contingencies – (continued)

Contingencies – (continued)

Implementation requirements of an Electronic Health Record System

The Health Information Technology for Economic and Clinical Health Act set meaningful use of interoperable Electronic Health Record (EHR) adoption in the health system as a critical national goal and incentivize the EHR adoption. Its goal is not adoption alone but meaningful use of EHRs, that is, their use by providers to achieve significant improvements in care. Meaningful use compliance is required before the Federal Fiscal Year 2020 or otherwise the Administration will incur penalties for non-compliance that may reduce future Medicare payments and potentially Medicare Advantage program payments.

The Centers for Medicare and Medicaid Services (CMS) manages and has implemented an incentive program for those hospitals that implement EHR and that also, comply with certain specific requirements. CMS EHR Incentive Programs provide incentive payments to eligible hospitals as they adopt, implement, upgrade or demonstrate meaningful use, as defined by CMS, of certified EHR technology. As of June 30, 2019, and 2018, the Administration is under the implementation of its EHR system.

Pursuant to the Consolidated Act of 2016, the Puerto Rico hospitals become eligible under the Medicare EHR Incentive Program. This enables the hospitals to not only receive the incentive payments but also be subject to the Medicare negative payment adjustments. The hospitals may begin participation for EHR reporting periods in 2016 and would have to be successfully demonstrating meaningful use by 2020 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.

Federal financial awards

During 2018 the Administration received Public Assistance Program Grant for repair and replacement of disaster damaged facilities from Federal Emergency Management Agency (FEMA). This program is routinely subject to financial and compliance audits in accordance with provisions of the *Audit Requirements for Federal Awards (Uniform Guidance)* or to compliance audits by the U.S. Department of Homeland Security federal agency and the pass-through entity, The Central Office of Recovery, Reconstruction and Resiliency. The report on the audit of this program, which are conducted to pursuant such federal regulations, was submitted by the Administration to such federal agencies.

Note 12 - Commitments and contingencies – (continued)

Contingencies – (continued)

Federal financial awards – (continued)

Such federal agencies have the authority to determine liabilities, as well as to limit, suspend, or terminate the federal financial assistance program. If any unallowed cost is detected as a result of such compliance audit, the Administration may be required to reimburse such amounts to the corresponding federal agencies from its own non-federal resources.

Note 13 - Services to member institutions and medical indigent population

The Administration derives a substantial portion of its revenues from services provided to member institutions. In addition, the Administration provides services to the medical indigent population, which does not have formal means of repayment. Amounts due from member institutions and medical indigent population may be subject to periodic revisions, and/or adjustments based on the availability of funds of the member institutions and/or the Commonwealth of Puerto Rico.

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Note 14 - Contributions from the Commonwealth of Puerto Rico

Governmental contributions during the years ended June 30, 2019 and 2018, consist of the following:

Description	2019	2018
Funds received in connection with Joint Resolution No. 50 approved by the Commonwealth's Legislature on July 2, 2018, assigned $96.560 million of which $54.565 million were for the payment of salaries and related benefits, $16.271 million for operating expenses, and $25.724 million for the payment to cover retirment expenses under the Pay-Go system.	$ 96,560,000	$ -
Funds received in connection with Joint Resolution No. 186 approved by the Commonwealth's Legislature on June 1, 2017, assigned $26.5 million to the Administration for the payment of salaries and related benefits and $4 million for operating expenses.	-	30,488,000
Funds received in connection with Joint Resolution No. 141 approved by the Commonwealth’s Legislature Assembly in 2019, for the payment to the Puerto Rico Aqueducts Sewers Authority debt.	3,604,162	-
Funds received on June 11, 2018 from the Puerto Rico Treasury Department in connection with the projected operational deficit for the year ended June 30, 2018.	-	37,800,000
Funds received in connection with Joint Resolution No. 187 approved by the Commonwealth's Legislature on July 1, 2017, for the development of special programs or activities, of which $30 million is for the adjustment reconciliation in accordance with the fiscal plan, $3.6 million for the purchase of medical equipment and $4 million for the implementation of the Electronic Health Record. From this grant only the $3.6 million for the purchase of the medical equipment were received.	-	3,600,000

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

Description	2019	2018
Contribution granted in connection with Joint Resolution No. 188 approved by the Commonwealth's Legislature Assembly on June 25, 2017, assigning to the Administration $3.7 million for the payment to the Employee Retirement Administration to cover retirement expenses under the Pay-Go system.	-	3,712,000
Contribution received on May 14, 2018 from the Department of Health related to Law 22-2000, as amended, in which a $2 charge is collected on the vehicles license renewal for the Trauma Center.	-	2,889,472
Funds received in connection with Joint Resolution No. 187 from July 1, 2017 approved by the Legislature for the implementation of the Electronic Health Record at the Puerto Rico Medical Center, the University Hospital for Adults and the Pediatric Hospital.	-	4,000,000
Funds received throughout the year from the Department of Health for the implementation of the Electronic Health Record.	8,097,249	1,288,457
Contribution received on July 28, 2017 from the Department of Health for the purchase of the gamma knife equipment.	-	390,000
Other donation	-	13,925
	$ 108,261,411	$ 84,181,854

Note 15 - Going concern and management plans

Puerto Rico Medical Services Administration

As of June 30, 2019, and 2018, the Administration has a total deficit of $855,812,371 and $993,017,271 respectively, and a deficiency in working capital of $188,644,092 and $208,955,868, respectively. These conditions raise substantial doubts about the Administration's ability to continue as a going concern. The financial condition of the Administration has weakened by high operating costs and recurring operating losses, which have affected its ability to pay its suppliers, governmental agencies and other creditors on a regular basis. In addition, the Administration has been affected by the delay in collection of billings for services rendered to member institutions due to the lack of cash flow among said institutions. The Administration's operations will depend on obtaining additional contributions from the Secretary of the Puerto Rico Department of Health and the Commonwealth of Puerto Rico to partially subsidize existing and future operating losses, resulting from high operating costs and services provided to the medical indigent population not covered under any private health insurance or non-participating in the Health Reform Program Administered by the Puerto Rico Health Insurance Administration (ASES). The Administration's operations will depend on the following critical factors to partially subsidize existing and future operating losses:

1. On March 15, 2021, the Administration signed a contract with a vendor to outsource the revenue cycle management. An optimized revenue cycle management will allow the Administration’s hospital to establish the most advanced, efficient, and effective clinical services registration, improve effective billing of services, timely collection on account receivables, as well as health care utilization and patient discharge management. It is also expected that the Administration will increase the speed and accuracy of claim processing, improve collections rates with external payors, and maximize revenue.

2. Effective January 1, 2020, the capitation agreement between the Administration and ACAA (Administración de Compensaciones por Accidentes Automovilísticos) was not renewed and the Administration bills ACAA based on agreed rates.

3. During 2020 and forward, the Administration will continue with the initiative already started, which includes redefinition of actual private and government insurer contracts and rates, which includes the following strategies regarding existing insurance contracts:

    a. Review and analysis of contracted versus actual services provided by Emergency Room, Ancillary, Respiratory, Hospital, and Outpatient.

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

Puerto Rico Medical Services Administration –(continued)

b. Medical services – non-contracted services will be included in existing and new contracts with corresponding negotiated rates.
c. Re-distribution of contracted bundled services – Existing bundled rates will be revised. Services which prove to be expensive will be re-negotiated and billed separately with corresponding rates.
d. Revision of overall rate structure and billing model – Rates of existing contracts will be re-negotiated based on the cost of providing medical services, frequency and severity of claims, types of services provided (tertiary and supra-tertiary), and the risk assumed by the Administration, which is dictated by its public policy.
e. A detailed evaluation of the entire revenue cycle of the Administration will be conducted. The objective of this is for the Administration to be more efficient and to obtain higher income. The results of this evaluation and its recommendations will be presented to the Executive Director which in turn will present it to the Board of Entities.

4. Aggressive collection efforts regarding private and government insurance receivables- the Administration will continue with the initiative began, which includes an aggressive collections management plan. This plan includes, but is not limited to:
   a. Ongoing accounts receivable key performance measurements and aging by insurer
   b. Ongoing accounts receivable key performance measurements and aging for non-insured patients.

5. The Commonwealth of Puerto Rico changed the model of the government's health plan known as "Vital". The model is managed by four (4) health insurance carriers around the island since November 1, 2018. Accordingly, the Administration will continue to develop the following strategies to ensure that the cash flow will not be affected:
   a. The Administration will require a monthly advance payment from all insurance companies that will be amortized with the monthly billing. This initiative will ensure the Administration with about $6 million annually, which in turn, will have a positive effect in the Administration's cash flows. Furthermore, the Administration will also enter into individual advance agreements with the different insurance companies.

   b. During 2020, the Administration will continue to establish written work plans with each of the health plans. This Plans will include reconciliation of the account, payment dates and process agreements.

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

Puerto Rico Medical Services Administration –(continued)

6. Aggressive collection efforts regarding Members Institution Receivables – During 2020, the Administration will continue with an initiative, which includes, an aggressive collections management plan deployed for this segment, which represents approximately 68% of its total receivable. This plan includes, but is not limited to:
   a. Request non-government consumer institutions, at the beginning of each fiscal year, to provide the Administration with certified financial statements including a certification of payment for services to be provided.
   b. Due to current financial conditions of the Central Government, the Administration will control service cost programs, without affecting the services to patients.
   c. Regarding participating institutions, the Director of the OMB (Office of Management and Budget) will be notified of existing debts. According to the Administration's Rule 66, the OMB office can transfer these quantities directly by them.
   d. Request the Treasury Department to advance the Administration payments on behalf of government consumer institutions which are in debt.

7. Efforts to improve the accuracy and timeliness of billing and recover our cost:
   a. Institutions:
      i. The Administration will be focusing at keeping the billing at 30 days and will enforced reconciliation of the pending balances over 90 days.
      ii. The Administration will be focusing on periodically reconciling balance due.

   b. Health Plan- Within this initiative, the Administration decided to assign billers of services to identified service areas. This will result:
      i. Accurate patients register, which will reduce the number of patients without health plan.
      ii. Better coordination between billers, medical records, patient registration and utilization.
      iii. Reduce to 30 days the time to bill.

8. Deployment of a management Platform: "Hacia la Reconceptualización del Centro Médico de Puerto Rico" **-** focused on the following strategic initiatives:
   a. Systemic Thinking
   b. Integrated Management based on the identification of core business processes, measurements, corrective and preventive actions

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

Puerto Rico Medical Services Administration –(continued)

c. Continuous Education
d. Internal and External Communication

9. Transformation of the Administration's Structure:
    a. Governor Executive Orders OE-2013-0150 and 2014- 011, instructed requirements to comply with the integration and consolidation of the Administration and the different public hospitals of Puerto Rico. To comply with this, the Administration will be doing the following:

        i. Control vacancies positions and began the process of centralization of administrative areas, such as purchases, accounts payable, and engineering
        ii. services among others. This initiative will bring greater efficiency due to process' standardization and cost reduction.
        iii. The Administration will continue to obtain more relevant information of all the service components, to determine required changes and to establish the feasibility criteria for a transformation of the public health institutions.

10. Enforce communication to obtain higher contribution from the Commonwealth of Puerto Rico to recover operational costs.

11. Strategies were developed to control the Administration's operational expenditure that include the following:
    a. The Administration is currently evaluating positions that are not from direct care to patients and overtime.
    b. Control of the direct costs of the Administration that includes purchases of materials, medicines, services, reevaluation materials and drugs that can be included within the bidding processes and eliminate purchases at the open market, among other initiatives.

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

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

The Commonwealth of Puerto Rico

One of the primary Administration's source of income represents appropriations received from the general fund of the Commonwealth. For the year ended June 30, 2019, and 2018, respectively, legislative appropriations amounted to approximately $108 million and $84 million.

The Commonwealth is undergoing a severe fiscal, economic and liquidity crisis, as a result of years of large governmental deficits, economic recession, high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of economic downturns and significant health care, pension and debt service costs. As the Commonwealth's tax base has decreased and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the Commonwealth's General Fund budget, which has resulted in reduced funding available for other services, including the Corporation. The Commonwealth's high level of debt and unfunded pension liabilities, and the resulting allocation of revenues to service debt and pension obligations contributed to significant budget deficits for several years that were covered by the issuance of additional debt.

These matters and the Commonwealth's liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. Furthermore, the principal rating agencies have lowered their rating on the general obligation bonds of the Commonwealth to a default rating. These agencies have also lowered to a default grade their ratings on the bonds of certain of the Commonwealth's instrumentalities, while other debt ratings have been lowered multiple notches to noninvestment grade levels.

As of June 30, 2018, the date of the most recent audited financial statements of the Commonwealth, the Primary Government of the Commonwealth reflects a net deficit of approximately $72.8 billion.

These conditions raise substantial doubts about the Commonwealth's, and therefore the Administration's, ability to continue as a going concern for a reasonable period of time.

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 (PROMESA) was enacted into law. PROMESA establishes a Financial Oversight and Management Board for Puerto Rico (the Oversight Board) to oversee the finances of the Commonwealth and its efforts to achieve fiscal responsibility and obtain access to capital markets. A critical component of PROMESA is the requirement for the Commonwealth to develop and maintain a fiscal plan. Such fiscal plan must contain numerous provisions governing the territory or instrumentality, including plans to pay debts, eliminate deficits, maintain essential public services and impose internal controls for fiscal governance and accountability.

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

The Commonwealth of Puerto Rico – (continued)

On April 23, 2021, the Oversight Board certified its most recent fiscal plan for the Commonwealth that included the following categories of structural reforms and fiscal measures:

a. Human Capital and Welfare Reform
b. K12 Education Reform
c. Ease of Doing Business Reform
d. Power Sector Regulatory Reform
e. Infrastructure and Capital Investment Reform
f. Establishment of the Office of the CFO
g. Agency Efficiency Measures
h. Medicaid Reform
i. Enhanced Tax Compliance and Optimized Taxes and Fees
j. Reduction in UPR and Municipality Appropriations
k. Comprehensive Pension Reform

Also, the Oversight Board, on behalf of the Commonwealth and certain instrumentalities, has filed voluntary petitions for relief under Title III of PROMESA in the United States District Court for Puerto Rico (the Court). Title III of PROMESA provides for similar procedures to Chapters 9 and 11 of the Federal Bankruptcy Code seeking an orderly restructuring of the local public finances, which includes a debt adjustment process under the supervision of the Court.

There are no assurances that these plans and other relief measures to be adopted or proposed by the Administration, the Oversight Board and the Commonwealth will be fully implemented or if implemented will ultimately provide the intended results. The successful implementation of these plans depends on a number of factors and risks, some of which are not within the Administration's and/or the Commonwealth's control.

Note 16 - Extinguishment of supplier's debt

During 2019, the Administration executed a restructuring of supplier's debts in which past due debt was reconciled as of a specific date (date varies per supplier) and settled during fiscal year 2019. The Administration was released by the suppliers and will not be requested to make future payments with respect to such debts as of the specific dates. The restructuring resulted in a gain of approximately $3.9 million recorded as a non-operating revenue on the statement of revenue, expenses, and changes in net position as of June 30, 2019.

Note 17 - Concentration of credit – patients' accounts receivable

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

The mix of receivables from patients and third-party payors at June 30, 2019 and 2018, is as follows:

	2019	2018
ACAA	13%	14%
Humana Insurance	1%	1%
Triple S	4%	5%
MCS	3%	3%
Medicare	5%	4%
Correctional Health Sevices	1%	1%
Self payors	50%	50%
Other Insurances	23%	22%
	100%	100%

Note 18 - Functional expenses

The Administration provides general health care services. Expenses, related to providing these services for the years ended June 30, 2019 and 2018, are as follow:

	2019	2018
Health care services	$ 129,382,284	$ 132,478,672
General and administrative and depreciation	19,758,307	80,413,906
	$ 149,140,591	$ 212,892,578

Note 19 - Subsequent events

The Administration evaluated subsequent events through September 24, 2021, which is the date the financial statements were available to be issued. Except as described below, no other events have occurred subsequent to the statement of net position date that would require additional adjustment to, or disclosure in the financial statements.

Note 19 - Subsequent events – (continued)

The latest Fiscal Plan dated April 23, 2021, 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.

Additionally, though ASEM has made initial progress on initiatives to improve supply chain management (e.g., procurement centralization), these initiatives remain in the early stages and must be expanded to other health agencies in order to achieve target savings. The revenue cycle management optimization initiative has also been delayed for over a year, though a third-party provider has been selected and the project was launched in March 2021. Moreover, the 2021 Fiscal Plan states that while an Electronic Health Records (EHR) system has been deployed in the ASEM emergency room, the trauma center, the DOH University District Hospital for Adults (UDH), and the University Pediatrics Hospital, EHR capabilities and digital hospital management tools across the health agencies remain limited since systems are fragmented and information is not integrated or shares between systems, creating a barrier to realizing operational efficiencies and lacking a standardized reporting system.

During April 2021, the Accreditation Council for Graduate Medical Education (ACGME) withdrew the accreditation (effective July 1, 2022) for the Neurosurgery Residency Program, which had been in probation for the past years. Some of the ACGME findings were related to deficiencies found in both academic and clinical staff support required not previously addressed by both the Administration and UHD. As such, the 2021 Fiscal Plan allocates $15.2 million budget to be used to hire additional House Staff and Clinical Staff which will directly support the continuity of the 24 Residency Programs at the institutions. The $15.2 million appropriation will be split among the Administration and UDH, according to information presented by the agencies.

Note 19 - Subsequent events – (continued)

COVID-19

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, government and business activities involving large numbers of individuals and/or participants.

These conditions have negatively affected the normal operations of the Administration and other private and governmental entities, however, the potential impact on the Administration's financial statements, which had been partially mitigated with funds received from the Federal and State Governments, cannot be reasonably estimated at this time.

Puerto Rico Medical Services Administration
A Component Unit of the Puerto Rico Department of Health

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

For the Year Ended June 30, 2019

	GASB 73	GASB 68			
	2019	2018	2017	2016	2015
Proportion (percentage) of the net collective total pension liability	1.81507%	2.0430700%	1.0180583%	1.82701%	1.67283%
Proportion (amount) of the net collective total pension liability	$ 444,501,001	$ 699,100,567	$ 680,775,412	$ 609,076,916	$ 504,172,660

Notes to required supplementary information

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

2. The Administration's proportion of the total pension liability was actuarially determined based on the ratio of the Administration’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 an actuarial valuation as of July 1, 2017 that was rolled forward to June 30, 2018, the measurement date.

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

Puerto Rico Medical Services Administration
A Component Unit of the Puerto Rico Department of Health

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

For the Year Ended June 30, 2019

	2019	2018	2017
Proportion of the collective net OPEB liability	1.73376%	1.67165%	1.61911%
Proportionate share of the collective net OPEB liability	$ 14,600,907	$ 15,387,854	$ 19,188,409
Covered employee payroll	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
Plan's fiduciary net position as a percentage of the total OPEB liability	N/A	N/A	N/A

Notes to required supplementary information

1. The Administration's proportion of the net OPEB liability was actuarially determined based on the ratio of the Administration'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 were determined by an actuarial valuation as of July 1, 2017 that was rolled forward to June 30, 2018, the measurement date.

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