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

Uniform Administrative Requirements, Cost Principles,

and Audit Requirements for Federal Awards

Single Audit

EIN 66-0703468

Year Ended June 30, 2021

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Galíndez LLC

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2021 and 2020, 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.

Auditors' Responsibility

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

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

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

Galíndez LLC

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, 2021 and 2020, 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 14 to the financial statements, as of June 30, 2021 and 2020, the Administration has suffered recurring losses from operations, has a net deficiency, among other financial and operational factors. These conditions raise substantial doubt about the Administration's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Restatement of Net Position (Deficit)

As discussed in Note 7 to the financial statements, the 2020 financial statements have been restated to correct a misstatement related to the elimination of debts with the Employees' Retirement System at the effective date of Act No. 106 of August 23, 2017.

Services to Member Institutions and Medical Indigent Population

As described in Note 12 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.

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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.

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.

Other Information

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

Other Matters – (continued)

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2022, on our consideration of the Administration's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Administration's internal control over financial reporting and compliance.

Galindez LLC

San Juan, Puerto Rico
October 26, 2022
License No. LLC-322
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, 2021 and 2020. 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, 2021 and 2020 amounted to approximately ($742) million and ($842) million, respectively.

2. During the years ended June 30, 2021 and 2020, the Administration experienced operating losses of approximately $69 million and $57 million, respectively.

3. Note 14 to the financial statements provides information regarding the Administration's going concern uncertainty.

4. During the years ended June 30, 2021 and 2020, the Administration received approximately $98 million and $83 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, 2021 and 2020 consisted of (in thousands):

	2021	(Restated) 2020	Increase (Decrease)	%
Current assets	$ 109,516	$ 128,304	$ (18,788)	-15%
Non-current assets:				
Capital assets, net	62,989	53,931	9,058	17%
Restricted cash	97,464	39,386	58,078	147%
	160,453	93,317	67,136	72%
Total assets	269,969	221,621	48,348	22%
Deferred outflows of resources	89,555	38,948	50,607	130%
Current liabilities	282,176	251,828	30,348	12%
Non-current liabilities	794,680	742,801	51,879	7%
Total liabilities	1,076,856	994,629	82,227	8%
Deferred inflows of resources	24,690	30,953	(6,263)	-20%
Net position:				
Net investment in capital assets	62,446	53,588	8,858	17%
Restricted	81,544	27,815	53,729	193%
Unrestricted (deficit)	(886,012)	(846,416)	(39,596)	-5%
Total net position (deficit)	$ (742,022)	$ (765,013)	$ 22,991	3%

Statements of Net Position – (continued)

The Administration's statements of net position as of June 30, 2020 and 2019 consisted of (in thousands):

	(Restated) 2020	(Restated) 2019	Increase (Decrease)	%
Current assets	$ 128,304	$ 114,498	$ 13,806	12%
Non-current assets:				
Capital assets, net	53,931	53,371	560	1%
Restricted cash	39,386	25,867	13,519	52%
	93,317	79,238	14,079	18%
Total assets	221,621	193,736	27,885	14%
Deferred outflows of resources	38,948	24,914	14,034	56%
Current liabilities	251,828	248,547	3,281	1%
Non-current liabilities	742,801	738,502	4,299	1%
Total liabilities	994,629	987,049	7,580	1%
Deferred inflows of resources	30,953	32,818	(1,865)	-6%
Net position:				
Net investment in capital assets	53,588	52,941	647	1%
Restricted	27,815	13,779	14,036	102%
Unrestricted (deficit)	(846,416)	(867,937)	(21,521)	2%
Total net position (deficit)	$ (765,013)	$ (801,217)	$ (36,204)	-5%

Statements of Net Position – (continued)

The decrease in current assets as of June 30, 2021, consisted of (in thousands):

	2021	2020	Increase (Decrease)	%
Unrestricted cash	$ 9,942	$ 18,848	$ (8,906)	-47%
Receivable from member institutions and private insurances	94,010	104,910	(10,900)	-10%
Accounts receivable others	267	254	13	5%
Inventories	3,651	3,762	(111)	-3%
Prepaid expenses	1,646	530	1,116	211%
	$ 109,516	$ 128,304	$ (18,788)	-15%

The increase in current assets as of June 30, 2020, consisted of (in thousands):

	2020	2019	Increase (Decrease)	%
Unrestricted cash	$ 18,848	$ 19,416	$ (568)	-3%
Receivable from member institutions and private insurances	104,910	89,409	15,501	17%
Note receivable	-	950	(950)	-100%
Accounts receivable others	254	126	128	102%
Inventories	3,762	3,451	311	9%
Prepaid expenses	530	1,146	(616)	-54%
	$ 128,304	$ 114,498	$ 13,806	12%

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Statements of Net Position – (continued)

The net (decrease) increase in accounts receivable from member institutions and private insurances, consisted of the following activity during the years ended June 30, 2021 and 2020 (in thousands):

June 30, 2021:

	Member Institutions	Private Insurance	Total
Gross services revenues	$ 74,889	$ 91,712	$ 166,601
Revenue accounts reclassification	833	(833)	-
Contractual adjustments	(1,719)	(48,586)	(50,305)
Collections from prior years	(82)	(432)	(514)
Non cash transactions	5,565	-	5,565
Provision for bad debt expense	(242)	(15,087)	(15,329)
Collections	(90,597)	(26,321)	(116,918)
	$ (11,353)	$ 453	$ (10,900)

June 30, 2020:

	Member Institutions	Private Insurance	Total
Gross services revenues	$ 74,499	$ 86,313	$ 160,812
Revenue accounts reclassification	(266)	266	-
Contractual adjustments	(1,653)	(40,104)	(41,757)
Collections from prior years	(70)	(580)	(650)
Non cash transactions	3,110	-	3,110
Provision for bad debt expense	579	(14,671)	(14,092)
Collections	(65,057)	(26,865)	(91,922)
	$ 11,142	$ 4,359	$ 15,501

The decrease of $10.9 million in accounts receivable in fiscal year 2021 is mainly because collection increase during the fiscal year. The decrease during 2021 year in the contractual adjustment amount for the private insurance is mainly attributable to negotiations and good billing during the fiscal year.

The increase of $15.5 million in accounts receivable in fiscal year 2020 is mainly because collections decreased during 2020. The decrease during the 2020 year in the contractual adjustment amount for Private Insurance is mainly attributable to new service contract negotiations entered during the year.

Statements of Net Position – (continued)

Non-Current Assets - Capital Assets

As of June 30, 2021:

Description	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021
Capital assets not being depreciated	$ 6,872	$ -	$ -	$ 6,872
Capital assets being depreciated	200,626	14,011	(2,946)	211,691
Accumulated depreciation	(153,567)	(4,783)	2,776	(155,574)
Capital assets being depreciated, net	47,059	9,228	(170)	56,117
Capital assets, net	$ 53,931	$ 9,228	$ (170)	$ 62,989

As of June 30, 2020:

Description	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020
Capital assets not being depreciated	$ 6,872	$ -	$ -	$ 6,872
Capital assets being depreciated	195,191	5,573	(138)	200,626
Accumulated depreciation	(148,692)	(5,008)	133	(153,567)
Capital assets being depreciated, net	46,499	565	(5)	47,059
Capital assets, net	$ 53,371	$ 565	$ (5)	$ 53,931

The increase in capital assets during the year ended June 30, 2021, is mainly due to the fact that current year's acquisitions of equipment and building improvements exceeded depreciation expense.

Statements of Net Position – (continued)

Liabilities

Current liabilities

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

	2021	(Restated) 2020	Increase (Decrease)	%
Due to other governmental entities	$ 80,581	$ 72,471	$ 8,110	11%
Accounts payable	24,741	14,526	10,215	70%
Accrued expenses	2,262	2,320	(58)	-3%
Accrued interest	113,716	100,299	13,417	13%
Current portion accrued pension costs	8,577	16,075	(7,498)	-47%
Total pension liability	24,465	23,485	980	4%
Other post employment benefit	1,177	1,160	17	1%
Current portion of compensated absences	9,072	8,039	1,033	13%
Current portion of voluntary termination benefits	3,409	3,729	(320)	-9%
Liabilities payable from restricted assets	2,186	1,568	618	39%
Unearned revenue	11,820	8,063	3,757	47%
Capital leases	170	93	77	83%
	$ 282,176	$ 251,828	$ 30,348	12%

	(Restated) 2020	(Restated) 2019	Increase (Decrease)	%
Due to other governmental entities	$ 72,471	$ 65,590	$ 6,881	10%
Accounts payable	14,526	15,839	(1,313)	-8%
Accrued expenses	2,320	2,498	(178)	-7%
Accrued interest	100,299	83,484	16,815	20%
Current portion accrued pension costs	16,075	42,504	(26,429)	-62%
Total pension liability	23,485	23,713	(228)	-1%
Other post employment benefit	1,160	1,201	(41)	-3%
Current portion of compensated absences	8,039	7,397	642	9%
Current portion of voluntary termination benefits	3,729	4,618	(889)	-19%
Liabilities payable from restricted assets	1,568	1,616	(48)	-3%
Unearned revenue	8,063	-	8,063	100%
Capital leases	93	87	6	7%
	$ 251,828	$ 248,547	$ 3,281	1%

Statements of Net Position – (continued)

Current liabilities - (continued)

In fiscal year 2021 the increase of $8.1 million in due to other governmental entities was mainly due to increase in the University of Puerto Rico – RCM and State Insurance Fund Corporation payables. The increase of $13.4 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 decreased in the accrued pension cost by $7.5 million is due to the payments made by the Administration to pay off the pension plan participants individual contributions owe from 2013 to 2017. The increase of $3.8 million in unearned revenues is due to the $11 million received from the Coronavirus Relief Fund not yet incurred.

In fiscal year 2020 the increase of $6.9 million in due to other governmental entities was mainly due to increase in the University of Puerto Rico – RCM payable. The increase of $16.8 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 decrease of the accrued pension cost of $26.4 million is mainly due to the Employee's Retirement System debts released in accordance with Article 2.5 of Act 106-2017. The increase of $8.1 million in unearned revenues is due to the $7.5 million received from the Covid-19 Emergency Measures Support Package FY2020 not used as of year-end.

Non-current liabilities

The increase in non-current liabilities as of June 30, 2021, consisted of (in thousands):

	2021	2020	(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	482,640	427,359	55,281	13%
Other postemployment benefit liability	13,892	13,319	573	4%
Compensated absences, net of current portion	4,325	4,325	-	0%
Voluntary termination benefits, net of current portion	9,070	13,143	(4,073)	-31%
Liabilities payable from restricted assets - Self insurance fund	1,932	1,957	(25)	-1%
Capital leases	373	250	123	49%
	$ 794,680	$ 742,801	$ 51,879	7%

Statements of Net Position – (continued)

Non-Current Liabilities

The following detailed the activity of non-current liabilities for the years ended June 30, 2021 and 2020 (in thousands):

June 30, 2021:

Description	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021
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	427,359	55,281	-	482,640
Other postemployment benefit obligation	13,319	573		13,892
Compensated absences, net of current portion	4,325	-	-	4,325
Voluntary termination benefits, net of current portion	13,143	-	(4,073)	9,070
Self-insurance fund	1,957		(25)	1,932
Capital leases, net of current portion	250	123	-	373
	$ 742,801	$ 55,977	$ (4,098)	$ 794,680

June 30, 2020:

Description	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020
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	420,788	6,571	-	427,359
Other postemployment benefit obligation	13,400	-	(81)	13,319
Compensated absences, net of current portion	4,325	-	-	4,325
Voluntary termination benefits, net of current portion	15,154	-	(2,011)	13,143
Self-insurance fund	2,044	2	(89)	1,957
Capital leases, net of current portion	343	-	(93)	250
	$ 738,502	$ 6,573	$ (2,274)	$ 742,801

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, 2021 and 2020, consisted of (in thousands):

	2021	(Restated) 2020	Increase (Decrease)	%
Total revenues	$ 101,480	$ 105,419	$ (3,939)	-4%
Operating costs and expenses:				
Cost of services	131,499	130,721	778	1%
General and administrative	8,689	10,060	(1,371)	-14%
Depreciation and amortization	4,783	5,008	(225)	-4%
Pension expense	23,859	13,888	9,971	72%
Voluntary termination benefits	152	1,640	(1,488)	-91%
Other postemployment expense (benefit)	1,765	1,079	686	64%
	170,747	162,396	8,351	5%
Operating loss	(69,267)	(56,977)	(12,290)	22%
Non-operating income (expenses):				
Contributions from the Commonwealth of Puerto Rico	97,969	83,365	14,604	18%
Federal stimulus - pandemic relief funds	6,491	1,986	4,505	227%
Other income	1,181	1,939	(758)	-39%
Loss on disposition of capital assets	(19)	(5)	(14)	280%
Gain on debts released from Employee's Retirement System	-	22,538	(22,538)	-100%
Gain on extinguishment of supplier's debt	123	160	(37)	-23%
Interest expense	(13,487)	(16,802)	3,315	-20%
	92,258	93,181	(923)	-1%
Net change in net position	22,991	36,204	(13,213)	-36%
Net position (deficit), at beginning of year, as previously reporte	(765,013)	(855,812)	90,799	-11%
Restatement adjustment	-	54,595	(54,595)	-100%
Net position (deficit), at beginning of year, as restated	(765,013)	(801,217)	36,204	-5%
Net position (deficit), at end of year	$ (742,022)	$ (765,013)	$ 22,991	-3%

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, 2020 and 2019, consisted of (in thousands):

	(Restated) 2020	(Restated) 2019	Increase (Decrease)	%
Total revenues	$ 105,419	$ 107,690	$ (2,271)	-2%
Operating costs and expenses:				
Cost of services	130,721	129,382	1,339	1%
General and administrative	10,060	9,475	585	6%
Depreciation and amortization	5,008	6,254	(1,246)	-20%
Pension (benefit) expense	13,888	(16,168)	30,056	-186%
Voluntary termination benefits	1,640	19,772	(18,132)	-92%
Other postemployment expense (benefit)	1,079	426	653	153%
	162,396	149,141	13,255	9%
Operating loss	(56,977)	(41,451)	(15,526)	37%
Non-operating income (expenses):				
Contributions from the Commonwealth of Puerto Rico	83,365	108,261	(24,896)	-23%
Federal stimulus - pandemic relief funds	1,986	-	1,986	100%
Other income	1,939	1,160	779	67%
Loss on disposition of capital assets	(5)	(50)	45	-90%
Decrease in pension liability as a result of the implementation of the GASB 73	-	84,740	(84,740)	-100%
Gain on debts released from Employee's Retirement System	22,538	25,724	(3,186)	100%
Gain on extinguishment of supplier's debt	160	3,965	(3,805)	-96%
Interest expense	(16,802)	(19,420)	2,618	-13%
	93,181	204,380	(111,199)	-54%
Net change in net position	36,204	162,929	(126,725)	-78%
Net position (deficit), at beginning of year, as previously reported	(801,217)	(993,017)	191,800	-19%
Restatement adjustment	-	28,871	(28,871)	-100%
Net position (deficit), at beginning of year, as restated	(801,217)	(964,146)	162,929	-17%
Net position (deficit), at end of year	(765,013)	$ (801,217)	$ 36,204	-5%

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

Net patient service revenues

The decrease in net patient service revenues for the year ended June 30, 2021, consisted of (in thousands):

	2021	2020	Increase (Decrease)	%
Member institutions	$ 75,060	$ 74,513	$ 547	1%
Private and insurance	41,235	38,947	2,288	6%
Subtotal	116,295	113,460	2,835	2%
Capitation revenue	-	5,400	(5,400)	-100%
Provision for bad debts	(15,329)	(14,671)	(658)	4%
Collection from prior years	514	1,230	(716)	-58%
Subtotal	(14,815)	(13,441)	(1,374)	10%
Total revenues	$ 101,480	$ 105,419	$ (3,939)	-4%

Approximately 65% of the Administration's net patient service revenues for 2021 are derived from services rendered to member institutions. The increase of $2.8 million in patient service revenue was due to the negotiations with the private insurance companies as a result of the implementation of the new revenue cycle contract.

The decrease in net patient service revenues for the year ended June 30, 2020, consisted of (in thousands):

	2020	2019	Increase (Decrease)	%
Member institutions	$ 74,513	$ 85,957	$ (11,444)	-13%
Private and insurance	38,947	34,714	4,233	12%
Subtotal	113,460	120,671	(7,211)	-6%
Capitation revenue	5,400	8,400	(3,000)	-36%
Provision for bad debts	(14,671)	(22,162)	7,491	-34%
Collection from prior years	1,230	781	449	57%
Subtotal	(13,441)	(21,381)	7,940	-37%
Total revenues	$ 105,419	$ 107,690	$ (2,271)	-2%

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

Net patient service revenues – (continued)

Approximately 66% of the Administration's net patient service revenues for 2020 are derived from services rendered to member institutions. The decrease of $7.2 million in patient service revenue was due to the reduction in patients census and services experienced during the year.

The net decrease of $7.9 million in the provision for bad debt is principally caused by the fact that no material reserve adjustments was deemed necessary for Members Institutions.

Operating Costs and Expenses

Increase in operating costs and expenses for the year ended June 30, 2021, consisted of (in thousands):

	2021	2020	Increase (Decrease)	%
Salaries payroll taxes and fringe benefits	$ 81,813	$ 87,649	$ (5,836)	-7%
General and administrative	8,689	10,060	(1,371)	-14%
Costs of materials and services	44,165	37,378	6,787	18%
Depreciation and amortization	4,783	5,008	(225)	-4%
Utilities	5,521	5,694	(173)	-3%
Pension (benefit) expense	23,859	13,888	9,971	72%
Voluntary termination benefits (Law 211)	152	1,640	(1,488)	-91%
Other postemployment benefit expense (credit)	1,765	1,079	686	64%
	$ 170,747	$ 162,396	$ 8,351	5%

Increase in operating costs and expenses for the year ended June 30, 2020, consisted of (in thousands):

	2020	2019	Increase (Decrease)	%
Salaries payroll taxes and fringe benefits	$ 87,649	$ 79,874	$ 7,775	10%
General and administrative	10,060	9,475	585	6%
Costs of materials and services	37,378	43,153	(5,775)	-13%
Depreciation and amortization	5,008	6,253	(1,245)	-20%
Utilities	5,694	6,356	(662)	-10%
Pension (benefit) expense	13,888	(16,168)	30,056	-186%
Voluntary termination benefits (Law 211)	1,640	19,772	(18,132)	-92%
Other postemployment benefit expense (credit)	1,079	426	653	153%
	$ 162,396	$ 149,141	$ 13,255	9%

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

Non-Operating Income (Expenses)

The (decrease)/increase in non-operating income (expenses) for the years ended June 30, 2021 and 2020 consists of (in thousands):

	2021	(Restated) 2020	Increase (Decrease)	%
Contributions from the Government of Puerto Rico	$ 97,969	$ 83,365	$ 14,604	18%
Federal stimulus - pandemic relief funds	6,491	1,986	4,505	227%
Other income	1,181	1,939	(758)	-39%
Loss on disposition of capital assets	(19)	(5)	(14)	280%
Gain on debts released from Employee's Retirement System	-	22,538	(22,538)	-100%
Gain on extinguishment of supplier's debt	123	160	(37)	-23%
Interest expense	(13,487)	(16,802)	3,315	-20%
	$ 92,258	$ 93,181	$ (923)	-1%

	(Restated) 2020	(Restated) 2019	Increase (Decrease)	%
Contributions from the Government of Puerto Rico	$ 83,365	$108,261	$ (24,896)	-23%
Federal stimulus - pandemic relief funds	1,986	-	1,986	100%
Other income	1,939	1,160	779	67%
Loss on disposition of capital assets	(5)	(50)	45	-90%
Decrease in pension liability as a result of the implementation of the GASB 73	-	84,740	(84,740)	-100%
Gain ondebts released from Employee's Retirement System	22,538	25,724	(3,186)	100%
Gain on extinguishment of supplier's debt	160	3,965	(3,805)	-96%
Interest expense	(16,802)	(19,420)	2,618	-13%
	$ 93,181	$204,380	$ (111,199)	-54%

The governmental contributions consisted of the following activity during the year ended June 30, 2021:

- $38.936 million received in connection with Joint Resolution approved by the Commonwealth's Legislature Assembly on July 1, 2020, assigning to the Administration $6,338,000 for the payment of

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

Non-Operating Income (Expenses) – (continued)

- salaries and related benefits, $10,372,000 for materials and supplies and $22,226,000 for the payment to cover retirement expenses under the Pay-Go system.

- $33,965,000 received during August 2020 from the Intra-Governmental Transfer authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority for capital expenditures.

- $16,275,000 received during April 2021 from the Intra-Governmental Transfer authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority for capital expenditures.

- $5,852,074 granted to the Administration by the Article 23.02 (f) of the Law 24 of 2017, as amended, known as "Ley de Vehículos y Tránsito de Puerto Rico" for the entity's Trauma Center.

- $1,175,190 recognized as contributions in fiscal year 2021 related to the $7.5 million received in fiscal year 2020 from the Covid-19 Emergency Measures Support Package FY2020 authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority and assigned under the custody of the Office of Management and Budget for capital expenditures.

- $1,300,000 received during May 2021 from the Puerto Rico Treasury Department for neurosurgery house staff.

- $450,000 received during July 2020 from the Puerto Rico Treasury Department for the payment of incentive bonus to the employees related to Covid-19.

- $16,000 received during February 2021 authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority for the payment of bonus for public sector nurses and other medical personnel.

The Administration received in fiscal year 2021, $11,422,275 from federal assistance, the CARES Act Relief Fund, of which $5,927,549 were incurred in payroll and fringe benefits and capital assets related to Covid-19 as of June 30, 2021 and $5,494,725, the remaining balances was recorded as unearned revenue in the accompanying statement of net position (deficit) as of June 30, 2021.

The Administration received in fiscal year 2020, $2,549,852 from federal assistance, the CARES Act Provider Relief Fund, of which $1,986,553 were incurred in payroll and fringe benefits related to Covid-19 as of June 30, 2020 and $563,299, the remaining balances was incurred for the same concept as of June 30, 2021.

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

Non-Operating Income (Expenses) – (continued)

Interest expense during the years ended on June 30, 2021, and 2020 consisted mainly of approximately $13.5 million and $16.8 million, respectively, billed by the Puerto Rico Fiscal Agency and Financial Advisory Authority (previously known as Government Development Bank of Puerto Rico).

Contacting the Administration's Financial Management

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

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

Statements of Net Position (Deficit)

June 30, 2021 and 2020

	2021	2020 (Restated)
Assets		
Current assets:		
Cash in commercial banks	$ 9,941,683	$ 18,847,613
Accounts receivable:		
Member institutions, net	83,302,859	94,655,979
Private insurance, net	10,707,198	10,254,122
Other, net	267,221	253,849
Inventory of supplies	3,651,462	3,761,875
Prepaid expenses and other current assets	1,645,490	530,273
Total current assets	109,515,913	128,303,711
Non-current assets:		
Cash in commercial banks - restricted	97,464,567	39,386,155
Capital assets, net	62,988,801	53,930,668
Total non-current assets	160,453,368	93,316,823
Total assets	269,969,281	221,620,534
Deferred outflows of resources:		
Pension related	88,392,457	37,788,018
Other postemployment benefit related	1,162,434	1,160,219
Total deferred outflows of resources	89,554,891	38,948,237
Liabilities and Net Position (Deficit)		
Current liabilities:		
Due to other governmental entities, net	80,581,028	72,471,188
Accounts payable	24,741,000	14,525,374
Accrued expenses	2,261,928	2,320,127
Accrued interest	113,715,618	100,299,353
Due to Employee's Retirement System	8,576,350	16,074,430
Total pension liability	24,464,946	23,484,827
Other postemployment benefit obligation	1,176,866	1,160,219
Compensated absences	9,071,981	8,038,739
Voluntary termination benefits	3,409,349	3,729,139
Liabilities payable from restricted assets - improvements to medical facilities and equipment	2,186,382	1,568,089
Unearned revenue	11,819,535	8,063,299
Capital lease	170,378	92,548
Total current liabilities	282,175,361	251,827,332
Non-current liabilities:		
Line of credit	282,447,692	282,447,692
Total pension liability	482,640,183	427,359,276
Other postemployment benefit liability	13,892,303	13,318,861
Compensated absences	4,325,607	4,325,607
Voluntary termination benefits	9,070,132	13,142,920
Liabilities payable from restricted assets - Self-insurance fund	1,931,724	1,956,993
Capital lease	372,685	250,299
Total non-current liabilities	794,680,326	742,801,648
Total liabilities	1,076,855,687	994,628,980
Deferred inflows of resources - pension related	24,690,476	30,952,742
Net position:		
Net investment in capital assets	62,445,738	53,587,821
Restricted for permanent improvements	81,542,176	27,813,236
Restricted for others	2,175	2,174
Unrestricted (deficit)	(886,012,080)	(846,416,182)
Total net position (deficit)	$ (742,021,991)	$ (765,012,951)

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, 2021 and 2020

	2021	(Restated) 2020
Patient service revenue, net of contractual allowances	$ 116,295,343	$ 113,460,703
Less: provision for bad debts	14,815,046	13,441,202
Net patient service revenue	101,480,297	100,019,501
Capitation revenue	-	5,400,000
Total revenues	101,480,297	105,419,501
Operating costs and expenses:		
Cost of services	131,498,978	130,720,566
General and administrative	8,688,815	10,060,177
Depreciation and amortization	4,783,338	5,008,532
Pension expense	23,859,266	13,888,190
Voluntary termination benefits	152,055	1,639,876
Other postemployment benefit expense	1,764,740	1,078,677
Total operating cost and expenses	170,747,192	162,396,018
Operating loss	(69,266,895)	(56,976,517)
Non-operating revenue (expenses):		
Contributions from the Commonwealth of Puerto Rico	97,969,264	83,363,895
Federal stimulus - pandemic relief funds	6,490,848	1,986,553
Other income, net	1,180,468	1,938,781
Loss on disposition of capital assets	(18,874)	(4,882)
Gain on debts released from Employee's Retirement System	-	22,538,600
Gain on extinguishment of supplier's debt	123,368	159,868
Interest expense	(13,487,219)	(16,801,631)
Total non-operating revenue, net	92,257,855	93,181,184
Net change in net position	22,990,960	36,204,667
Net position (deficit), at beginning of year, as previously reported	(765,012,951)	(855,812,371)
Restatement adjustment	-	54,594,753
Net position (deficit), at beginning of year, as restated	(765,012,951)	(801,217,618)
Net position (deficit), at end of year	$ (742,021,991)	$ (765,012,951)

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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Receipts from service revenues	$ 112,366,969	$ 90,741,417
Payments to suppliers for goods and services	(28,074,890)	(39,597,538)
Payment to employees for salaries and related benefits	(127,152,461)	(120,083,222)
Net cash used in operating activities	(42,860,382)	(68,939,343)
Cash flows from non capital and related financing activities:		
Intergovernmental contributions	47,192,848	76,656,553
Interest paid/adjusted	(70,954)	13,814
Restructuration supplier's debt	123,368	159,868
Net cash provided by non capital and related financing activities	47,245,262	76,830,235
Cash flows from capital and related financing activities:		
Intergovernmental contributions	57,267,264	8,693,895
Acquisition of machinery and equipment	(8,180,720)	(3,750,143)
Improvements to emergency room and other facilities	(5,479,410)	(1,822,540)
Net cash provided by capital and related financing activities	43,607,134	3,121,212
Cash flows from investing activities-		
Receipts from interest and other income	1,180,468	1,938,781
Net change in cash	49,172,482	12,950,885
Cash and restricted cash, beginning of year	58,233,768	45,282,883
Cash and restricted cash, end of year	$ 107,406,250	$ 58,233,768
Reconciliation of cash and restricted cash to the Statement of Net Position:		
Cash in commercial banks	$ 9,941,683	$ 18,847,613
Cash in commercial banks - restricted	97,464,567	39,386,155
Total cash	$ 107,406,250	$ 58,233,768

(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, 2021 and 2020

	2021	2020
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (69,266,895)	$ (56,976,517)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	4,783,338	5,008,532
Provision for bad debts	14,815,046	13,441,202
Interest on operating leases	-	(87,303)
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(3,928,374)	(29,069,286)
Note receivable	-	950,000
Inventory of supplies	110,413	(311,157)
Prepaid expenses and other current assets	(1,115,217)	615,349
Deferred outflows of resources	(50,606,654)	(14,034,420)
Increase (decrease) in:		
Due to other governmental entities	8,109,840	6,881,303
Accounts payable	10,215,626	(1,314,472)
Accrued expenses and other	(9,732,501)	(6,583,941)
Total pension liability	56,261,026	6,343,102
Unearned revenue	3,756,236	8,063,299
Deferred inflows of resources	(6,262,266)	(1,865,034)
	26,406,513	(11,962,826)
Net cash used in operating activities	$ (42,860,382)	$ (68,939,343)

Non-cash capital investing and financing activities

	2021	2020
Retirement of capital assets	$ 2,776,124	$ 138,317
Capital lease acquisition	$ 350,742	$ -

See notes to financial statements

Note 1 - Organization and summary of significant accounting policies

Organization

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

The Administration is governed by a ten-member board comprised of the Secretary of the PR Department of Health, the Dean of the Medical Sciences Faculty of the University of Puerto Rico, the President of the board of director of the Puerto Rican League Against Cancer, the Mayor of the Municipality of San Juan, the Administrator of the State Insurance Fund Corporation, the Administrator of the Administration of Mental Health and Addiction Services, the President of the Medical Policy and Administration Committee, and two members appointed by the Secretary of the 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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, approximately $55,595,958 and $215,199,112 and $55,435,549 and $200,544,475 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). 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 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.

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

Summary of significant policies – (continued)

Net patient service revenue

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

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

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

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. Such agreement was cancelled effective on January 1, 2020.

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

Summary of significant policies – (continued)

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.

Other governmental entities

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

Insurance

The Administration carries commercial insurance to cover for casualty, theft, claims and other losses. The Commonwealth negotiates the commercial insurance coverage, and the cost is paid by the Administration. The Administration is self-insured for medical malpractice claims and judgments, as discussed in Note 6. 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.

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.

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

Summary of significant policies – (continued)

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, 2021, and 2020, 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.

New accounting standards adopted

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)

New accounting standards adopted – (continued)

GASB 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5- 22 of GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this statement are effective for reporting periods beginning after December 15, 2020, as amended by GASB 95.

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

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government

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

Summary of significant policies – (continued)

New accounting standards adopted – (continued)

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.

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 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, 2020, as amended by GASB 95.

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

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective

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

GASB 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 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 94, *Public-Private and Public-Public Partnerships and Availability Payments Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange like transaction.

This statement requires that PPPs that meet the definition of a lease apply the guidance in GASB 87, *Leases*, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a service concession arrangement (SCA). This statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of GASB 87, as amended (as clarified in this statement).

This statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

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.

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 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*

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.

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

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.

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

GASB 99, *Omnibus 2022.*This statement addresses the following:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of 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)

- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement
- (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions
- Pledges of future revenues when resources are not received by the pledging government
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements
- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter

GASB 100, *Accounting Changes and Error Corrections*—an amendment of GASB Statement No. 62. This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1)

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

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

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

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

GASB Statement No. 101, *Compensated Absences.* This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

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

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

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

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

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

Note 2 - Cash in commercial banks

Cash in commercial banks as of June 30, 2021 and 2020 consisted of:

Description	Carrying Amount 2021	Carrying Amount 2020	Bank Balance 2021	Bank Balance 2020
Cash - unrestricted	$ 9,941,683	$ 18,847,613	$ 10,458,835	$ 18,674,989
Cash-restricted for:				
Improvements to medical facilities and purchase of equipment	94,719,444	36,601,536	94,719,444	38,590,642
Self-insurance fund	1,918,306	1,943,348	1,918,306	1,962,948
Other	826,817	841,271	826,817	841,271
Total restricted cash	97,464,567	39,386,155	97,464,567	41,394,861
Total cash	$ 107,406,250	$ 58,233,768	$ 107,923,402	$ 60,069,850

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

The Puerto Rico Commissioner of Financial Institutions requires that Puerto Rico private financial institutions deposit collateral securities to secure the deposits of the Commonwealth and all other governmental entities in each of these institutions. The amount of collateral securities to be pledged for the security of public deposits must be established by the rules and regulations promulgated by the Commissioner of Financial Institutions.

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

Note 3 - Net patient service revenue

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

Medicare - Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient capital costs are paid based on the fully prospective method. 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 reports from 2019, 2020 and 2021 are subject to the Medicare fiscal intermediary examination. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

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

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

Note 3 - Net patient service revenue – (continued)

A summary of patient service revenue, net of contractual allowances and discounts, and provision for bad debts, for the years ended June 30, 2021 and 2020 consisted of:

	2021	2020
Third-party payors - member institutions	$ 74,817,847	$ 75,093,167
Third-party payors - health plans	26,833,025	25,136,028
Self-pay patients	(170,575)	(209,694)
Patient service revenue (net of contractual allowances and discounts and provision for bad debts)	$ 101,480,297	$ 100,019,501

Changes in the allowance for doubtful accounts on patient's account receivable for the years ended June 30, 2021 and 2020 consisted of:

	2021	2020
Balance, beginning of year	$ 255,980,024	$ 242,538,822
Provision for bad debts	14,815,046	13,441,202
Balance, end of year	$ 270,795,070	$ 255,980,024

Net patient service revenue from third-party payors is estimated fully collectible and it is recorded when the health care services are provided. Also, health care services provided to uninsured patients are recorded when the services are provided. Provision for bad debts related to receivables from third-party payors and uninsured patients and for patients for whom it was assessed the patient does not have the ability to pay is recorded as a deduction of net patient service revenue in the accompanying statements of revenues, expenses and changes in net position. At June 30, 2021 and 2020, 67% and 68%, of the amounts reserved as uncollectible are related to third-party payors, respectively, and 33% and 32%, 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, 2021 and 2020, and activity during the years then ended consisted of:

Description	Balance June 30, 2020	Increases	Decreases/ Adjustment	Balance June 30, 2021
Capital assets not being depreciated:				
Land	$ 6,871,955	$ -	$ -	$ 6,871,955
Capital assets being depreciated:				
Land improvements	11,983,132	558,473	-	12,541,605
Building and improvements	97,689,982	4,920,937	(24,601)	102,586,318
Machinery, equipment and intangible	72,538,012	8,180,720	(2,600,881)	78,117,851
Equipment under capital leases - net	18,420,553	350,742	(254,665)	18,516,630
	200,631,679	14,010,872	(2,880,147)	211,762,404
Accumulated depreciation and amortization:				
Land improvements	11,928,747	13,313	-	11,942,060
Building and improvements	63,510,532	1,777,781	(24,602)	65,263,711
Machinery, equipment and intangible	60,055,981	2,992,244	(2,582,004)	60,466,221
Equipment under capital leases	18,077,706	-	(104,140)	17,973,566
	153,572,966	4,783,338	(2,710,746)	155,645,558
Capital assets being depreciated, net	47,058,713	9,227,534	(169,401)	56,116,846
Capital assets, net	$ 53,930,668	$ 9,227,534	$ (169,401)	$ 62,988,801

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Note 4 - Capital assets – (continued)

Description	Balance June 30, 2019	Increases	Decreases/ Adjustment	Balance June 30, 2020
Capital assets not being depreciated:				
Land	$ 6,871,955	$ -	$ -	$ 6,871,955
Capital assets being depreciated:				
Land improvements	11,977,457	5,675	-	11,983,132
Building and improvements	95,873,117	1,816,865	-	97,689,982
Machinery, equipment and intangible	68,838,883	3,837,445	(138,316)	72,538,012
Equipment under capital leases - net	18,507,855	-	(87,302)	18,420,553
	195,197,312	5,659,985	(225,618)	200,631,679
Accumulated depreciation and amortization:				
Land improvements	11,916,569	12,178	-	11,928,747
Building and improvements	61,954,878	1,555,654	-	63,510,532
Machinery, equipment and intangible	56,748,715	3,440,701	(133,435)	60,055,981
Equipment under capital leases	18,077,706	-	-	18,077,706
	148,697,868	5,008,533	(133,435)	153,572,966
Capital assets being depreciated, net	46,499,444	651,452	(92,183)	47,058,713
Capital assets, net	$ 53,371,399	$ 651,452	$ (92,183)	$ 53,930,668

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Note 5 - Other governmental entities

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) other governmental entities as of June 30, 2021 and 2020 consists of the following:

	2021	2020
Puerto Rico Electric Power Authority	$ 33,353,427	$ 33,317,383
Puerto Rico Aqueduct and Sewer Authority	42,950	-
Puerto Rico Treasury Department	6,464,317	6,324,174
Puerto Rico Infrastructure Financing Authority	484,399	484,399
State Insurance Fund Corporation	5,640,959	2,559,902
University of Puerto Rico - RCM	34,594,976	29,785,330
Due to other governmental entities, net	$ 80,581,028	$ 72,471,188

Note 6 - 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 $1,918,306 and $1,943,348 as of June 30, 2021 and 2020, 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, 2020, presented estimated liabilities of $1.6 million, which were related to claims incurred up to the year ended June 30, 2019.

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, 2021 and 2020.

Note 6 - Self-insurance fund – (continued)

June 30, 2021:

Description	Restricted Cash	Liabilities Payable
Balances as of beginning of year	$ 1,943,348	$ 1,956,993
Funds received from operations	969	-
Claims paid and other disbursements	(26,011)	(25,269)
Balance as of end of year	$ 1,918,306	$ 1,931,724

June 30, 2020:

Description	Restricted Cash	Liabilities Payable
Balances as of beginning of year	$ 2,027,207	$ 2,044,350
Funds received from operations	11,816	-
Claims paid and other disbursements	(95,675)	(87,357)
Balance as of end of year	$ 1,943,348	$ 1,956,993

Note 7 - Restatement of Net Position (Deficit)

As provided by Article 2.5 of the Act No. 106 of August 23, 2017 – *Law to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants* (Act No. 106-2017), payments related to Pay-Go done by the Central Government, municipalities, public corporations, the Legislative Assembly and the Court Administration will be applied to unpaid contributions and other debts outstanding with the Employees' Retirement System (ERS), at the effective date of Act No. 106-2017. The balance due by the Administration to ERS at June 30, 2017 was approximately $77 million, which consisted principally of amounts related to employer's contributions, uniform additional contributions, special laws and interest. During fiscal year 2020, with the payment of approximately $22.5 million made during the year and recorded as gain on debts released from Employee's Retirement System, such balance due to ERS was exceeded by Pay-Go payments made by the Administration and accordingly, the total amount should have been eliminated. However, due to differences in the interpretation regarding the application of Article 2.5 of Act No. 106-2017, the Administration had not eliminated the balance due to ERS related to debts from before June 30, 2017.

Note 7 - Restatement of Net Position (Deficit)

The Administration restated the beginning net position (deficit) for the effect of this transaction belonging to prior years. The effect of the adjustment on the Administration's net position (deficit) as of June 30, 2020 is as follows:

Net position (deficit) at beginning of year, as previously reported	$ (855,812,371)
Restatement adjustment - effect of elimination of debts with the ERS from before June 30, 2017	54,594,753
Net position (deficit) at beginning of year, as restated	$ (801,217,618)

Note 8 - Retirement plan

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

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

On August 23, 2017, the Governor signed into a law the Act No. 106 of 2017, known as the *Act of Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants* (Act 106-2017), which provides the legal framework for the Commonwealth to implement the PayGo system effective as of July 1, 2017. Under the PayGo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payment by the applicable participant employers, including the Administration. The Commonwealth allocation percentages are based on the ratio of each participating entity's actual benefit payments relative to the total aggregate benefit payments made by all participating entities for the year ending on the measurement date.

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

Note 8 - Retirement plan – (continued)

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

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

Plan Description Prior to July 1, 2017

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

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

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

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

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

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

Note 8 - Retirement plan – (continued)

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

Thereafter, under Act No. 3 of 2013, effective July 1, 2013, the Commonwealth created a hybrid plan where the employee no longer accrued employee benefits, and upon retirement would receive an annuity from the accumulated defined benefits until that date, plus the employee contributions made thereafter, adjusted by investment yields and market fluctuations. Other charges were also made to the Plan. Upon the enactment of Act. No. 3, the Commonwealth discontinued contributing a proportionate share on behalf of the employee, instead employer contributions were redirected to pay accrued pensions. Act No. 3 of 2013 (Act No. 3) amended the provisions of the different benefits structures under the ERS. Act No. 3 moved all participants (employees) under the Defined Benefit Program and System 2000 Program to a new defined contribution hybrid plan (the Contributory Hybrid Program). All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. Act No. 3 benefits were terminated with the enactment of Act. No. 106-2017.

Total Pension Liability and Actuarial Information

The total Pension Plan liability recorded by the Administration as of June 30, 2021 and 2020 (measurement date June 30, 2020 and 2019, respectively) amounted to $507,105,129 and $450,844,103, respectively, representing its proportionate share of the total pension liability of the Pension Plan as of such date. The total pension liability as of June 30, 2021 and 2020 (measurement date June 30, 2020 and 2019) was determined by an actuarial valuation as of July 1, 2019 and 2018, that was rolled forward to June 30, 2020 and 2019 (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, 2020 and 2019 (measurement date), the Administration 's proportionate share was 1.80659% and 1.81423%, respectively.

(a) Actuarial methods and assumptions

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

Note 8 - Retirement plan – (continued)

Total Pension Liability and Actuarial Information – (continued)

(a) Actuarial methods and assumptions – (continued)

Discount rate

The discount rate for June 30, 2020, and 2019 (measurement date) was 2.21% and 3.50%, respectively. This represents the municipal bond return rate as selected by the Commonwealth. The source is the Bond Buyer General Obligation 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2020 (measurement date) actuarial valuation were as follows:

- Pre-Retirement Mortality - For general employees not covered under Act No. 127 of 1958, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127 of 1958, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 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 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 on generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Note 8 - Retirement plan – (continued)

Total Pension Liability and Actuarial Information – (continued)

(a) Actuarial methods and assumptions – (continued)

Mortality – (continued)

- 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 2013 to 2018 and updated expectations regarding future mortality improvements. The PubG-2010 disable retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2020 on generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other assumptions as of June 30, 2020

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 No. 3 of 2017, four-year extension 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 2.21%, 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 (1.21%) or 1% point higher (3.21%) than the current rate:

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
Total pension liability	$ 581,692,827	$ 507,105,129	$ 446,959,084

Note 8 - Retirement plan – (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2021 (measurement date June 30, 2020), 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	$ 1,045,978	$ 11,415,399
Changes of assumptions	63,662,055	8,704,815
Changes in proportion	-	4,570,262
Pension benefits paid subsequent to the measurement date	23,684,424	-
Total	$ 88,392,457	$ 24,690,476

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2020 (measurement date) will be recognized as adjustment to pension expense in the Administration's financial statements in future years as follows:

Years Ending June 30	Amounts
2021	$ 10,004,389
2022	10,004,389
2023	10,004,389
2024	10,004,389
Total	$ 40,017,556

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Note 8 - Retirement plan – (continued)

Pension expense

The components of allocable pension expense for the year ended June 30, 2020 (measurement date) are as follows:

Service cost	$ 1,334,194
Interest on total pension liability	15,344,642
Effect of plan changes	(1,807,623)
Recognition (amortization) of deferred inflows/outflows of resources:	
Difference between expected and actual experience	(3,543,646)
Changes in assumptions	13,925,032
Pension benefit	25,252,599
Net amortization from changes in proportion	(1,393,333)
Net pension expense	$ 23,859,266

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 9 - Other Postemployment Benefits

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

OPEB Plan Description

The OPEB Plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provide that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The OPEB Plan is financed by the Commonwealth through legislative appropriations. There is no contribution requirement from the plan members during active

Note 9 - Other Postemployment Benefits – (continued)

employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age. Act. No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

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

Total OPEB Liability and Actuarial Information

The total OPEB liability recorded by the Administration as of June 30, 2021, and 2020 (measurement date June 30, 2020 and 2019, respectively) amounted to $15,069,169 and $14,479,080 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, 2021, and 2020 (measurement date June 30, 2020, and 2019, respectively) was determined by an actuarial valuation as of July 1, 2019, and 2018, that was rolled forward to June 30, 2020 and 2019 (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, 2020 and 2019 (measurement date), the Administration 's proportionate share of the OPEB Plan liability was 1.72292% and 1. 73979%, respectively.

(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, 2020, and 2019 (measurement date) was 2.21% and 3.50%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Note 9 - Other Postemployment Benefits – (continued)

Total OPEB Liability and Actuarial Information – (continued)

(a) Actuarial assumptions – (continued)

Mortality

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

- Pre-Retirement Mortality - For general employees not covered under Act No. 127 of 1958, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127 of 1958, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 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 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Post-Retirement Disabled Mortality - Rates which vary by gender are assumed for disabled retirees based on a study of the OPEB Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvements. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Note 9 - Other Postemployment Benefits – (continued)

Total OPEB Liability and Actuarial Information – (continued)

(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 2.21%, 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 (1.21%) or 1% point higher (3.21%) than the current rate:

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
Total OPEB liability	$ 16,613,584	$ 15,069,169	$ 13,764,149

Deferred Outflows of Resources Related to the OPEB Plan

At June 30, 2021 (measurement date June 30, 2020), the reported deferred outflows of resources related to the OPEB Plan of $1,162,434 consist of OPEB benefits paid subsequent to the measurement date.

OPEB Expense

The composition of the Administration's proportional share of the OPEB's expense for the year ended June 30, 2021 (measurement date June 30, 2020) are as follows:

Interest on total OPEB liability	$ 481,474
Effect of economic/demographics gains and losses	(100,585)
Effect of assumptions changes or inputs	1,524,218
OPEB expense	1,905,107
Net amortization from changes in proportion	(140,367)
Net OPEB expense	$ 1,764,740

Note 9 - Other Postemployment Benefits – (continued)

Additional Information

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

Note 10 - 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, 2021, and 2020, calculated using the discounted present value of expected future benefit payments amounts to approximately $12.5 million and $16.9 million, respectively.

June 30, 2021

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year	More than One Year
Voluntary termination benefits	$ 16,872,059	$ (335,209)	$ (4,057,369)	$ 12,479,481	$ 3,409,349	$ 9,070,132

June 30, 2020

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year	More than One Year
Voluntary termination benefits	$ 19,771,854	$ -	$ (2,899,795)	$ 16,872,059	$ 3,729,139	$ 13,142,920

Note 11 - Commitments and contingencies

Commitments

Capital lease obligations

The Administration is obligated under capital leases with third parties that expire in 2025 for equipment. The present value of future minimum capital lease payments at June 30, 2021 are as follows:

Years ending June 30,	Amounts
2022	$ 192,846
2023	192,846
2024	124,931
2025	75,467
Total future minimum lease payments	586,090
Less: amount representing interest cost	(43,027)
Present value of net minimum lease payments	543,063
Less: current portion	(170,378)
Long-term capital lease obligation, net of current portion	$ 372,685

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, 2021, and 2020 amounted to approximately $1.6 million and $1.4 million, respectively.

Future minimum contractual obligations with suppliers as of June 30, 2021, follows:

Years ending June 30,	Amounts
2022	$ 887,130
2023	309,925
2024	189,195
	$ 1,386,250

Note 11 - Commitments and contingencies – (continued)

Commitments – (continued)

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 2028. Rent income for the years ended June 30, 2021, and 2020 on the rental agreements was approximately $409,000 and $506,000, respectively.

Future minimum rent income as of June 30, 2021, follows:

Years ending June 30,	Amounts
2022	$ 441,704
2023	442,669
2024	396,209
2025	292,642
2026	3,600
Thereafter	7,200
	$ 1,584,024

Government Development Bank of Puerto Rico loan

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 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 11 - Commitments and contingencies – (continued)

Commitments – (continued)

Government Development Bank of Puerto Rico loan – (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, 2021 and 2020, the amount corresponding to the payments of principal and interests for fiscal years 2021 and 2020, 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, 2021, and 2020 amounted to $13,416,265 and $16,815,445, 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, 2021, and 2020, were 4.75%.

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

Construction commitment

As of June 30, 2021, the Administration had capital commitments for approximately $5.7 million related to construction contracts.

Note 11 - Commitments and contingencies – (continued)

Contingencies

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

Based on a review of current facts and circumstances management has provided for what is believed to be a reasonable estimate of the exposure to loss associated to litigation. The Administration has established an accrual reserve for claim losses in the amount of $1,931,724 and $1,956,993 as of June 30, 2021 and 2020, 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.

Note 11 - 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, 2021, and 2020, 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.

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 including 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.

Note 11 - Commitments and contingencies – (continued)

Contingencies – (continued)

Federal stimulus – Pandemic relief funds

During the years ended June 30, 2021 and 2020, the Administration received conditional contribution grants from the U.S. Treasury Department, the U.S. Department of Health and Human Services (HHS), and through the local government. Contributions were received for the purpose of providing financial support to the Administration, rather than for the direct benefit of the grantor, therefore, such grants were considered as nonexchange contributions. The grantors have restricted the use of these funds as conditional contributions. The Administration accounts for conditional contributions received before the specified condition has been substantially met as a refundable advance liability (unearned revenues). Upon complying with the applicable restrictions, the refundable advances are recognized as revenue or gain in the Statements of Revenues, Expenses and Changes in Net Position (Deficit).

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

The Administration received in fiscal year 2021, $11,422,275 from federal assistance, the CARES Act Relief Fund, of which $5,927,549 were incurred in payroll and fringe benefits and capital assets related to Covid-19 as of June 30, 2021 and $5,494,725, the remaining balances were recorded as unearned revenue in the accompanying statement of revenue, expenses and changes in net position (deficit) as of June 30, 2021, for which the Administration has not yet complied with the conditions of the grant .

The Administration received in fiscal year 2020, $2,549,852 from federal assistance, the CARES Act Provider Relief Fund, of which $1,986,553 were incurred in payroll and fringe benefits related to Covid-19 as of June 30, 2020 and $563,299, the remaining balances was incurred for the same concept as of June 30, 2021 and they were accounted for as contributions in the accompanying Statements of Revenues, Expenses and Changes in Net Position (Deficit) for the year ended June 30, 2021.

Note 11 - Commitments and contingencies – (continued)

Contingencies – (continued)

Federal stimulus – Pandemic relief funds – (continued)

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

Federal agencies have the authority to recoup, as well as to limit, suspend, or terminate the federal financial assistance programs. If any unallowed costs are detected as a result of such compliance audits, the Administration may be required to reimburse such amounts to the corresponding federal agencies from its own non-federal resources.

The accompanying financial statement do not contain any adjustment that my result from this contingency.

On April 27, 2020, the Administration received $7,500,000 from del Covid-19 Emergency Measures Support Package FY2020 authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority and assigned under the custody of the Office of Management and Budget for the payment of medical supplies and materials and for the acquisition of capital expenditures. As of June 30, 2020, the amount was recorded as unearned revenue for which the Administration has not yet complied with the conditions of the grant.

During, 2021, $1,175,190 were incurred in capital expenditures projects and they were accounted for as contributions in the accompanying Statements of Revenues, Expenses and Changes in Net Position (Deficit) for the year ended June 30, 2021. The remaining balances of $6,324,810 still recorded as unearned revenue for the year ended June 30, 2021.

The Administration believes that the compliance with the grant requirements will be achieved within the timeframe prescribed by the grant, however, there is no assurance that compliance will be attained.

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Note 12 - 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 13 - Contributions from the Commonwealth of Puerto Rico

Governmental contributions during the years ended June 30, 2021 and 2020, consist of the following:

Description	2021	2020
Funds received in connection with Joint Resolution approved by the Commonwealth's Legislature on July 1, 2020, assigned $38.936 million of which $6.338 million were for the payment of salaries and related benefits, $10.372 million for operating expenses, and $22.226 million for the payment to cover retirment expenses under the Pay-Go system.	$ 38,936,000	$ -
Funds received in connection with Joint Resolution No. 389 approved by the Commonwealth's Legislature on June 1, 2019, assigned $39,597,000 to the Administration for the payment of salaries and related benefits and $10,198,000 for materials and supplies and $22,115,000 for the payment to cover retirement expenses under the Pay-Go system.	-	71,910,000
Funds received from the Intra-Governmental Transfer authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority for capital expenditures.	50,240,000	-
Funds granted to the Administration by the Article 23.02 (f) of the Law 24 of 2017, as amended, known as "Ley de Vehículos y Tránsito de Puerto Rico" for the entity's Trauma Center.	5,852,074	8,693,895
Funds received during December 2019 and January 2020 from the Puerto Rico Treasury Department for the payment of the employees Christmas Bonus.	-	946,000
Funds from the Covid-19 Emergency Measures Support Package FY2020 authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority and assigned under the custody of the Office of Management and Budget for capital expenditures projects.	1,175,190	-
Funds received during May and June 2020 from the Covid-19 Emergency Measures Support Package FY2020 authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority and assigned under the custody of the Office of Management and Budget for the payment of bonus for public sector nurses and other medical personnel.	-	1,814,000
Funds received during May 2021 from the Puerto Rico Treasury Department for neurosurgery house staff	1,300,000	-
Funds received during July 2020 from the Puerto Rico Treasury Department for the payment of incentives bonus to the employees related to Covid-19.	450,000	-
Funds received during February 2021 authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority for the payment of bonus for public sector nurses and other medical personnel.	16,000	-
	$ 97,969,264	$ 83,363,895

Note 14 - <u>Going concern and management plans</u>

As of June 30, 2021, and 2020, the Administration has a total deficit of $742,021,991 and $765,012,951 respectively, and a deficiency in working capital of $172,659,448 and $123,523,621, 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, improve the agreement’s negotiation process with the different insurance carriers 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. Subsequently, during November 2021, a new per-diem agreement was signed between the parties for the benefit of the Administration. Subsequent to this agreement, various amendments had been signed improving rates previously contracted.

3. During 2022 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.
    b. Medical services – non-contracted services will be included in existing and new contracts with corresponding negotiated rates.

Note 14 - Going concern and management plans – (continued)

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. Aggressive collection efforts regarding Members Institution Receivables – During 2022 and forward, 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.

Note 14 - Going concern and management plans – (continued)

6. 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.

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

8. 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 - Extinguishment of supplier's debt

Starting in 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. 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 recorded as a non-operating revenue on the statements of revenue, expenses, and changes in net position. For the years ended June 30, 2021 and 2020, a gain on extinguishment of supplier's debt was recorded for the amount of $123,368 and $159,868, respectively.

Note 16 - Concentration of credit – patients' accounts receivable

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

The mix of receivables from patients and third-party payors at June 30, 2021 and 2020, is as follows:

	2021	2020
ACAA	4%	13%
Humana Insurance	2%	4%
Triple S	2%	4%
MCS	3%	2%
Medicare	20%	15%
Correctional Health Sevices	6%	3%
Reform Health Plans	31%	23%
Other Insurances	32%	36%
	100%	100%

Note 17 - Functional expenses

The Administration provides general health care services. Expenses, related to providing these services for the years ended June 30, 2021 and 2020, are as follow:

	2021	2020
Health care services	$ 131,498,978	$ 130,720,566
General and administrative and depreciation	39,248,214	31,675,452
	$ 170,747,192	$ 162,396,018

Note 18 - Subsequent events

The Administration evaluated subsequent events through October 26, 2022, which is the date the financial statements were available to be issued. Except as described in Note 7 and 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 18 - Subsequent events – (continued)

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

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.

Effective July 1, 2022, the Accreditation Council for Graduate Medical Education (ACGME) withdrew the accreditation 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 allocated $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 was split among the Administration and UDH.

During July 2021, the Administration paid to the University of Puerto Rico – Medical Science School approximately $35 million due.

During June 2022, the Administration collected from Pediatric University Hospital approximately $28 million.

Note 18 - Subsequent events – (continued)

During the year ended on June 30, 2022, the Administration was able to collect from the Health Department of the Commonwealth of Puerto Rico basically most of the largest balances due to the Administration by them and which came from prior years. The funds received from these collections were used to pay outstanding debts of the Administrations.

Schedule of Proportionate Share of the Collective Total Pension Liability

June 30, 2021 and 2020

	2021	2020	2019
Proportion (percentage) of the net collective total pension liability	1.80659%	1.81423%	1.81507%
Proportion (amount) of the net collective total pension liability	$507,105,129	$450,844,103	$444,501,001

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, 2019 that was rolled forward to June 30, 2020, 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

Schedule of Proportionate Share of the Collective Net OPEB Liability

June 30, 2021 and 2020

	2021	2020	2019	2018	2017
Proportion of the collective net OPEB liability	1.72292%	1.73979%	1.73376%	1.67165%	1.61911%
Proportionate share of the collective net OPEB liability	$15,069,169	$14,479,080	$14,600,907	$15,387,854	$ 19,188,409
Covered employee payroll	N/A	N/A	N/A	N/A	N/A
Proportionate share of the collective net OPEB liability as a percentage of the covered employee payroll	N/A	N/A	N/A	N/A	N/A
Plan's fiduciary net position as a percentage of the total OPEB liability	N/A	N/A	N/A	N/A	N/A

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, 2019 that was rolled forward to June 30, 2020, the measurement date.

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

Puerto Rico Medical Service Administration

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2021

Federal Agency (Pass-Through Agency)	Federal Program Title	Assistance Listing Number	Other Award Number	Expenditures From Pass-Through Awards	Expenditures From Direct Awards	Total
US Department of Treasury (Pass-through from the Puerto Rico Department of Treasury	Coronavirus Relief Fund - CARES Act	21.019	N/A	$ 5,927,549	$ -	$ 5,927,549
U.S. Department of Health and Human Services	COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498	N/A	-	2,549,852	2,549,852
U.S. Department of Homeland Security (Pass-through program from The Central Office of Recovery, Reconstruction and Resiliency)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	542,997	-	542,997
	Total expenditures of federal awards			$ 6,470,546	$ 2,549,852	$ 9,020,398

See accompanying notes to the schedule of expenditures of federal awards

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal award (the Schedule) includes the federal grant activity of the Puerto Rico Medical Service Administration (the Administration) under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operation of the Administration, it is not intended to and does not present the financial position, changes in net assets and cash flows of the Administration.

Note 2 - Summary of significant accounting policies

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

Note 3 - Assistance Listing Number

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

Note 4 - Major federal programs

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Puerto Rico Medical Services Administration (the Administration), which comprise the statements of net position as of June 30, 2021 and 2020 and the related statements of revenues, expenses and changes in net position (deficit) and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2021-001, that we consider to be a material weakness.

Galíndez LLC

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Puerto Rico Medical Services Administration's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Response to Findings

The Administration's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Administration's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Galindez LLC

San Juan, Puerto Rico
October 26, 2022
License No. LLC-322
Expires December 1, 2023

Galíndez LLC

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED THE UNIFORM GUIDANCE

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

Report on Compliance for the Major Federal Program

We have audited the Puerto Rico Medical Services Administration's (the Administration) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect the Administration's major federal programs for the year ended June 30, 2021. The Administration's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Administration's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Administration's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Administration's compliance.

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Galíndez LLC

Opinion on the Major Federal Program

In our opinion, the Administration complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance.

Report on Internal Control Over Compliance

Management of the Administration is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Administration's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Administration 's internal control over compliance.

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

Galíndez LLC

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of the Report

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

San Juan, Puerto Rico
October 26, 2022
License No. LLC-322
Expires December 1, 2023

Schedule of Findings and Questioned Costs

Year Ended June 30, 2021

Part I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

Name of Federal Program or Cluster	Assistance Listing Number
Coronavirus Relief Fund - CARES Act Pass-through program from Puerto Rico Department of Treasury	21.019
COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498

Part I - Summary of Auditors' Results – (continued)

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

Auditee qualified as low-risk auditee? ____ Yes __x__ No

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

Finding No. 2021-001 Restatement of prior period financial statements

Type of Finding

Internal Control Over Financial Reporting

Category

Material weakness

Criteria

Internal control practices require that quantitative information included in the accounting records and financial statements be adequately supported with tangible evidence.

Condition

As provided by Article 2.5 of the Act No. 106 of August 23, 2017 – *Law to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants* (Act No. 106-2017), payments related to Pay-Go done by the Central Government, municipalities, public corporations, the Legislative Assembly and the Court Administration will be applied to unpaid contributions and other debts outstanding with the Employees' Retirement System (ERS), at the effective date of Act No. 106-2017. The balance due by the Administration to ERS at June 30, 2017 was approximately $77 million, which consisted principally of amounts related to employer's contributions, uniform additional contributions, special laws and interest. During fiscal year 2020, with the payment of approximately $22.5 million made during the year and recorded as gain on debts released from Employee's Retirement System, such balance due to ERS was exceeded by Pay-Go payments made by the Administration and accordingly, the total amount should have been eliminated. However, due to differences in the interpretation regarding the application of Article 2.5 of Act No. 106-2017, the Administration had not eliminated the balance due to ERS related to debts from before June 30, 2017.

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

Finding No. 2021-001 Restatement of prior period financial statements – (continued)

Condition – (continued)

The Administration restated the beginning net position (deficit) for the effect of this transaction belonging to prior years. The effect of the adjustment on the Administration's net position (deficit) as of June 30, 2020 is as follows:

Net position (deficit) at beginning of year, as previously reported	$ (855,812,371)
Restatement adjustment - effect of elimination of debts with the ERS from before June 30, 2017	54,594,753
Net position (deficit) at beginning of year, as restated	$ (801,217,618)

Cause

Differences in the interpretation regarding the application of Article 2.5 of Act No. 106-2017 among governmental entities due to the Commonwealth of Puerto Rico bankruptcy procedures caused the Administration not to eliminate the balance due to ERS related to debts from before June 30, 2017.

Effect

The Administration's net position (deficit) as of July 1, 2020, have been reduced by $54,594,753 to correct the effect of the matter described above.

Questioned Cost:

None

Context

Prior year statement of net position (deficit) included in the balance due to the Employees' Retirement System the amount of $54,594,753 presented as a current liability related to employer's contributions, uniform additional contributions, special laws and interest. In accordance with Article 2.5 of Act No. 106-2017 such balances should have been eliminated.

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

Finding No. 2021-001 Restatement of prior period financial statements – (continued)

Context – (continued)

For the audit of June 30, 2021, the Retirement Board confirmed in writing the reduced balance due by the Administration to ERS.

Identification of a repeat finding

This is not a repeat finding.

Views of responsible officials and planned corrective actions

Management of the Administration agrees with this finding. Please refer to the corrective action plan on page 90.

Recommendation

Management of the Administration must assure that the financial figures presented in the financial records be adequately supported. Particular emphasis must be placed for significant amounts included therein. For these balances, management should perform periodic reconciliations with the counterparties, which shall be properly supported with corresponding evidence. Supervision shall also be enhanced during the accounting period and year end closing procedures to ascertain that the amounts presented have undergone through the corresponding validation analysis.

Part III - Federal Award Findings and Questioned Costs

No findings to report.

October 26, 2022

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

Dear CPA Marcos Claudio:

In connection with the Schedule of Findings and Questioned Cost of Administración de Servicios Médicos de Puerto Rico (ASEM) for the year ended June 30, 2021, below please find our comments, and planned corrective actions for Finding identified.

Finding No. 2021-001 Restatement of prior period financial statements

As more fully explained in Note # 7 of the audited financial statements as of and the year ended June 30, 2021, the situation identified here-in resulted from a difference in the interpretation and implementation regarding the application of Article 2.5 of Act No. 106-2017, specially when, from time-to time, the Employees' Retirement System (ERS) continued issuing to ASEM monthly collection letters, and ASEM had continued with partial payments of the balances due.

This difference in the interpretation among different governmental entities, due to the Commonwealth of Puerto Rico bankruptcy procedures and discussions, caused us not to eliminate the balance due to the ERS.

Accordingly, and based on this, the Administration will continue supporting and validating all financial figures presented in the financial statements, particularly for significant amounts. Such supporting documentation will include periodic reconciliations with counterparties and supported with its corresponding evidence.

Should you have any question, please call at your convenience.

Regards,

Paul Barreras Díaz, CPA
Finance & Budget Director

Schedule of Prior Year Findings and Questioned Costs

Year Ended June 30, 2021

None.