

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

Basic Financial Statements and
Required Supplementary Information

June 30, 2024 and 2023

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of the business-type activities of the Puerto Rico Medical Services Administration (the Administration), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Puerto Rico Medical Services Administration, as of June 30, 2024 and 2023, and the respective changes in net position (deficit), and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matters

Uncertainty about Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Administration will continue as a going concern. As discussed in Note 16 to the financial statements, as of June 30, 2024 and 2023, the Administration has suffered recurring losses from operations, negative cash flow from operations, and has a net position 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 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Secretary of the Puerto Rico Department of Health
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New Accounting Standard

As discussed in Note 9 to the financial statements, in 2023 the Administration adopted Governmental Accounting Standards Board Statement No. 94 *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*.

Services to Member Institutions and Medical Indigent Population

As described in Note 14 to the financial statements, the Administration derives a substantial portion of its revenues from services rendered to member institutions. In addition, the Administration provides services to the medical indigent population, some of them uninsured, which do not have formal means of repayment. Amounts due from member institutions and medical indigent population may be subject to periodic revisions and/or adjustments, based on the availability of funds from the member institutions and/or the entities adhered to the Commonwealth of Puerto Rico.

Puerto Rico Department of Health

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

Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2025 on our consideration of Puerto Rico Medical Services Administration's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Puerto Rico Medical Services Administration's internal control over financial reporting and compliance.



DLLC322-472
Puerto Rico Medical Services Administration



San Juan, Puerto Rico
January 28, 2025
License No. LLC-322
Expires December 1, 2026

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

Management's Discussion and Analysis (Unaudited)

June 30, 2024

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, 2024 and 2023. Please read it in conjunction with the basic financial statements, which follow this section.

Financial Highlights

- The Administration's net position (deficit) as of June 30, 2024 and 2023 amounted to approximately (\$633) and (\$708) million, respectively, reflecting an improvement of approximately \$75 million.
- Current assets had a net decrease of approximately \$9 million when compared to 2023 balances.
- Net capital assets had a net increase of approximately \$7 million when compared to 2023 balances.
- Other non-current assets had a net increase of approximately \$2 million when compared to 2023 balances.
- Deferred outflows of resources decreased for approximately \$49 million in fiscal year 2024.
- Current liabilities had a net increase of approximately \$40 million when compared to 2023 balances.
- Non-current liabilities had a net decrease of approximately \$121 million when compared to 2023 balances.
- Deferred inflows of resources decreased for approximately \$44 million in fiscal year 2024.
- During the years ended June 30, 2024 and 2023, the Administration experienced operating income (losses) of approximately \$162 thousand and (\$48 million), respectively.
- Note 16 to the financial statements provides information regarding the Administration's going concern uncertainty.
- During the years ended June 30, 2024 and 2023, the Administration received approximately \$96 million and \$111 million, respectively, in contributions and capital contributions from governmental agencies, for payment of new recruitments, payroll contributions, purchase of equipment, building improvements and other operating expenses.

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

Required Financial Statements

The required basic financial statements of the Administration consist of:

1. Statement of net position (deficit) – The statement of net position (deficit) includes all of the Administration's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the net assets' structure of the Administration and assessing its liquidity and financial flexibility.
2. Statement of revenues, expenses and changes in net position (deficit) – This statement measures the results of the Administration's operations and can be used to determine whether the Administration has successfully recovered operating costs and expenses through services revenues, contributions, and other non-operating income.
3. Statement of cash flows – This statement reports cash receipts, cash payments, and net changes resulting from operating, investing, and capital and non-capital related financing activities.

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

Statements of Net Position

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

	<u>2024</u>	<u>2023</u>	<u>Increase (Decrease)</u>	<u>%</u>
Current assets	\$ 31,179	\$ 40,238	\$ (9,059)	-23%
Non-current assets:				
Capital assets, net	86,228	78,836	7,392	9%
Noncurrent assets	<u>94,968</u>	<u>92,978</u>	<u>1,990</u>	<u>2%</u>
	<u>181,196</u>	<u>171,814</u>	<u>9,382</u>	<u>5%</u>
Total assets	<u>212,375</u>	<u>212,052</u>	<u>323</u>	<u>0%</u>
Deferred outflows of resources	<u>38,825</u>	<u>88,310</u>	<u>(49,485)</u>	<u>-56%</u>
Current liabilities	279,600	239,720	39,880	17%
Non-current liabilities	<u>601,416</u>	<u>722,194</u>	<u>(120,778)</u>	<u>-17%</u>
Total liabilities	<u>881,016</u>	<u>961,914</u>	<u>(80,898)</u>	<u>-8%</u>
Deferred inflows of resources	<u>2,924</u>	<u>46,542</u>	<u>(43,618)</u>	<u>-94%</u>
Net position:				
Net investment in capital assets	86,048	78,643	7,405	9%
Restricted	85,370	78,420	6,950	9%
Unrestricted (deficit)	<u>(804,158)</u>	<u>(865,157)</u>	<u>60,999</u>	<u>7%</u>
Total net position (deficit)	<u>\$ (632,740)</u>	<u>\$ (708,094)</u>	<u>\$ 75,354</u>	<u>11%</u>

Puerto Rico Medical Services Administration
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Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

Statements of Net Position – (continued)

The Administration's statements of net position as of June 30, 2023 and 2022 consisted of (in thousands):

	2023	(As restated) 2022	Increase (Decrease)	%
Current assets	\$ 40,238	\$ 59,222	\$ (18,984)	-32%
Non-current assets:				
Capital assets, net	78,836	71,892	6,944	10%
Noncurrent assets	92,978	85,151	7,827	9%
	<u>171,814</u>	<u>157,043</u>	<u>14,771</u>	<u>9%</u>
Total assets	<u>212,052</u>	<u>216,265</u>	<u>(4,213)</u>	<u>-2%</u>
Deferred outflows of resources	<u>88,310</u>	<u>83,577</u>	<u>4,733</u>	<u>6%</u>
Current liabilities	239,720	245,387	(5,667)	-2%
Non-current liabilities	<u>722,194</u>	<u>785,065</u>	<u>(62,871)</u>	<u>-8%</u>
Total liabilities	<u>961,914</u>	<u>1,030,452</u>	<u>(68,538)</u>	<u>-7%</u>
Deferred inflows of resources	<u>46,542</u>	<u>24,866</u>	<u>21,676</u>	<u>87%</u>
Net position:				
Net investment in capital assets	78,643	71,519	7,124	10%
Restricted	78,420	78,821	(401)	-1%
Unrestricted (deficit)	<u>(865,157)</u>	<u>(905,816)</u>	<u>40,659</u>	<u>4%</u>
Total net position (deficit)	<u>\$ (708,094)</u>	<u>\$ (755,476)</u>	<u>\$ 47,382</u>	<u>6%</u>

Puerto Rico Medical Services Administration
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Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

Statements of Net Position – (continued)

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

	<u>2024</u>	<u>2023</u>	<u>Increase (Decrease)</u>	<u>%</u>
Unrestricted cash	\$ 4,728	\$ 10,692	\$ (5,964)	-56%
Receivable from member institutions and private insurances	21,471	22,915	(1,444)	-6%
Accounts receivable others	472	2,385	(1,913)	-80%
Inventories	3,652	3,556	96	3%
Prepaid expenses	<u>856</u>	<u>690</u>	<u>166</u>	<u>24%</u>
	<u>\$ 31,179</u>	<u>\$ 40,238</u>	<u>\$ (9,059)</u>	<u>-23%</u>

The decrease in current assets as of June 30, 2023, consisted of (in thousands):

	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>	<u>%</u>
Unrestricted cash	\$ 10,692	\$ 8,344	\$ 2,348	28%
Receivable from member institutions and private insurances	22,915	44,916	(22,001)	-49%
Accounts receivable others	2,385	2,290	95	4%
Inventories	3,556	3,326	230	7%
Prepaid expenses	<u>690</u>	<u>346</u>	<u>344</u>	<u>99%</u>
	<u>\$ 40,238</u>	<u>\$ 59,222</u>	<u>\$ (18,984)</u>	<u>-32%</u>

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Puerto Rico Medical Services Administration
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Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

Statements of Net Position – (continued)

The net decrease in accounts receivable from member institutions, private insurances and medicare consisted of the following activity during the years ended June 30, 2024 and 2023 (in thousands):

June 30, 2024

	Member Institutions	Private Insurance	Total
Gross services revenues	\$ 79,890	\$ 90,432	\$ 170,322
Revenue accounts reclassification	(578)	578	-
Contractual adjustments current	(2,183)	(44,636)	(46,819)
Collections from prior years	-	(918)	(918)
Non cash transactions	23,997	-	23,997
Provision for bad debt expense	-	(11,772)	(11,772)
Collections	(101,638)	(34,616)	(136,254)
	<u>\$ (512)</u>	<u>\$ (932)</u>	<u>\$ (1,444)</u>

June 30, 2023

	Member Institutions	Private Insurance	Total
Gross services revenues	\$ 85,878	\$ 91,372	\$ 177,250
Revenue accounts reclassification	(2,859)	2,859	-
Contractual adjustments current	(2,321)	(45,900)	(48,221)
Collections from prior years	-	(871)	(871)
Non cash transactions	10,858	-	10,858
Provision for bad debt expense	(263)	(13,271)	(13,534)
Collections	(116,978)	(30,505)	(147,483)
	<u>\$ (25,685)</u>	<u>\$ 3,684</u>	<u>\$ (22,001)</u>

The decrease of \$1.44 million in accounts receivable in fiscal year 2024 is mainly due to collections and billing from member institution and health plan decrease during the fiscal year.

The decrease of \$22 million in accounts receivable in fiscal year 2023 is mainly due to collections of old balances due from member institution.

Puerto Rico Medical Services Administration
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Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

Statements of Net Position – (continued)

Non-Current Assets - Capital Assets

As of June 30, 2024:

Description	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Capital assets not being depreciated	\$ 6,872	\$ -	\$ -	\$ 6,872
Capital assets being depreciated	245,539	17,444	-	262,983
Accumulated depreciation	(173,575)	(10,052)	-	(183,627)
Capital assets being depreciated, net	71,964	7,392	-	79,356
Capital assets, net	<u>\$ 78,836</u>	<u>\$ 7,392</u>	<u>\$ -</u>	<u>\$ 86,228</u>

As of June 30, 2023:

Description	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2023
Capital assets not being depreciated	\$ 6,872	\$ -	\$ -	\$ 6,872
Capital assets being depreciated	228,689	15,577	1,273	245,539
Accumulated depreciation	(163,669)	(8,633)	(1,273)	(173,575)
Capital assets being depreciated, net	65,020	6,944	-	71,964
Capital assets, net	<u>\$ 71,892</u>	<u>\$ 6,944</u>	<u>\$ -</u>	<u>\$ 78,836</u>

The increase in capital assets during the years ended June 30, 2024 and 2023, is mainly due to the fact that acquisitions of equipment and building improvements exceeded depreciation expense. Also, in the recent fiscal years the Administration have received funds for the capital improvements of the healthcare facilities.

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

Statements of Net Position – (continued)

Liabilities

Current Liabilities

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

	2024	2023	Increase (Decrease)	%
Due to other governmental entities	\$ 20,641	\$ 19,054	\$ 1,587	8%
Accounts payable	34,965	27,479	7,486	27%
Accrued expenses	2,743	3,170	(427)	-13%
Medicare settlement payable	1,180	-	1,180	100%
Accrued interest	179,887	151,691	28,196	19%
Total pension liability	22,919	23,207	(288)	-1%
Total other post employment benefit	1,036	1,065	(29)	-3%
Current portion of compensated absences	9,794	7,446	2,348	32%
Current portion of voluntary termination benefits	1,651	2,293	(642)	-28%
Liabilities payable from restricted assets	3,649	3,809	(160)	-4%
Unearned revenue	619	1	618	61800%
Lease liability	100	120	(20)	-17%
Subscription liability	416	385	31	100%
	<u>\$ 279,600</u>	<u>\$ 239,720</u>	<u>\$ 39,880</u>	<u>17%</u>

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

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

Puerto Rico Medical Services Administration
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Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

Statements of Net Position – (continued)

Current Liabilities – (continued)

	2023	(As restated) 2022	Increase (Decrease)	%
Due to other governmental entities	\$ 19,054	\$ 51,458	\$ (32,404)	-63%
Accounts payable	27,479	25,125	2,354	9%
Accrued expenses	3,170	2,944	226	8%
Accrued interest	151,691	127,644	24,047	19%
Total pension liability	23,207	23,919	(712)	-3%
Total other post employment benefit	1,065	1,131	(66)	-6%
Current portion of compensated absences	7,446	7,583	(137)	-2%
Current portion of voluntary termination benefits	2,293	2,886	(593)	-21%
Liabilities payable from restricted assets	3,809	2,222	1,587	71%
Unearned revenue	1	296	(295)	-100%
Lease liability	120	179	(59)	-33%
Subscription liability	385	-	385	100%
	<u>\$ 239,720</u>	<u>\$ 245,387</u>	<u>\$ (5,667)</u>	<u>-2%</u>

In fiscal year 2023 the decrease of \$32.4 million in due to other governmental entities was mainly due to a payment made to the Puerto Rico Power Authority for \$32.5 million for the settlement of old outstanding debt balances. The increase of \$24 million in accrued interest was mainly due to the fact that the Commonwealth of Puerto Rico did not make the payment corresponding to the GDB line of credit on this year and there was an increase in the interest rate from 6.25% to 9.75%.

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

Statements of Net Position – (continued)

Non-Current Liabilities

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

	2024	(As restated) 2023	Increase (Decrease)	%
Government Development Bank of Puerto Rico				
line of credit in connection with Law #66				
of June 22, 1978, as amended	\$ 282,448	\$282,448	\$ -	0%
Total pension liability	300,319	419,212	(118,893)	-28%
Total other postemployment benefit liability	8,249	8,936	(687)	-8%
Compensated absences, net of current portion	5,475	4,748	727	15%
Voluntary termination benefits, net of current portion	2,014	3,531	(1,517)	-43%
Liabilities payable from restricted				
assets - Self insurance fund	1,769	1,766	3	0%
Leases liability, net of current portion	79	74	5	7%
Subscription liability, net of current portion	1,063	1,479	(416)	100%
	<u>\$ 601,416</u>	<u>\$722,194</u>	<u>\$ (120,778)</u>	<u>-17%</u>

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

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

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

Statements of Net Position – (continued)

Non-Current Liabilities – (continued)

The decrease in non-current liabilities as of June 30, 2023, consisted of (in thousands):

	(As restated) 2023	2022	Increase (Decrease)	%
Government Development Bank of Puerto Rico line of credit in connection with Law #66 of June 22, 1978, as amended	\$ 282,448	\$ 282,448	\$ -	0%
Total pension liability	419,212	476,969	(57,757)	-12%
Total other postemployment benefit liability	8,936	12,975	(4,039)	-31%
Compensated absences, net of current portion	4,748	4,863	(115)	-2%
Voluntary termination benefits, net of current portion	3,531	5,691	(2,160)	-38%
Liabilities payable from restricted assets - Self insurance fund	1,766	1,926	(160)	-8%
Leases liability, net of current portion	74	193	(119)	-62%
Subscription liability, net of current portion	1,479	-	1,479	100%
	<u>\$ 722,194</u>	<u>\$ 785,065</u>	<u>\$ (62,871)</u>	<u>-8%</u>

The decrease in total pension and OPEB liabilities of \$61,796 million is related mainly to the increase in the GASB No. 73 and 75 discount rates.

Decrease in Voluntary termination benefits, Law No. 211, was as a result of benefits payment of \$2,160 million.

Increase in subscription liability is related to the adoption of the GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

Statements of Net Position – (continued)

Non-Current Liabilities

The following detailed the activity of non-current liabilities for the years ended June 30, 2024 and 2023 (in thousands):

<u>June 30, 2024:</u>	Balance			Balance
Description	June 30, 2023	Increase	Decrease	June 30, 2024
Government Development Bank of Puerto Rico				
line of credit in connection with Law #66				
of June 22, 1978 as amended	\$ 282,448	\$ -	\$ -	\$ 282,448
Total pension liability	419,212	-	(118,893)	300,319
Other postemployment benefit liability	8,936	-	(687)	8,249
Compensated absences, net of current portion	4,748	727	-	5,475
Voluntary termination benefits, net of current portion	3,531	-	(1,517)	2,014
Self-insurance fund	1,766	3	-	1,769
Leases liability, net of current portion	74	5	-	79
Subscription liability, net of current portion	1,479	-	(416)	1,063
	<u>\$ 722,194</u>	<u>\$ 735</u>	<u>\$(121,513)</u>	<u>\$ 601,416</u>
<u>June 30, 2023:</u>	Balance			Balance
Description	June 30, 2022	Increase	Decrease	June 30, 2023
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	476,969	-	(57,757)	419,212
Other postemployment benefit liability	12,975	-	(4,039)	8,936
Compensated absences, net of current portion	4,863	-	(115)	4,748
Voluntary termination benefits, net of current portion	5,691	-	(2,160)	3,531
Self-insurance fund	1,926	-	(160)	1,766
Leases liability, net of current portion	193	-	(119)	74
Subscription liability, net of current portion	-	1,479	-	1,479
	<u>\$ 785,065</u>	<u>\$ 1,479</u>	<u>\$(64,350)</u>	<u>\$ 722,194</u>

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

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, 2024 and 2023, consisted of (in thousands):

	2024	2023	Increase (Decrease)	%
Total revenues	\$ 112,650	\$ 116,366	\$ (3,716)	-3%
Operating costs and expenses:				
Cost of services	175,441	165,229	10,212	6%
General and administrative	16,261	11,640	4,621	40%
Depreciation and amortization	10,481	8,953	1,528	17%
Pension expense (credit)	(90,064)	(17,977)	(72,087)	401%
Voluntary termination benefits (credit)	1	(45)	46	-102%
Other postemployment expense (credit)	368	(2,973)	3,341	-112%
	<u>112,488</u>	<u>164,827</u>	<u>(52,339)</u>	<u>-32%</u>
Operating income (loss)	<u>162</u>	<u>(48,461)</u>	<u>48,623</u>	<u>-100%</u>
Non-operating income (expenses):				
Contributions from the Commonwealth of Puerto Rico	94,579	94,483	96	0%
Federal grants	1,472	4,483	(3,011)	-67%
Other income	5,852	4,876	976	20%
Gain on extinguishment of supplier's debt	-	210	(210)	-100%
Interest expense	<u>(28,506)</u>	<u>(24,298)</u>	<u>(4,208)</u>	<u>17%</u>
	<u>73,397</u>	<u>79,754</u>	<u>(6,357)</u>	<u>-8%</u>
Capital contributions from the Commonwealth of Puerto Rico	<u>1,795</u>	<u>16,089</u>	<u>(14,294)</u>	<u>-89%</u>
Net change in net position	<u>75,354</u>	<u>47,382</u>	<u>27,972</u>	<u>59%</u>
Net position (deficit), at beginning of year	<u>(708,094)</u>	<u>(755,476)</u>	<u>47,382</u>	<u>-6%</u>
Net position (deficit), at end of year	<u>\$ (632,740)</u>	<u>\$ (708,094)</u>	<u>\$ 75,354</u>	<u>-11%</u>

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

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

The Administration's statements of revenue, expenses, and changes in net position for the years ended June 30, 2023 and 2022, consisted of (in thousands):

	2023	(As restated) 2022	Increase (Decrease)	%
Total revenues	\$ 116,366	\$ 122,077	\$ (5,711)	-5%
Operating costs and expenses:				
Cost of services	165,229	149,321	15,908	11%
General and administrative	11,640	13,750	(2,110)	-15%
Depreciation and amortization	8,953	7,550	1,403	19%
Pension expense (credit)	(17,977)	22,976	(40,953)	-178%
Voluntary termination benefits (credit)	(45)	(422)	377	-89%
Other postemployment expense (credit)	(2,973)	198	(3,171)	-1602%
	<u>164,827</u>	<u>193,373</u>	<u>(28,546)</u>	<u>-15%</u>
Operating loss	<u>(48,461)</u>	<u>(71,296)</u>	<u>22,835</u>	<u>-32%</u>
Non-operating income (expenses):				
Contributions from the Commonwealth of Puerto Rico	94,483	52,535	41,948	80%
Federal stimulus - pandemic relief funds	4,483	9,620	(5,137)	-53%
Other income	4,876	1,620	3,256	201%
Gain on extinguishment of supplier's debt	210	129	81	63%
Interest expense	<u>(24,298)</u>	<u>(14,002)</u>	<u>(10,296)</u>	<u>74%</u>
	<u>79,754</u>	<u>49,902</u>	<u>29,852</u>	<u>60%</u>
Capital contributions from the Commonwealth of Puerto Rico	<u>16,089</u>	<u>6,486</u>	<u>9,603</u>	<u>148%</u>
Net change in net position	<u>47,382</u>	<u>(14,908)</u>	<u>62,290</u>	<u>-418%</u>
Net position (deficit), at beginning of year, as previously reported	(755,476)	(741,659)	(13,817)	2%
Restatement adjustment	<u>-</u>	<u>1,091</u>	<u>(1,091)</u>	
Net position (deficit), at beginning of year, as restated	<u>(755,476)</u>	<u>(740,568)</u>	<u>(14,908)</u>	<u>2%</u>
Net position (deficit), at end of year	<u>\$ (708,094)</u>	<u>\$ (755,476)</u>	<u>\$ 47,382</u>	<u>-6%</u>

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

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, 2024, consisted of (in thousands):

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

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

The decrease in net patient service revenues for the year ended June 30, 2023, consisted of (in thousands):

	2023	2022	Increase (Decrease)	%
Member institutions	\$ 85,878	\$ 83,647	\$ 2,231	3%
Private and insurance	43,151	43,410	(259)	-1%
Subtotal	129,029	127,057	1,972	2%
Provision for bad debts	(13,534)	(11,997)	(1,537)	13%
Collection from prior years	871	7,017	(6,146)	-88%
Subtotal	(12,663)	(4,980)	(7,683)	154%
Total revenues	<u>\$ 116,366</u>	<u>\$ 122,077</u>	<u>\$ (5,711)</u>	-5%

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

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

Net patient service revenues – (continued)

Approximately 67% of the Administration's net patient service revenues for 2023 are derived from services rendered to member institutions. The increase of \$1.9 million in net patient service revenue was due to the increase in services to members institutions experiment during 2023.

Operating Costs and Expenses

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

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

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

The credit in pension benefits of approximately (\$90.1) million resulted from the recognized effect of GASB No. 73 and is principally related to changes in the discount rate used (3.65% as of June 30, 2024, and 3.54% as of June 30, 2023).

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

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

Operating Costs and Expenses – (continued)

Decrease in operating costs and expenses for the year ended June 30, 2023, consisted of (in thousands):

	2023	2022	Increase (Decrease)	%
Salaries payroll taxes and fringe benefits	\$ 95,535	\$ 87,015	\$ 8,520	10%
General and administrative	11,640	13,750	(2,110)	-15%
Costs of materials and services	57,890	55,404	2,486	4%
Depreciation and amortization	8,953	7,550	1,403	19%
Utilities	11,804	6,902	4,902	71%
Pension expense	(17,977)	22,976	(40,953)	-178%
Voluntary termination benefits (Law 211) (credit)	(45)	(422)	377	-89%
Total other postemployment benefit expense	<u>(2,973)</u>	<u>198</u>	<u>(3,171)</u>	-1602%
	<u>\$ 164,827</u>	<u>\$193,373</u>	<u>\$ (28,546)</u>	<u>-15%</u>

The credit in pension and OPEB benefits of approximately (\$44) million resulted from the recognized effect of GASBs No. 73 and 75 and is principally related to changes in the discount rate used (3.54% as of June 30, 2023, and 2.16% as of June 30, 2022).

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

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

Non-Operating Income (Expenses)

The increase/(decrease) in non-operating income (expenses) for the years ended June 30, 2024 and 2023 consists of (in thousands):

	2024	2023	Increase (Decrease)	%
Contributions from the Government of Puerto Rico	\$ 94,579	\$ 94,483	\$ 96	0%
Federal grants	1,472	4,483	(3,011)	-67%
Other income	5,852	4,876	976	20%
Gain on extinguishment of supplier's debt	-	210	(210)	-100%
Interest expense	<u>(28,506)</u>	<u>(24,298)</u>	<u>(4,208)</u>	17%
	<u>\$ 73,397</u>	<u>\$ 79,754</u>	<u>\$ (6,357)</u>	-8%

	2023	(As restated) 2022	Increase (Decrease)	%
Contributions from the Government of Puerto Rico	\$ 94,483	\$ 52,535	\$ 41,948	80%
Federal grants	4,483	9,620	(5,137)	-53%
Other income	4,876	1,620	3,256	201%
Gain on extinguishment of supplier's debt	210	129	81	63%
Interest expense	<u>(24,298)</u>	<u>(14,002)</u>	<u>(10,296)</u>	74%
	<u>\$ 79,754</u>	<u>\$ 49,902</u>	<u>\$ 29,852</u>	60%

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

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

Non-Operating Income (Expenses) – (continued)

The governmental contributions consisted of the following activity during the year ended June 30, 2024:

- \$68,714,000 received in connection with Joint Resolution approved by the Commonwealth's Legislature Assembly on June 29, 2023, assigning to the Administration \$10.627 million for the payment of salaries and related benefits, \$36.256 million for operating expenses, and \$21.831 million for the payment to cover retirement expenses under the Pay-Go system.
- Funds granted in connection with Joint Resolution approved by the Commonwealth's Legislature on June 29, 2023, assigned \$33,285,000 million for capital improvements and medical equipment of which \$1,794,911 million were received and expensed as of year-end.
- \$1,369,172 of funds received from Intra-Governmental Transfers authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority for the Pay-Go system.
- \$7,201,000 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.
- \$1,526,717 of funds received during September 2023 from Intra-Governmental Transfer authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority for the payment of electricity bill.
- \$12,985,799 of funds received during November 2023 and June 2024 from the Puerto Rico Treasury Department for salary retribution and salary retroactive. Authorized by the Puerto Rico Office of Management and Budget and the Puerto Rico Fiscal Agency and Financial Advisory Authority.
- \$1,244,112 of funds received during May 2024 for anesthesia vacant positions and others, authorized by the Authorized by the Puerto Rico Office of Management and Budget and the Puerto Rico Fiscal Agency and Financial Advisory Authority.
- \$365,367 of funds received during November 2023 authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority for a Participation Bonus of \$400 per employee.
- \$236,000 of funds received during December 2023 for a cost model incentive milestone project approved by the Puerto Rico Office of Management and Budget.
- \$937,427 of funds received during November 2023 from the Puerto Rico Treasury Department for the payment of the Christmas bonus to the employees.

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2024

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

Non-Operating Income (Expenses) – (continued)

The Administration received in fiscal years 2024 and 2023, \$1,472,441 and \$4,482,813, respectively, from federal assistance which were incurred in the purchase of equipment and bonus for first responders and contractors and the remaining balance of \$619,283 and \$533 were recorded as unearned revenue in the accompanying statements of net position (deficit) as of June 30, 2024 and 2023, respectively.

Interest expense during the years ended on June 30, 2024 and 2023 consisted mainly of approximately \$28.2 million and \$24 million, respectively, related to the line of credit with the Government Development Bank of Puerto Rico.

Contacting the Administration's Financial Management

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

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Puerto Rico Medical Services Administration
A Component Unit of the Commonwealth of Puerto Rico
Statements of Net Position (Deficit)
June 30, 2024 and 2023

	2024	2023
Assets		
Current assets:		
Cash in commercial banks	\$ 4,728,293	\$ 10,691,735
Accounts receivable:		
Member institutions, net	10,821,486	11,334,039
Private insurance, net	10,649,004	11,581,165
Medicare settlement	-	1,016,242
Lease receivable	300,255	338,355
Other, net	171,615	1,030,098
Inventory of supplies	3,652,233	3,556,323
Prepaid expenses and other current assets	856,045	690,412
Total current assets	<u>31,178,931</u>	<u>40,238,369</u>
Non-current assets:		
Cash in commercial banks - restricted	92,076,466	89,572,692
Lease receivable	178,750	263,877
Capital assets, net	86,227,978	78,836,446
Subscription right-of-use assets, net	1,390,540	1,818,399
PPP asset receivable	1,322,000	1,322,000
Total non-current assets	<u>181,195,734</u>	<u>171,813,414</u>
Total assets	<u>212,374,665</u>	<u>212,051,783</u>
Deferred outflows of resources:		
Pension related	37,789,753	87,244,815
Other postemployment benefit related	1,036,003	1,065,402
Total deferred outflows of resources	<u>38,825,756</u>	<u>88,310,217</u>
Liabilities and Net Position (Deficit)		
Current liabilities:		
Due to other governmental entities, net	20,640,992	19,054,196
Accounts payable	34,964,598	27,478,728
Accrued expenses	2,743,242	3,169,790
Medicare settlement	1,180,111	-
Accrued interest	179,886,835	151,691,103
Total pension liability	22,919,316	23,207,416
Total other postemployment benefit liability	1,036,003	1,065,402
Compensated absences	9,793,900	7,445,762
Voluntary termination benefits	1,650,798	2,292,929
Liabilities payable from restricted assets - improvements to medical facilities and equipment	3,648,834	3,809,395
Unearned revenue	619,283	533
Lease liability	100,427	119,900
Subscription liability	416,256	385,310
Total current liabilities	<u>279,600,595</u>	<u>239,720,464</u>
Non-current liabilities:		
Line of credit	282,447,692	282,447,692
Total pension liability	300,318,718	419,211,874
Total other postemployment benefit liability	8,249,425	8,935,821
Compensated absences	5,474,649	4,748,309
Voluntary termination benefits	2,014,592	3,531,541
Liabilities payable from restricted assets - Self-insurance fund	1,768,675	1,766,425
Lease liability	79,334	73,594
Subscription liability	1,062,917	1,479,172
Total non-current liabilities	<u>601,416,002</u>	<u>722,194,428</u>
Total liabilities	<u>881,016,597</u>	<u>961,914,892</u>
Deferred inflows of resources:		
Pension related	2,406,224	45,969,185
Leases related	385,702	407,190
PPP related	132,200	165,250
Total deferred inflows of resources	<u>2,924,126</u>	<u>46,541,625</u>
Net position:		
Net investment in capital assets	86,048,217	78,642,952
Restricted for permanent improvements	85,278,575	78,296,171
Restricted for others	91,295	123,717
Unrestricted (deficit)	(804,158,389)	(865,157,357)
Total net position (deficit)	<u>\$ (632,740,302)</u>	<u>\$ (708,094,517)</u>

See notes to financial statements

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

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

For the years ended June 30, 2024 and 2023

	2024	2023
Patient service revenue, net of contractual allowances	\$ 123,503,023	\$ 129,029,185
Less: provision for bad debts	<u>10,853,371</u>	<u>12,663,415</u>
Net patient service revenue	<u>112,649,652</u>	<u>116,365,770</u>
Operating costs and expenses:		
Cost of services	175,440,807	165,228,780
General and administrative	16,261,295	11,639,658
Depreciation and amortization	10,480,829	8,953,408
Pension (credit) expense	(90,063,908)	(17,977,199)
Voluntary termination benefits expense (credit)	581	(44,653)
Other postemployment benefit expense (credit)	<u>368,107</u>	<u>(2,973,278)</u>
Total operating cost and expenses	<u>112,487,711</u>	<u>164,826,716</u>
Operating income (loss)	<u>161,941</u>	<u>(48,460,946)</u>
Non-operating revenue (expenses):		
Contributions from the Commonwealth of Puerto Rico	94,579,594	94,483,025
Federal grants	1,472,441	4,482,813
Other income, net	5,851,768	4,875,726
Gain on extinguishment of supplier's debt	-	209,471
Interest expense	<u>(28,506,440)</u>	<u>(24,298,031)</u>
Total non-operating revenue, net	<u>73,397,363</u>	<u>79,753,004</u>
Capital contributions from the Commonwealth of Puerto Rico	<u>1,794,911</u>	<u>16,088,984</u>
Net change in net position	<u>75,354,215</u>	<u>47,381,042</u>
Net position (deficit), at beginning of year	(708,094,517)	(755,475,559)
Net position (deficit), at end of year	<u>\$ (632,740,302)</u>	<u>\$ (708,094,517)</u>

See notes to financial statements

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

Statements of Cash Flows

For the years ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Receipts from service revenues	\$ 116,092,318	\$ 138,610,841
Payments to suppliers for goods and services	(60,613,772)	(99,615,303)
Payment to employees for salaries and related benefits	<u>(145,020,229)</u>	<u>(134,614,206)</u>
Net cash used in operating activities	<u>(89,541,683)</u>	<u>(95,618,668)</u>
Cash flows from non capital and related financing activities:		
Intergovernmental contributions	94,836,128	98,965,838
Interest paid/adjusted	(310,708)	(250,747)
Restructuration supplier's debt	<u>-</u>	<u>209,471</u>
Net cash provided by non capital and related financing activities	<u>94,525,420</u>	<u>98,924,562</u>
Cash flows from capital and related financing activities:		
Intergovernmental contributions	1,794,911	16,088,984
Acquisition of machinery and equipment	(10,226,944)	(10,459,083)
Improvements to emergency room and other facilities	<u>(7,079,047)</u>	<u>(5,117,898)</u>
Net cash provided by (used in) capital and related financing activities	<u>(15,511,080)</u>	<u>512,003</u>
Cash flows from investing activities-		
Receipts from interest and other income	<u>7,067,675</u>	<u>4,875,726</u>
Net change in cash	(3,459,668)	8,693,623
Cash and restricted cash, beginning of year	<u>100,264,427</u>	<u>91,570,804</u>
Cash and restricted cash, end of year	<u>\$ 96,804,759</u>	<u>\$ 100,264,427</u>
Reconciliation of cash and restricted cash to the Statement of Net Position:		
Cash in commercial banks	\$ 4,728,293	\$ 10,691,735
Cash in commercial banks - restricted	<u>92,076,466</u>	<u>89,572,692</u>
Total cash	<u>\$ 96,804,759</u>	<u>\$ 100,264,427</u>

(Continues)

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

Statements of Cash Flows (Continued)

For the years ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ 161,941	\$ (48,460,946)
Adjustments to reconcile operating income (loss) to net cash used in operating activities		
Depreciation and amortization	10,052,970	8,632,514
Amortization SBITA	427,859	320,894
Provision for bad debts	10,853,371	12,663,415
Adjustment to capital assets	-	(179,086)
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(8,743,968)	7,854,500
Lease receivable	123,227	338,355
Inventory of supplies	(95,910)	(229,979)
Prepaid expenses and other current assets	(165,633)	(344,737)
Deferred outflows of resources	49,484,461	(4,733,084)
Increase (decrease) in:		
Due to other governmental entities	1,586,796	(35,003,477)
Accounts payable	8,176,762	6,343,407
Accrued expenses and other	133,888	(5,455,346)
Medicare settlement	1,180,111	-
Total pension liability	(119,181,256)	(58,469,196)
Unearned revenue	618,750	(295,867)
Deferred inflows of resources	(43,617,499)	21,674,776
Lease liability	(152,244)	-
Subscription liability	(385,309)	(274,811)
	<u>(89,703,624)</u>	<u>(47,157,722)</u>
Net cash used in operating activities	<u>\$ (89,541,683)</u>	<u>\$ (95,618,668)</u>
Supplemental disclosure of non-cash transactions		
Subscription asset and liability	<u>\$ -</u>	<u>\$ 2,139,293</u>
Leases and lease liability	<u>\$ 138,511</u>	<u>\$ -</u>
Netting of Member Institution receivable and payable	<u>\$ 1,210,036</u>	<u>\$ 1,388,801</u>

See notes to financial statements

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

Notes to Financial Statements

June 30, 2024 and 2023

Note 1 - Organization and summary of significant accounting policies

Organization

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

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

Summary of significant policies

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

Basis of presentation

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

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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, 2024 and 2023, 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, 2024 and 2023, 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.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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, 2024 and 2023, \$41,482,827 and \$248,112,151 and \$41,482,631 and \$237,257,658 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.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

Summary of significant policies – (continued)

Fair value of financial instruments

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

Inventory of supplies

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

Capital assets

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

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

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

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

Subscription-Based Information Technology Arrangements (SBITAs)

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

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

Summary of significant policies – (continued)

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

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

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

Accounting for the impairment of capital assets

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

Leases

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

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

Summary of significant policies – (continued)

Leases – (continued)

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

Compensated absences

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

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

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

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

Summary of significant policies – (continued)

Net patient service revenue

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

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

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

Operating revenues and expenses

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

Other governmental entities

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

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

Summary of significant policies – (continued)

Insurance

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

Non-exchange transactions

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

Deposits and investment risks

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

Deferred outflows and inflows of resources

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

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

Summary of significant policies – (continued)

Deferred outflows and inflows of resources – (continued)

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, 2024 and 2023, all deferred outflows of resources and all deferred inflows of resources of the Administration are pension and other postemployment benefit related items, as further disclosed in Notes 10 and 11.

New accounting standards adopted

In 2023, the Administration adopted GASB 94, *Public-Private and Public-Public Partnerships and Availability Payments Arrangements*. (GASB Statement No. 94).

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 (APA). 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.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

Summary of significant policies – (continued)

New accounting standards adopted – (continued)

These changes were incorporated in the Administration's financial statements for the year ended June 30, 2022. The effect on the beginning net position (deficit) at July 1, 2021 was \$1,090,650 since a PPP asset receivable for \$1,322,000 and a deferred inflow of resources – PPP asset receivable for \$231,350 were recorded. Refer to Notes 5 and 9.

In 2023, the Administration adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB Statement No. 96).

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 Administration adopted this statement as of July 1, 2022.

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

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

Summary of significant policies – (continued)

New accounting standards adopted – (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 adoption of this statement did not have a material effect on the basic financial statements of the Administration.

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) 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.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

Summary of significant policies – (continued)

New accounting standards adopted – (continued)

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

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

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles. The adoption of this statement did not have a material effect on the basic financial statements of the Administration.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

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

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.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

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.

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

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

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

The disclosure should include descriptions of the following:

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

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

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

Management's Discussion and Analysis - This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this Statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

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

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

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

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

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

Budgetary Comparison Information - This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

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

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

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

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

Summary of significant policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

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

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 2 - Cash in commercial banks

Cash in commercial banks as of June 30, 2024 and 2023 consisted of:

Description	Carrying Amount		Bank Balance	
	2024	2023	2024	2023
Cash - unrestricted	\$ 4,728,293	\$ 10,691,735	\$ 5,298,334	\$ 11,070,600
Cash-restricted for:				
Improvements to medical facilities and purchase of equipment	88,631,423	86,447,206	91,451,186	86,573,951
Self-insurance fund	1,861,928	1,782,522	1,862,522	1,862,522
Other	1,583,115	1,342,964	1,583,115	1,342,964
Total restricted cash	92,076,466	89,572,692	94,896,823	89,779,436
Total cash	\$ 96,804,759	\$ 100,264,427	\$ 100,195,157	\$ 100,850,035

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

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

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

Note 3 - Net patient service revenue

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

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

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 3 - Net patient service revenue – (continued)

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

The Administration's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through 2021.

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

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

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

A summary of patient service revenue, net of contractual allowances and discounts, and provision for bad debts, for the years ended June 30, 2024 and 2023 consisted of:

	2024	2023
Third-party payors - member institutions	\$ 79,889,756	\$ 85,614,713
Third-party payors - health plans	32,759,896	31,002,858
Self-pay patients	<u>-</u>	<u>(251,801)</u>
Patient service revenue (net of contractual allowances and discounts and provision for bad debts)	<u>\$ 112,649,652</u>	<u>\$ 116,365,770</u>

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 3 - Net patient service revenue – (continued)

Changes in the allowance for doubtful accounts on patient's account receivable for the years ended June 30, 2024 and 2023 consisted of:

	2024	2023
Balance, beginning of year	\$ 278,740,289	\$ 269,653,980
Provision for bad debt	10,853,371	12,663,415
Write-off - RCM and others	<u>-</u>	<u>(3,577,106)</u>
Balance, end of year	<u>\$ 289,593,660</u>	<u>\$ 278,740,289</u>

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, 2024 and 2023, 62% and 63%, of the amounts reserved as uncollectible are related to third-party payors, respectively, and 38% and 37%, are related to self-pay patients, which includes deductibles and co-insurance which the Administration accounts for as patient balance.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 4 - Capital assets

Capital assets as of June 30, 2024 and 2023, and activity during the years then ended consisted of:

Description	Balance June 30, 2023	Increases	Decreases	Balance June 30, 2024
Capital assets not being depreciated:				
Land	\$ 6,871,954	\$ -	\$ -	\$ 6,871,954
Capital assets being depreciated:				
Land improvements	13,185,980	7,620	-	13,193,600
Building and improvements	113,702,378	7,071,427	-	120,773,805
Machinery, equipment and intangible	115,261,781	10,226,944	-	125,488,725
Lease - equipment	843,104	138,511	-	981,615
	<u>242,993,243</u>	<u>17,444,502</u>	<u>-</u>	<u>260,437,745</u>
Accumulated depreciation and amortization:				
Land improvements	12,264,946	253,882	-	12,518,828
Building and improvements	71,919,842	4,845,525	-	76,765,367
Machinery, equipment and intangible	86,194,353	4,826,335	-	91,020,688
Lease - equipment	649,610	127,228	-	776,838
	<u>171,028,751</u>	<u>10,052,970</u>	<u>-</u>	<u>181,081,721</u>
Capital assets being depreciated, net	<u>71,964,492</u>	<u>7,391,532</u>	<u>-</u>	<u>79,356,024</u>
Capital assets, net	<u>\$ 78,836,446</u>	<u>\$ 7,391,532</u>	<u>\$ -</u>	<u>\$ 86,227,978</u>

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 4 - Capital assets – (continued)

Description	Balance June 30, 2022	Increases	Decreases/ Reclassification/ Adjustment	Balance June 30, 2023
Capital assets not being depreciated:				
Land	\$ 6,871,955	\$ -	\$ (1)	\$ 6,871,954
Capital assets being depreciated:				
Land improvements	12,905,969	-	280,011	13,185,980
Building and improvements	108,864,491	5,117,898	(280,011)	113,702,378
Machinery, equipment and intangible	106,075,586	10,459,083	(1,272,888)	115,261,781
Lease assets - equipment	843,104	-	-	843,104
	<u>228,689,150</u>	<u>15,576,981</u>	<u>(1,272,888)</u>	<u>242,993,243</u>
Accumulated depreciation and amortization:				
Land improvements	12,067,067	197,880	(1)	12,264,946
Building and improvements	67,976,238	3,943,604	-	71,919,842
Machinery, equipment and intangible	83,155,298	4,311,839	(1,272,784)	86,194,353
Lease assets - equipment	470,419	179,191	-	649,610
	<u>163,669,022</u>	<u>8,632,514</u>	<u>(1,272,785)</u>	<u>171,028,751</u>
Capital assets being depreciated, net	<u>65,020,128</u>	<u>6,944,467</u>	<u>(103)</u>	<u>71,964,492</u>
Capital assets, net	<u>\$ 71,892,083</u>	<u>\$ 6,944,467</u>	<u>\$ (104)</u>	<u>\$ 78,836,446</u>

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 5 - Leases

Lessee

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

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

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

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

The Administration is a lessee under noncancellable long-term leases of equipment. The lease term is for 5 years ending through March 2028 and requiring monthly payments. The discount rate used for the calculation of the lease liabilities varies per lease and ranged from 3.55% to 5.85%.

As of June 30, 2024, the total amount of lease assets, and the related accumulated amortization and changes therein for the year then ended, is as follows:

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

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 5 - Leases – (continued)

Lessee – (continued)

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

	Balance June 30, 2022	Additions	Deductions	Balance June 30, 2023
Leased - equipment	\$ 843,104	\$ -	\$ -	\$ 843,104
Leased - equipment accumulated amortization	(470,419)	(179,191)	-	(649,610)
Total leased assets, net of accumulated amortization	<u>\$ 372,685</u>	<u>\$ (179,191)</u>	<u>\$ -</u>	<u>\$ 193,494</u>

Lease liabilities of \$179,761 and \$193,494 were recorded as of June 30, 2024 and 2023, respectively. The Administration made principal payments of \$118,013 and \$174,564 as of June 30, 2024 and 2023, respectively and are included in cost of service on the statements of revenues, expenses and changes in net position (deficit). Interest expense from these leases totaled \$9,960 and \$13,009 as of June 30, 2024 and 2023, respectively, and are included in interest expense on the statements of revenues, expenses, and change in net position (deficit). As of June 30, 2024, the principal and interest requirements to maturity for the lease liability is as follows:

Maturity	Principal	Interest	Total
2025	\$ 100,427	\$ 5,724	\$ 106,151
2026	27,955	2,730	30,685
2027	29,122	1,563	30,685
2028	22,257	377	22,634
	179,761	10,394	190,155
Less current portion	(100,427)	(5,724)	(106,151)
Total long term leases liabilities	<u>\$ 79,334</u>	<u>\$ 4,670</u>	<u>\$ 84,004</u>

Lessor

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

At the commencement of a lease, the Administration initially measures the lease receivable at the present value of payments expected to be received during the lease term and the lease receivable is reduced by the principal portion of lease payments when received. The deferred inflow of

Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 5 - Leases – (continued)

Lessor – (continued)

resources is initially measured at the initial amount of the lease receivable and is recognized as revenue over the life of the lease term. The Administration recognizes interest income on the lease receivables, and lease revenue from deferred inflows of resources in systematic and rational manner over the term of the lease.

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

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

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

On July 13, 1988, ASEM entered into an agreement with a third-party, under which the third-party leases three parcels of land within the Medical Center for the development, construction and administration of a four-level parking garage containing not less than five hundred parking spaces and other parking facilities for the visitors for a period of forty years. The third-party operates and maintains the parking garage in accordance with the agreement and pays a monthly rental fee for \$300 for the parcel of land and an income participation of 10% of the net revenues from the operations of the parking garage and the two visitor's parking, including accessory facilities therein. At the expiration of the term of the lease in July 2028, the parking garage, its improvements, and equipment, excluding the equipment, properties and inventories of the commercial facilities, shall become the sole property of the Administration at no cost whatsoever, free and clear of all liens and encumbrances and with no liability to the third-party (PPP asset receivable, refer to Note 1). If the parking operations are terminated by the Administration prior to the expiration of the term of the agreement, the Administration shall reimburse to the third-party all unamortized costs of the parking garage and all termination expenses. The Administration recognized a lease receivable and deferred inflow of resources of \$479,005 and \$602,232, respectively, as of June 30, 2024, \$385,702 and \$407,190, respectively as of June 30, 2023.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 5 - Leases – (continued)

Lessor – (continued)

Lease income from noncancellable long-term leases totaled \$243,447 and \$243,118 for the years ended June 30, 2024 and 2023, respectively. Interest income from noncancellable long-term leases totaled \$42,107 and \$55,122 for the years ended June 30, 2024 and 2023, respectively. Lease income and interest income is included in other income on the statements of revenues, expenses and changes in net position. The Administration did not recognize revenue with residual value guarantees and termination penalties.

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

On June 14, 2022, the Administration entered a cloud service contract that conveys control of the right to use another party's IT software in combination with tangible IT assets, for a period of 5 years in an exchange-like transaction for \$2.6 million.

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

The changes in SBITA for the years ended June 30, 2024 and 2023 are as follows, and are included in the non-current assets of the statement of net position.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

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

2023				
	Balance June 30,2022	Additions	Deductions	Balance June 30,2023
Subscription IT assets	\$ -	\$ 2,139,293	\$ -	\$ 2,139,293
Less: accumulated amortization	-	(320,894)	-	(320,894)
Subscription IT assets, net	<u>\$ -</u>	<u>\$ 1,818,399</u>	<u>\$ -</u>	<u>\$ 1,818,399</u>

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

2023						
	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year	More than One Year
Subscription liabilities	<u>\$ -</u>	<u>\$ 2,139,293</u>	<u>\$ (274,811)</u>	<u>\$ 1,864,482</u>	<u>\$ 385,310</u>	<u>\$ 1,479,172</u>

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

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

As of June 30, 2024, the principal and interest requirements to maturity for the subscription liability is as follows:

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 416,256	\$ 100,056	\$ 516,312
2026	449,686	66,626	516,312
2027	485,802	30,510	516,312
2028	127,429	1,649	129,078
	1,479,173	198,841	1,678,014
Less current portion	(416,256)	(100,056)	(516,312)
Total long-term subscription liabilities	<u>\$ 1,062,917</u>	<u>\$ 98,785</u>	<u>\$ 1,161,702</u>

Note 7 - Due to other governmental entities

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

The balance due to other governmental entities as of June 30, 2024 and 2023 consists of the following:

	<u>2024</u>	<u>2023</u>
Puerto Rico Electric Power Authority	\$ 2,317,823	\$ 2,476,576
Puerto Rico Aqueduct and Sewer Authority	913,956	2,299,185
Commonwealth of Puerto Rico	5,041,342	6,106,013
Puerto Rico Infrastructure Financing Authority	484,399	484,399
State Insurance Fund Corporation	11,144,158	7,278,560
University of Puerto Rico - RCM	739,314	409,463
Due to other governmental entities, net	<u>\$ 20,640,992</u>	<u>\$ 19,054,196</u>

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 8 - 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 \$1,861,929 and \$1,782,522 as of June 30, 2024 and 2023, respectively, to provide for the payment of possible claims. Funding requirements are determined based on actuarial reports and the Administration's Internal Council Office. The most recent actuarial report is as of June 30, 2024, and presented an estimated liabilities of \$1,623,606, which were related to claims incurred up to the year ended June 30, 2024. The self-insurance valuation is prepared every two years.

The following is the activity of the restricted cash available and liabilities payable from restricted assets under the Self-Insurance Fund for the years ended June 30, 2024 and 2023.

June 30, 2024:

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

June 30, 2023:

Description	Restricted Cash	Liabilities Payable
Balances as of beginning of year	\$ 1,891,957	\$ 1,926,425
Funds received from operations	52,415	-
Claims paid and other disbursements	<u>(161,850)</u>	<u>(160,000)</u>
Balance as of end of year	<u>\$ 1,782,522</u>	<u>\$ 1,766,425</u>

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 9 - Restatement of Net Position (Deficit) for Change in Accounting Principle for Recently Adopted Accounting Pronouncement

In 2023, the Administration implemented GASB Statement No.94 *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This statement requires the recognition of a receivable for the underlying PPP asset constructed to be received from the operator, a transferor should measure the receivable for the underlying PPP asset based on the operator's estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership from the operator and a deferred inflow of resources. Refer to Note 5.

The Administration adopted this statement as of July 1, 2021. As a result, the net position as of June 30, 2022 has been restated as follows:

	<u>June 30, 2022</u>
Net position (deficit) at beginning of year, as previously reported	\$ (741,659,285)
Accounting standard GASB No. 94	
Deferred inflow of resources - PPP asset receivable	<u>1,090,650</u>
Net position (deficit) at beginning of year, as restated	<u>\$ (740,568,635)</u>

Note 10 - 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.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 10 - Retirement plan – (continued)

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.

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 106-2017 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.

Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 10 - Retirement plan – (continued)

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

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 1, 1952 for members hired up to March 31, 1990;
- Act No. 1 of February 16, 1990 (Act No. 1), for members hired on or after April 1, 1990, and ending on or before December 31, 1999;
- Act No. 305 of September 24, 1999, (Act No. 305), which amended Act No. 447 and Act No. 1, for members hired from January 1, 2000, up to June 3, 2013.

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

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

Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 10 - Retirement plan – (continued)

Total Pension Liability and Actuarial Information

The total Pension Plan liability recorded by the Administration as of June 30, 2024 and 2023 (measurement date June 30, 2023 and 2022, respectively) amounted to \$323,238,034 and \$442,419,290, 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, 2024 and 2023 (measurement date June 30, 2023 and 2022) was determined by an actuarial valuation as of July 1, 2022 and 2021, that was rolled forward to June 30, 2023 and 2022 (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, 2023 and 2022 (measurement date), the Administration's proportionate share was 1.55622% and 1.99716%, respectively.

(a) Actuarial methods and assumptions

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

Discount rate

The discount rate for June 30, 2023 and 2022 (measurement date) was 3.65% and 3.54%, 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, 2023 (measurement date) actuarial valuation were as follows:

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

Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 10 - Retirement plan – (continued)

Total Pension Liability and Actuarial Information – (continued)

(a) Actuarial methods and assumptions – (continued)

Mortality – (continued)

on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

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

- Post-Retirement Retiree Mortality - The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.
- Post-Retirement Disabled Mortality –The PubG-2010 disable retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- Post-Retirement Beneficiary Mortality – Prior to retiree's death, beneficiary mortality is assumed to be the same as the pot-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 10 - Retirement plan – (continued)

Total Pension Liability and Actuarial Information – (continued)

(b) Actuarial methods and assumptions – (continued)

Other assumptions as of June 30, 2022

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

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

The following presents the Administration's Pension Plan liability calculated using the discount rate of 3.65% and 3.54% for June 30, 2024 and 2023, respectively, as well as what the Administration's proportionate share of the total Pension Plan liability would be if it were calculated using a discount rate of 1% point lower or 1% point higher than the current rate:

June 30, 2024			
	1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)
Total pension liability	<u>\$ 360,397,116</u>	<u>\$ 323,238,034</u>	<u>\$ 292,212,497</u>
June 30, 2023			
	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
Total pension liability	<u>\$ 495,081,967</u>	<u>\$ 442,419,290</u>	<u>\$ 398,643,060</u>

Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 10 - Retirement plan – (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2024 and 2023 (measurement dates June 30, 2023 and 2022), the reported deferred outflows of resources and deferred inflows of resources related to pensions consist of the following sources:

	June 30, 2024		June 30, 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 225,255	\$ 2,015,961	\$ 5,550,192	\$ 9,380,853
Changes of assumptions	12,342,459	-	35,708,216	34,804,736
Changes in proportion	2,302,723	390,263	22,778,991	1,783,596
Pension benefits paid subsequent to the measurement date	<u>22,919,316</u>	<u>-</u>	<u>23,207,416</u>	<u>-</u>
Total	<u>\$ 37,789,753</u>	<u>\$ 2,406,224</u>	<u>\$ 87,244,815</u>	<u>\$ 45,969,185</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2024 will be recognized as adjustment to pension expense (benefit) in the Administration's financial statements in future years as follows:

Years Ending June 30	Amounts
2025	<u>\$ 12,464,213</u>

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.

Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 11 - 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 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, 2024, and 2023 (measurement date June 30, 2023 and 2022, respectively) amounted to \$9,285,428 and \$10,001,223 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, 2024 and 2023 (measurement date June 30, 2023 and 2022, respectively) was determined by an actuarial valuation as of July 1, 2022, and 2021, that was rolled forward to June 30, 2023 and 2022 (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, 2023 and 2022 (measurement date), the Administration 's proportionate share of the OPEB Plan liability was 1.43612% and 1.43778%, respectively.

Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 11 - Other Postemployment Benefits – (continued)

Total OPEB Liability and Actuarial Information – (continued)

(a) Actuarial assumptions

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

Discount rate

The discount rate for June 30, 2023 and 2022 (measurement date) was 3.65% and 3.54%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2023 (measurement date) actuarial valuation were as follows:

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

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

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

Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 11 - Other Postemployment Benefits – (continued)

Total OPEB Liability and Actuarial Information – (continued)

(a) Actuarial assumptions – (continued)

- Post-Retirement Disabled Mortality - The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- Post-Retirement Beneficiary Mortality - Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

The following presents the Administration's total OPEB Plan liability calculated using the discount rate of 3.65% and 3.54% for June 30, 2024 and 2023 (reporting date), respectively, as well as what the Administration's proportionate share of the total OPEB Plan liability would be if it were calculated using a discount rate of 1% point lower or 1% point higher than the current rate:

June 30, 2024			
	1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)
Total OPEB liability	\$ 10,081,681	\$ 9,285,428	\$ 8,598,489
June 30, 2023			
	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
Total OPEB liability	\$ 10,885,900	\$ 10,001,223	\$ 9,240,720

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 11 - Other Postemployment Benefits – (continued)

Deferred Outflows of Resources Related to the OPEB Plan

At June 30, 2024 and 2023 (measurement date June 30, 2023 and 2022), the reported deferred outflows of resources related to the OPEB Plan of \$1,036,003 and \$1,065,402, respectively, consist of OPEB benefits paid subsequent to the measurement date.

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

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

The program consisted of, for each eligible employee applicant, 60% of the average salary at December 31, 2015 until the age of 61, liquidation of the vacation and sick leave licenses up to the limit permitted by law, exempt from income taxes. The Administration will continue to make the employer contributions for the Social Security and Medicare for the 60% of the salary. In addition, the Administration will pay the medical plan that the employee had up to two years. The Administration's voluntary pre-retirement program liability as of June 30, 2024 and 2023, calculated using the discounted present value of expected future benefit payments amounts to approximately \$3.6 million and \$5.8 million, respectively.

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Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 12 - Voluntary Pre-retirement Program (Act No. 211-2015) – (continued)

June 30, 2024

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

June 30, 2023

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due in One Year</u>	<u>More than One Year</u>
Voluntary termination benefits	<u>\$ 8,577,595</u>	<u>\$ -</u>	<u>\$(2,753,125)</u>	<u>\$ 5,824,470</u>	<u>\$ 2,292,929</u>	<u>\$ 3,531,541</u>

Note 13 - Commitments and contingencies

Commitments

Contracts for future purchases

The Administration has long-term contractual obligations with suppliers for future purchases such as medical supplies or services expiring at various dates through year 2027. Total expense for these contracts for the years ended June 30, 2024 and 2023 amounted to approximately \$1.2 million and \$1.8 million, respectively.

Future minimum contractual obligations with suppliers as of June 30, 2024, follows:

<u>Years ending June 30,</u>	<u>Amounts</u>
2025	\$ 1,224,404
2026	1,156,694
2027	<u>745,020</u>
	<u>\$ 3,126,118</u>

Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 13 - Commitments and contingencies – (continued)

Commitments – (continued)

Government Development Bank of Puerto Rico loan

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

These additional funds were to be used for the following:

- a. payment of debts to suppliers, agencies, institutions, reserve fund for the self-insurance (professional responsibility and inter-fund debt) of the Administration; and
- b. to provide operational liquidity to ease their fiscal situation, as determined by the agreement with the GDB.

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

As of June 30, 2024 and 2023 the amount corresponding to the payments of principal and interests for fiscal years 2024 and 2023, were not consigned on the budget nor received from the Secretary of the Treasury of Puerto Rico.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 13 - Commitments and contingencies – (continued)

Commitments – (continued)

Government Development Bank of Puerto Rico loan – (continued)

Interest expense for the years ended June 30, 2024 and 2023 amounted to \$28,195,733 and \$24,155,158, 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, 2024 and 2023, were 10% and 9.75%, respectively.

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

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

Construction commitment

As of June 30, 2024, the Administration had construction commitments for approximately \$20.7 million related to construction contracts.

Contingencies

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

Based on a review of current facts and circumstances management has provided for what is believed to be a reasonable estimate of the exposure to loss associated to litigation. The Administration has established an accrual reserve for medical malpractice claim losses in the amount of \$1,768,675 and \$1,766,425 as of June 30, 2024 and 2023, respectively, and non-medical legal claim reserve in the amount of \$1,027,000 and \$1,204,080, respectively. The non-medical reserve is recorded in accounts payable in the statements of net position.

Regulatory issues

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

Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 13 - Commitments and contingencies – (continued)

Contingencies – (continued)

Regulatory issues – (continued)

possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be excluded from participating in government healthcare programs, subjected to fines or penalties or required 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 inquiries or actions.

Health Insurance Portability and Accountability Act

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

Implementation requirements of an Electronic Health Record System

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

The Centers for Medicare and Medicaid Services (CMS) manages and has implemented an incentive program for those hospitals that implement EHR and that also, comply with certain specific requirements. CMS EHR Incentive Programs provide incentive payments to eligible hospitals as they adopt, implement, upgrade or demonstrate meaningful use, as defined by CMS, of certified EHR technology. As of June 30, 2024 and 2023, the Administration is under the implementation of its EHR system. The implementation of the new version of the hospital system is expected to meet new meaningful use and interoperability regulations in the coming year.

Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 13 - Commitments and contingencies – (continued)

Contingencies – (continued)

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

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

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

Federal grants

During the years ended June 30, 2024 and 2023, the Administration received conditional contribution grants from the U.S. Treasury Department and through the local government. Contributions were received for the purpose of providing financial support to the Administration, rather than for the direct benefit of the grantor, therefore, such grants were considered as nonexchange contributions. The grantors have restricted the use of these funds as conditional contributions. The Administration accounts for conditional contributions received before the specified condition has been substantially met as a refundable advance liability (unearned revenues). Upon complying with the applicable restrictions, the refundable advances are recognized as revenue or gain in the statements of revenues, expenses and changes in net position (deficit).

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

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 13 - Commitments and contingencies – (continued)

Contingencies – (continued)

Federal grants – (continued)

The Administration received in fiscal years 2024 and 2023, \$1,472,441 and \$4,482,813, respectively, from federal assistance under, then Disaster Grants – Public Assistance and the Coronavirus State and Local Fiscal Recovery Funds - ARP Act, which were incurred for the purchase of equipment and bonus for first responders and contractors, respectively. The remaining balance of \$619,683 and \$533 were recorded as unearned revenue in the accompanying statements of net position (deficit) as of June 30, 2024 and 2023, respectively.

Grant revenues for the years ended June 30, 2024 and 2023 are as follows:

	2024	2023
Coronavirus State and Local Fiscal Recovery Funds - ARP Act	\$ 256,534	\$ 4,482,813
Disaster Grants - Public Assistance	<u>1,215,907</u>	<u>-</u>
	<u>\$ 1,472,441</u>	<u>\$ 4,482,813</u>

As of June 30, 2024 and 2023, the Administration has recognized unearned revenues for unexpended federal grants as follows:

	2024	2023
Coronavirus State and Local Fiscal Recovery Funds - ARP Act	\$ 533	\$ 533
Disaster Grants - Public Assistance	<u>618,750</u>	<u>-</u>
	<u>\$ 619,283</u>	<u>\$ 533</u>

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 statements do not contain any adjustment that may result from this contingency.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 14 - 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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Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 15 - Contributions from the Commonwealth of Puerto Rico

Governmental contributions during the years ended June 30, 2024 and 2023, consist of the following:

Description	2024	2023
Funds received in connection with Joint Resolution approved by the Commonwealth's Legislature on June 29, 2023, assigned \$68.714 million of which \$10.627 million were for the payment of salaries and related benefits, \$36.256 million for operating expenses, and \$21.831 million for the payment to cover retirement expenses under the Pay-Go system.	\$ 68,714,000	\$ -
Funds granted in connection with Joint Resolution approved by the Commonwealth's Legislature on June 29, 2023, assigned \$33.285 million for capital improvements and medical equipment of which \$1.795 million were received and expensed as of year-end.	1,794,911	-
Funds received in connection with Joint Resolution approved by the Commonwealth's Legislature on June 30, 2022, assigned \$65.976 million of which \$34.314 million were for the payment of salaries and related benefits, \$9.360 million for operating expenses, and \$22.302 million for the payment to cover retirement expenses under the Pay-Go system.	-	65,976,000
Funds received from Intra-Governmental Transfers authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority for the Pay-Go system.	1,369,172	-
Funds received from Intra-Governmental Transfers authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority for capital expenditures.	-	16,088,985
Funds granted to the Administration by the Article 23.02 (f) of the Law 24 of 2017, as amended, known as "Ley de Vehículos y Tránsito de Puerto Rico" for the entity's Trauma Center.	7,201,000	9,218,338
Funds received from Intra-Governmental Transfer authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority for the payment of debt owe to the Puerto Rico Electric Power Authority and other governmental entities.	1,526,717	13,913,374
Funds received during November 2023 and June 2024 from the Puerto Rico Treasury Department for salary retribution and salary retroactive. Authorized by the Puerto Rico Office of Management and Budget and the Puerto Rico Fiscal Agency and Financial Advisory Authority.	12,985,799	-
Funds received during May 2024 for anesthesia vacant positions and others, authorized by the Authorized by the Puerto Rico Office of Management and Budget and the Puerto Rico Fiscal Agency and Financial Advisory Authority.	1,244,112	-
Funds received during November 2023 and February 2023 for a participation bonus of \$400 and \$2,954 per employee, respectively. Authorized by the Puerto Rico Fiscal Agency and Financial Advisory Authority.	365,367	4,471,052
Funds received during December 2023 for a cost model incentive milestone project approved by the Puerto Rico Office of Management and Budget.	236,000	-
Funds received during November from the Puerto Rico Treasury Department for the payment of the christmas bonus to the employees.	937,427	904,260
	<u>\$ 96,374,505</u>	<u>\$ 110,572,009</u>

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 16 - Going concern and management plans

As of June 30, 2024 and 2023, the Administration has a total deficit of \$632,740,302 and \$708,094,517, respectively, and a deficiency in working capital of \$248,421,664 and \$199,482,095, 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 in the past have affected its ability to pay its suppliers, governmental agencies and other creditors on a regular basis. 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, 2023, 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. During 2024 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.

Puerto Rico Medical Services Administration
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Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 16 - 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 still under execution. 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.
- 3. 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.
- 4. Aggressive collection efforts regarding Members Institution Receivables – During 2024 and forward, the Administration will continue with an initiative, which includes, an aggressive collections management plan deployed for this segment, which represents approximately 65% 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, if applicable. According to the Administration's Rule 66, the OMB office can transfer these quantities directly by them.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 16 - Going concern and management plans – (continued)

5. 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 continue to be doing the following:
 - i. Control vacant positions and began the process of centralization of administrative areas, such as purchases, accounts payable, and engineering services among others.
 - ii. 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.

6. Continue communication to obtain higher contribution from the Commonwealth of Puerto Rico to recover operational costs.

7. Strategies developed to control the Administration's operational expenditure that include the following:

- a. The Administration will continue 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.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 17 - Concentration of credit – patients’ accounts receivable

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

The mix of receivables from patients and third-party payors at June 30, 2024 and 2023, is as follows:

	<u>2024</u>	<u>2023</u>
ACAA	17%	11%
Humana Insurance	1%	1%
Triple S	4%	4%
MCS	3%	2%
Medicare	9%	19%
Correctional Health Services	9%	7%
Reform Health Plans	22%	27%
Other Insurances	<u>35%</u>	<u>29%</u>
	<u>100%</u>	<u>100%</u>

Note 18 - Functional expenses

The Administration provides general health care services. Expenses, related to providing these services for the years ended June 30, 2024 and 2023, are as follow:

	<u>2024</u>	<u>2023</u>
Health care services	\$ 175,440,807	\$ 165,228,780
General and administrative and depreciation	26,742,124	20,593,066
Pension, OPEB and voluntary termination benefits	<u>(89,695,220)</u>	<u>(20,995,130)</u>
	<u>\$ 112,487,711</u>	<u>\$ 164,826,716</u>

Note 19 - Subsequent events

The Administration evaluated subsequent events through January 28, 2025, which is the date the financial statements were available to be issued. Except as described below, no other events have occurred subsequent to the statement of net position date that would require additional adjustment to, or disclosure in the financial statements.

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

Notes to Financial Statements – (Continued)

June 30, 2024 and 2023

Note 19 - Subsequent events – (continued)

On November 22, 2024, the Administration and the Puerto Rico Department of Housing (PRDOH) entered into Subrecipient Agreement in which the PRDOH allocated to the Administration, the subrecipient, the total amount of \$250,000,000 of the \$8.285 billion that were allocated by the United States Department of Housing and Urban Development (HUD) for mitigation activities and assistance to the Government of Puerto Rico under the Community Development Block Grant- Mitigation Program (CDBG-MIT). These funds are intended to provide financial assistance in areas impacted by disasters. According to the approved current CDBG-MIT Action Plan, Puerto Rico intends to undertake the Infrastructure Mitigation Program. The Infrastructure Mitigation Program includes \$1 billion dollar set-aside (Healthcare Strengthening Set-Aside) to strengthen healthcare facilities to benefit medically underserved citizens and to minimize, through accessible healthcare, fatalities resulting from a disaster event. The implementation of the Program shall be in consultation with the Puerto Rico Department of Health. This set-aside shall meet Puerto Rico's risk-based mitigation needs associated with the Health & Medical Lifeline by funding strategic investments in trauma care, improving regional and local primary healthcare centers, and/or improving data, information technology, and communication between healthcare facilities. The allocated aforementioned funds are intended for the construction of a new trauma hospital of Puerto Rico and supporting projects at the Medical Center . The performance period of this Subrecipient Agreement is sixty-six (66) months from the date of its execution, ending on November 22, 2030.

Puerto Rico Medical Services Administration
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Schedule of Proportionate Share of the Collective Total Pension Liability
June 30, 2024 and 2023

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

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, 2022 that was rolled forward to June 30, 2023, 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 Commonwealth of Puerto Rico

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

June 30, 2024 and 2023

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

Notes to required supplementary information

1. The Administration's proportion of the total 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, 2022 that was rolled forward to June 30, 2023, the measurement date.
4. There are no assets accumulated in a trust to pay related benefits.