FINANCIAL STATEMENTS

STATE INSURANCE FUND CORPORATIONS

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements
and Required Supplementary Information

June 30, 2019

(With Independent Auditor's Report Thereon)

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

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June 30, 2019

Aquino, De Córdova, Alfaro & Co., LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
State Insurance Fund Corporation
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the *State Insurance Fund Corporation* (the Corporation), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the *State Insurance Fund Corporation* as of June 30, 2019, and the respective changes in its financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 17 and the Ten-Year Claims Development Information on page 102 and required supplementary information by GASB Statements No. 68 and 75 on pages 103 thru 105, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Carolina, Puerto Rico
December 15, 2021

Aquino, De Cordova, Alfaro & Co. LLP

Stamp number E475291
of Puerto Rico CPA Society
has been affixed to the
original.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

INTRODUCTION

The State Insurance Fund Corporation (the Corporation) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Law No. 45 of April 18, 1935, as amended, known as the Workmen Compensation Insurance Act (the Act). Under the provisions of the Act, the Corporation is the exclusive provider of insurance coverage for work related accidents, deaths, and illnesses suffered by workers in Puerto Rico. On October 29, 1992, the Act was amended by Law No. 83 to convert the agency into a governmental corporation and to establish the functions and responsibilities of the Board of Directors, the Administrator and the Industrial Medical Advisory Board.

The Act provides that the Corporation's administrative expenses shall not exceed 22% of the total insurance premiums collected during the previous fiscal year. Administrative expenses exclude medical and hospitalization administrative expenses, depreciation and amortization expense, provision for (recoveries of) uncollectible accounts, interest expense and investment managers' fees. As a result of a change in estimate in pension liability when implementing the requirements of GASB No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, effective for fiscal years beginning after June 15, 2015, the relation of administrative expense to previous fiscal year insurance premiums would yield a ratio of 31.5%. However, this change in estimates causes a one-year distortion in expenses, which management chose to show separately. Therefore, administrative expense net of pension expense resulted in a 14.9% ratio of previous year insurance premiums. Management expects the ratio to be within compliance in future years.

This section presents a narrative overview and analysis of the financial performance of the Corporation as of and for the year ended June 30, 2019. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

SIGNIFICANT FINANCIAL HIGHTLIGHTS

- The Corporation reported a net deficit of $1,484.4 million on June 30, 2019 which comprised of $1,212.6 million in total assets and $180.9 million in deferred outflows of resources related to pension plan and post employment benefits, less $2,766.9 million in total liabilities and $110.9 million in deferred inflows of resources related to pension plan and post employment benefits.

- The Corporation's net deficit includes approximately $1,737.3 million in estimated pension plan and post employment benefit liability, net of related deferred outflows and inflows.

- Increase in total assets of $138.3 million in 2019 when compared to 2018, substantially, noted in cash and cash equivalent, and non-current investments, net of a reduction in current investments.

- Increase in total liabilities of $180.7 million in 2019, mostly the result in the increased estimate in pension liability.

- Segregation of pension expense, previously included in compensation and medical benefits, and general administrative expense. This segregation isolates the significant increase in pension expense ($256.8 million) primarily due to a change in estimate related to the method of apportioning the Employee Retirement System (ERS) liability to the participating employers, from one based on employer contributions to one based on disbursements to retirees of employers.

- Increase in operating expenses of $279.9 million in 2019 when compared to 2018. This is mostly due to an increase in pension plan expense.

- Increase in compensation and medical benefits of $24.5 million in 2019 when compared to 2018. This is attributed primarily to decreases in credits for compensation and medical benefits ($39.6 million), resulting in a net expense ($7.6 million) rather than a credit, as well as reductions in compensation benefits ($13.8 million) and salaries ($7.3 million).

- The actuarially determined credit for compensation benefits, medical benefits and benefit adjustment expenses decreased by $39.6 million in 2019, resulting in a net expense, when compared to 2018.

- Decrease in general and administrative expenses of $1.4 million in 2019 when compared to 2018, primarily due to reductions in salaries ($856 thousand).

- The Corporation had a decrease of $288.6 million in operating income for 2019 when compared to 2018, primarily due to the increase in pension expense referenced above.

- Non-operating revenues net of non-operating expenses increased $24.6 million for 2019, when compared to 2018 mostly due to a reduction in interest amortization ($54.1 million).

- Transfers to other governmental agencies amounted to $42.9 million in 2019 as compared to $48.1 million in 2018.

- The change in net position for the year ended June 30, 2019, resulted in a decrease of $146.8 million. The negative results in 2019 are mainly driven by the increase in pension expense due to a change in estimate mentioned above.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as an introduction to the basic financial statements of the Corporation. The Corporation is a self–supporting entity and follows the enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short- and long-term financial information about the activities and operations of the Corporation. The basic financial statements include the following:

1. Statement of Net Position (Deficit) provides information on the Corporation's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual of all elements presented in a financial position statement reported as net deficit. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

2. Statement of Revenues, Expenses, and Changes in Net Position presents information on how the Corporation's net position (deficit) changed during the reporting period. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

3. Statement of Cash Flows shows changes in cash and cash equivalents, resulting from operating, non–capital and capital financing and investing activities, which include cash receipts and cash disbursements information.

4. Notes to the Basic Financial Statements provide additional information that is essential for a full understanding of the data provided in the basic financial statements.

5. The required supplementary information consists of four schedules concerning the following:

    a. Ten–year claims development information required by the Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended,

    b. Supplementary information of the Corporation's proportionate share of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System) net pension liability and contributions established in statute as required by GASB Statement No. 73, (*Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement 68, and amendments to certain Provisions of GASB Statements 67 and 68)*, and

c. Supplementary information of the Corporation's Postemployment Benefits other than Pensions as required by the GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*.

FINANCIAL ANALYSIS

The following is the condensed financial position of the Corporation as of June 30, 2019 and 2018:

	June 30,		Change	
Assets:				
Cash and cash equivalents	$ 342,248,632	$ 158,311,937	$ 183,936,695	116.19 %
Accounts receivable - net	76,543,866	59,836,154	16,707,712	27.92 %
Investments	655,363,951	721,793,854	(66,429,903)	(9.20)%
Prepaid expenses	3,675,912	2,673,415	1,002,497	37.50 %
Capital assets - net	132,357,151	129,280,574	3,076,577	2.38 %
Other assets	2,398,712	2,412,834	(14,122)	(0.59)%
Total assets	1,212,588,224	1,074,308,768	138,279,456	12.87 %
Deferred outflows of resources	180,858,515	371,283,924	(190,425,409)	(51.29)%
Total assets and deferred outflows	$ 1,393,446,739	$ 1,445,592,692	$ (52,145,953)	(3.61)%
Liabilities:				
Current liabilities	$ 442,784,398	$ 364,134,293	$ 78,650,105	21.60 %
Non-current liabilities	2,324,162,629	2,222,083,245	102,079,384	4.59 %
Total liabilities	2,766,947,027	2,586,217,538	180,729,489	6.99 %
Deferred inflows of resources	110,864,573	196,960,561	(86,095,988)	(43.71)%
Net position:				
Net investment in capital assets	107,918,391	101,893,765	6,024,626	5.91 %
Unrestricted	(1,592,283,252)	(1,439,479,172)	(152,804,080)	10.62 %
Total net position	(1,484,364,861)	(1,337,585,407)	(146,779,454)	10.97 %
Total liabilities, deferred inflows and	$ 1,393,446,739	$ 1,445,592,692	$ (52,145,953)	(3.61)%

- **The Corporation's total assets increased by $138.3 million in 2019 or 12.87%**

Total assets of the Corporation increased to $1,212.6 million in 2019 from $1,074.3 million in 2018 is mainly attributed to the increase in cash and cash equivalent of $183.9 million, net of a reduction of $53.2 million in investments.

The above increase in cash and cash equivalents includes an increase of $130.8 million in cash held at JP Morgan. The cash balance held at JP Morgan amounts to $156.6 million at June 30, 2019 and is available to investments in the normal course of business.

- **Capital assets-net increased by $3.1 million in 2019 (or 2.38%)**

Capital assets comprise of land, construction in progress, buildings used to render services to workers, medical and offices' equipment, software and related assets, motor vehicles and assets under capital lease. During the year ended June 30, 2019, the Corporation's capital assets had additions mainly related to the acquisition of related licenses and construction in progress of the Industrial Hospital. The Corporation had no outstanding capital commitment as of June 30, 2019, related to the remodeling and expansion project of the Industrial Hospital. The Corporation entered an interagency assistance contract with the Puerto Rico Infrastructure Financing Authority, a component unit of the Commonwealth of Puerto Rico, for the financing of the development and management of this project in all its phases, originally for $34 million. During 2016, the contract was amended to increase the project amount by $15.7 million. During the 2019 the project was 100% completed, but the asset was placed in service in fiscal year 2020.

Refer to Notes 7 to the basic financial statements for further information regarding the Corporation's net capital assets.

- **The Corporation's total liabilities increased by $180.7 million in 2018 (or 6.99%)**

Liabilities increased to $2,766.9 million in 2019 from $2,586.2 million in 2018. This is mainly attributed to an increase in pension liabilities of $176.3 million resulting from an actuarial change in estimate.

Incurred but unpaid benefit and benefit adjustment expenses

The liability for incurred but unpaid benefits and benefit adjustment expenses, includes a reserve for both reported and unreported insured events (compensation and medical benefits), which includes an estimation of future payments and related adjustment expenses. It is developed by an independent actuary from historical benefit expenses and/or payments gathered by the Corporation. The liability for compensation and medical benefits is based on historical claims experience data, assumptions, and projections of future events, including the frequency, severity, and persistency of the claims, as well as the inflationary trends. The accrual for reimbursement of premiums represents an estimate actuarially determined because of the settlement of premiums under the policies.

The assumptions used in estimating and establishing these liabilities are reviewed annually based on current circumstances and trends.

The liability for incurred but unpaid benefits and benefit adjustment expenses has decreased slightly from $680.7 million as of June 30, 2018, to $680.3 million as of June 30, 2019.

The Corporation recorded the actuarially determined accrual for reimbursement of premiums of approximately $72.4 million as of June 30, 2019, when compared to $71.5 million as of June 30, 2018, a decrease of approximately $0.8 million.

Postemployment benefits other than pension obligations

The postemployment benefits other than pension obligations experienced a decrease of $930 thousand as of June 30, 2019, as compared to obligations as of June 30. 2018.

- **The Corporation's deferred outflows decreased by $190.4 million in 2019 (or 51.29%) and deferred inflow decreased by $86.1 million (or 43.71%)**

The changes in deferred outflows and inflows were due to changes in actuarial estimates including the implementation of GASB Statement No. 73 during 2019. The Corporation reported deferred outflows of resources and deferred inflows of resources related to pension plan of approximately $180.9 million and $110.9 million, respectively. The deferred outflow of resources includes approximately $93.1 million in payments after the measurement date of June 30, 2018.

- **The Corporation's net position decreased by $146.8 million in 2019 (or 10.97%)**

The decrease in the Corporation's net position as of June 30, 2019, is attributed primarily to the increase in pension liability and its effect in the net results of operations for year then ended, which decreased by approximately $288.6 million. As a result, the Corporation reported a deficit on June 30, 2019, of $1,592.3 million in unrestricted net position, and $107.9 million invested in capital assets-net of related debt, for a total net deficit position of $1,484.4 million. By comparison, the Corporation reported a net deficit of $1,337.6 million on June 30, 2018.

- **Condensed Statements of Revenues, Expenses and Changes in Net Deficit:**

The following summarizes the condensed changes in net deficit of the Corporation for the years ended June 30, 2019, and 2018:

	June 30,		Change	
	2019	2018	Amount	Percent
Operating revenues	$ 627,781,813	$ 636,472,853	$ (8,691,040)	(1.37)%
Operating expenses:				
Pension expense	380,938,161	124,150,070	256,788,091	206.84 %
Compensation and medical benefits	285,763,191	261,247,252	24,515,939	9.38 %
General and administrative	101,751,035	103,167,802	(1,416,767)	(1.37)%
Total operating expenses	768,452,387	488,565,124	279,887,263	57.29 %
Operating (loss) income	(140,670,574)	147,907,729	(288,578,303)	(195.11)%
Non-operating revenues - net	36,750,153	12,124,724	24,625,429	203.10 %
Transfers to other governmental agencies	(42,859,033)	(48,092,846)	5,233,813	(10.88)%
Change in net position	(146,779,454)	111,939,607	(258,719,061)	(231.12)%
Net deficit- beginning of year (as restated)	(1,337,585,407)	(1,449,525,014)	111,939,607	(7.72)%
Net deficit- end of year	$ (1,484,364,861)	$ (1,337,585,407)	$ (146,779,454)	10.97 %

The Corporation recognizes as income the subscribed premiums, which represent the preliminary premiums assessed at the beginning of the fiscal year plus additional premiums imposed or expected to be imposed because of the final settlement of premiums under the insurance policy or reduced by any unearned or reimbursable portion or provision for uncollectible accounts, as determined.

Premiums are based on individual employers' reported payroll ledgers using predetermined insurance rates based on the employers' risk classifications. The regular policies are issued for a one–year period consistent with the Corporation's fiscal year, which runs from July 1 to June 30. Incidental policies are issued to cover special risks over a pre-determined period. Unearned premiums represent the remaining portion at the end of the fiscal year, which is attributed to the unexpired term of the incidental policies issued during the fiscal year.

Policy costs consist mainly of salaries and certain underwriting expenses. Benefits are recorded on an accrual basis, which includes benefits paid and a liability to cover estimated incurred but unpaid benefits and benefit adjustments expenses based on the ultimate settling cost, as determined by the independent actuary.

- **Compensation and medical benefits increased by $24.5 million in 2019 (or 9.38%)**

The increase in compensation and medical benefits for the year ended June 30, 2019, can be attributed to a reduction in credit for compensation benefits, medical benefits, which resulted in an expense, rather than a credit, net of a reduction in benefit adjustments provided in the actuarial estimate. The reduction in credit amounted to approximately $39.6 million or 123.70%.

The portion of pension expense attributed to compensation and medical benefits for fiscal year 2019 amounted to approximately $241.6 million, which if included with the compensation and medical benefits, this component of operating expense would have shown a total expense of approximately $461.6 million for an increase of approximately $159.2 million. Since the increase in pension expense due to a change in estimate had a significant impact on the operating results of the Corporations, management elected to segregate this portion to highlight its impact.

Compensation benefits for the year ended June 30, 2019, amounted to $285.8 million when compared to $261.2 million for the prior year, an increase of approximately $24.5 million. The increase in compensation benefits is due primarily to the reduction of approximately $39.6 million in credit for compensation benefits mentioned above, net of a reduction in compensation benefits of approximately $13.8 million resulting from actuarial estimates.

Medical benefits for the year ended June 30, 2019, amounted to approximately $220.0 million, a decrease of $1.5 million or 0.7%, when compared to $221.5 million for 2018. The Corporation also has experienced a decrease in medical salaries, because of the effect in 2019 of Act No. 3 of 2013, and in the accruals for compensated absences and Christmas bonus because of the enactment of Act No. 66 of 2014. The Corporation's medical salaries and related payroll taxes and benefits experienced a decrease of approximately $8.4 million or 5.8% in 2019 as compared to 2018.

As mentioned above, another factor affecting compensation and medical benefits in 2019 is the credit for compensation benefits, medical benefits and benefit adjustment expenses which decreased by $39.6 million in 2019 when compared to 2018. This decrease is due to changes in actuarially determined liability estimates for incurred but unpaid benefits and benefit adjustment expenses to conform it with the actuarially determined present value of estimated outstanding losses as of June 30, 2019. The actuarially determined discounted liabilities resulted in an increase in the temporary total disability (per diem) liability of $3.8 million, a increase in permanent partial disability liability of $8.8 million, a decrease in the permanent total disability liability of $16.8 million, a decrease in the death benefit liability of $1.5 million, an increase in medical liability of $10.1 million and a decrease in loss adjustment expense of $4.9 million.

- **General and administrative expenses (including depreciation and amortization) decreased by $1.4 million in 2019 (or 1.37%)**

The decrease in general and administrative expenses for the year ended June 30, 2019, can be attributed primarily to reduction of payroll and related costs, excluding pension expense. The portion of pension expense attributed to general and administrative expenses amounted to approximately $139.4 million, which if included with the compensation and medical benefits, this component of operating expense would have shown a total expense of approximately $241.1 million for an increase of approximately $85.8 million. Since the increase in pension expense due to a change in estimate had a significant impact on the operating results of the Corporations, management elected to segregate this portion to highlight its impact.

- **Net non–operating revenues increased by $24.6 million in 2019 (or 203.10%)**

The net increase in non-operating revenues is primarily attributed to a reduction in interest amortization of approximately $54.1 million, which reflects the exclusion in fiscal year 2019 of the $56.9 million reported in fiscal year 2018 as impaired assets held at GDB. Other changes affecting net non-operating revenues include a net of reductions in investment and dividend income ($15.2 million) and net increase in fair value of investments ($11.0 million).

- **Transfers to other governmental agencies-net decreased by $5.2 million in 2019 (or 10.88%)**

The Corporation is required by legislation, to transfer to other governmental agencies funds for programs related to injured employees and their families. During the year ended June 30, 2019, the Corporation transferred $42.9 million to other governmental agencies including, the Industrial Commission of Puerto Rico, the Department of Labor and Human Resources, the Department of the Family, and the Treasury of Department, as compared to $48.1 million in 2018.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This report is designed to provide all interested parties with a general overview of the Corporation's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to State Insurance Fund Corporation, PO Box 365028, San Juan, Puerto Rico, 00936-5028.

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BASIC FINANCIAL STATEMENTS

For the year ended June 30, 2019

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Deficit)

June 30, 2019

Assets		
Current assets:		
Cash and cash equivalents	$	342,248,632
Accounts receivable, net		76,543,866
Inventories		2,398,712
Prepaid expenses		3,675,912
Investments		437,150,182
Total current assets		862,017,304
Non current assets:		
Investments		218,213,769
Capital assets:		
Land		18,532,166
Construction in progress		49,746,494
Depreciable assets, including software, net		64,078,491
		132,357,151
Total non current assets		350,570,920
Total assets		1,212,588,224
Deferred Outflows of Resources		
Pension plan		178,778,432
Other postemployment benefits		2,080,083
		180,858,515
Total assets and deferred outflows of resources	$	1,393,446,739

See accompanying notes to basic financial statements.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Deficit)

June 30, 2019

(continuation)

Liabilities		
Current liabilities:		
Liability for incurred but unpaid benefits and benefit adjustment expenses	$	140,783,916
Accounts payable		114,502,579
Pension liability		93,130,291
Accrued liabilities		15,496,384
Unearned premiums		22,523,209
Accrual for reimbursement of premiums		41,256,169
Securities lending obligations		14,326,434
Other postemployment benefits liability		2,104,256
Obligation under capital lease		765,416
Total current liabilities		444,888,654
Non current liabilities:		
Liability for incurred but unpaid benefits and benefit adjustment expenses		539,520,575
Accrued liabilities		32,790,509
Accrual for reimbursement of premiums		31,099,620
Other postemployment benefits liability		50,761,504
Pension liability		1,644,212,821
Obligation under capital lease		23,673,344
Total non current liabilities		2,322,058,373
Total liabilities		2,766,947,027
Deferred Inflows of Resources		
Pension plan		109,517,347
Other postemployment employee benefits		1,347,226
		110,864,573
Net Deficit		
Net investment in capital assets		107,918,391
Unrestricted		(1,592,283,252)
Total net deficit		(1,484,364,861)
Total liabilities, deferred inflows of resources and net deficit	$	1,393,446,739

See accompanying notes to basic financial statements.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2019

Operating revenues:		
Insurance premiums earned	$	669,874,370
Miscellaneous income, net		9,991,498
Less:		
Reimbursement of insurance premiums		(44,826,230)
Provision for uncollectible insurance premiums		(7,257,825)
Total operating revenues		627,781,813
Operating expenses:		
Compensation benefits		58,122,017
Pension expense		380,938,161
Medical benefits and legal fees		220,048,047
Credit for compensation benefits, medical benefits, and benefit adjustment expenses		7,593,127
Administrative expenses		95,988,113
Depreciation and amortization		5,762,922
Total operating expenses		768,452,387
Operating loss		(140,670,574)
Non operating revenues (expenses):		
Interest and dividend income, net		12,087,778
Net increase in fair value of investments		33,670,653
Net security lending cost transactions		(119,780)
Interest expense		(2,844,104)
Impairment		(6,044,394)
Total non operating expenses, net		36,750,153
Expense before transfers to other governmental agencies		(103,920,421)
Contributions to other governmental agencies		(42,859,033)
Change in net position		(146,779,454)
Net deficit at beginning of year		(1,337,585,407)
Net deficit at end of year	$	(1,484,364,861)

See accompanying notes to basic financial statements.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

Year ended June 30, 2019

Cash flows from operating activities:		
Excess of collections over reimbursements of insurance premiums	$	619,760,087
Payments of compensation benefits to insured		(66,144,869)
Payment of employment benefits		(216,727,586)
Payments of medical benefits and legal fees		(143,074,077)
Payments of administrative expenses		(62,252,685)
Net cash provided by operating activities		131,560,870
Cash flows from non capital financing activities:		
Transfers to governmental agencies		(33,859,033)
Decrease in securities lending obligations		3,102,762
Security lending cost transactions, net		(119,780)
Net cash used in non capital financing activities		(30,876,051)
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(9,899,911)
Payment of interest		(2,844,104)
Payments of other note payable		(1,696,485)
Payments of obligation under capital lease		(1,251,564)
Net cash used in capital and related financing activ		(15,692,064)
Cash flows from investing activities:		
Proceeds from sales and redemptions of debt and equity securities		401,759,078
Purchases of debt and equity securities		(362,045,041)
Decrease in investments held under securities lending transactions		59,229,903
Net cash provided by investing activities		98,943,940
Net increase in cash and cash equivalents		183,936,695
Cash and cash equivalents at beginning of year		158,311,937
Cash and cash equivalents at end of year	$	342,248,632

See accompanying notes to basic financial statements.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

Year ended June 30, 2019

(continuation)

Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(140,670,574)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Deferred OPEB expense		(930,223)
Deferred pension expense		280,700,904
Depreciation and amortization		5,762,922
Loss of equipment		1,060,412
Changes in assets and liabilities, and deferred items, that increase (decrease) cash flows from operating activities:		
Accounts receivable		(9,507,712)
Inventories		14,122
Prepaid expenses		(1,002,497)
Liability for incurred but unpaid benefits and benefit adjustment expenses		(429,725)
Accounts payable		(4,311,466)
Accrued liabilities		(611,279)
Unearned premiums		654,570
Accrual for reimbursement of premiums		831,416
Net cash provided by operating activities	$	131,560,870
Summary of non-cash transactions:		
Securities purchased but not yet received	$	4,293,959
Securities sold but not yet delivered	$	10,409,098
Net decrease in the fair value of investments (unrealized gains/losses)	$	8,735,377

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements

1. ORGANIZATION

The State Insurance Fund Corporation (the Corporation) is a discretely presented component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Law No. 45 of April 18, 1935, as amended, known as the Workmen Compensation Insurance Act (the Act 45-1935). The objectives of the law are to: protect workers against the effects of employment related accidents and illness; establish employers' responsibility to insure its employees; establish the type of insurance coverage; and regulate the insurance coverage to make it mandatory for employers. On October 29, 1992, the Act 45-1935 was amended by Law No. 83 to convert the agency into a governmental Corporation and to establish the functions and responsibilities of the Corporation's Board of Directors and Administrator, and the Industrial Medical Advisory Board. The Corporation provides insurance to public and private employees against injuries, disability, or death due to work or employment related accidents, or because of illness suffered as a consequence of their employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting policies.

The Corporation follows GASB Statement No. 55, *The Hierarchy of Generally Accepted Principles for State and Local Governments*, in the preparation of its financial statements.

Following is a description of the most significant accounting policies:

(a) *Reporting Entity*

The Governmental Accounting Standards Board (GASB) establishes the criteria used in determining which organizations should be included in these financial statements. The GASB's Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, requires the inclusion of government organizations for which the Corporation is financially accountable. Financial accountability is defined as 1) appointment of a voting majority of the component unit's board and either (a) the ability to impose will by the primary government or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or (2) fiscal dependency on the primary government. The Corporation does not have component units for which it is financially accountable. The Corporation is a major component unit of the Commonwealth of Puerto Rico.

2. Summary of significant accounting policies (continuation)

(b) *Basis of Accounting*

The Corporation accounts for insurance premiums, claim costs, acquisition costs, loss contingencies and other related costs in accordance with provisions of the GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended, which requires that the financial statements of the Corporation be presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

(c) *Basis of Presentation*

The Corporation's financial statements use the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Position (Deficit) and the statement of revenues, expenses, and changes in net position report information on all activities of the Corporation. The Statement of Net Position (Deficit) presents the Corporation's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual of all elements presented in a financial position statement reported as net position. Net position is reported in three categories:

- <u>Net investment in capital assets</u> consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- <u>Restricted component of net position</u> consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. As of June 30, 2019, the Corporation has no restricted component of net position.

- <u>Unrestricted component of net position</u> consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider it to be available for general operations. Unrestricted net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

2. Summary of significant accounting policies (continuation)

The statement of revenues, expenses, and changes in net position presents information on how the Corporation's net position changed during the reporting period. The Corporation distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses are those that result from the Corporation providing the services that correspond to their principal ongoing operations, which include those that result from providing insurance coverage and compensation benefits to the injured and disabled workers, including death benefits. Revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The statement of cash flows shows changes in cash and cash equivalents, resulting from operating, non-capital and capital financing and investing activities, which include cash receipts and cash disbursements information.

(d) ***Accounting Pronouncements issued but not yet effective***

GASB has issued the following accounting standards that the Authority has not yet adopted. The effective dates for certain pronouncements have been amended to reflect the deferral in Statement No. 95.

GASB Statement No.	Name	in fiscal year (per GASB 95)
83	Certain Asset Retirement Obligations	2020*
84	Fiduciary Activities	2021*
87	Leases	2022**
88	Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements	2020*
89	Accounting for Interest Cost Incurred before the End of a Construction Period	2022*
90	Majority Equity Interests	2021*
91	Conduit Debt Obligations	2022*
92	Omnibus 2020	2022*
93	Replacement of Interbank Offered Rates	2022*
94	Public-Private and Public Partnerships and Availability Payment Arrangements	2021
95	Postponement of the Effective Dates of Certain Authoritative Guidance	*by one year ** by 18 months
96	Subscription-Based Information Technology Arrangements	2023
97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans	2023
98	Establishes the term annual comprehensive financial report and its acronym ACFR replacing instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local	2021

2. Summary of significant accounting policies (continuation)

(e) ***Revenue Recognition and Unearned Premiums***

The Corporation recognizes as income the subscribed premiums, which include the preliminary premiums assessed at the beginning of the fiscal year plus additional premiums imposed because of the final settlement of premiums under the insurance policy during the year and an estimate for additional premiums not yet imposed. Premiums are based on individual employers' reported payroll ledgers using predetermined insurance rates based on employers' risk classifications. The regular policies are issued for a one–year period consistent with the Corporation's fiscal year, which runs from July 1 to June 30. Incidental policies are issued to cover special risks over a pre-determined period. Unearned premiums represent the remaining portion at the end of the fiscal year, which is attributed to the unexpired term of the incidental policies issued during the fiscal year.

Insurance premiums due to the Corporation are recorded as insurance premiums receivable, net of the allowance for uncollectible accounts. Premium's receivables consist of both billed and unbilled amounts. Unbilled amounts include premiums for policies, which have not been assessed plus an estimate for additional premiums that are expected to be imposed because of the final settlement of premiums under the insurance policy.

The estimates made for the additional and the reimbursable premiums are based on previous experience. The difference between the estimated and the actual amount of the premiums and the reimbursable premiums is recorded in the year when it is determined. The estimate of additional premiums is determined by management and covers the result of the final settlement of premium under the policies and through the audit of the employers' payroll ledgers. The accrual of premiums to be reimbursed represents an estimate actuarially determined based on the historical and projected results of the settlement of premiums under the policies. These amounts are estimates, and while the Corporation believes such amounts are reasonable, there can be no assurance that the amounts ultimately received or disbursed will equal the recorded amounts.

The accrual for reimbursement of premiums is discounted to reflect the present value of future reimbursable premium payments. Management believes that discounting such liability results in a better matching of costs and revenues since reimbursable premiums have a long payment cycle. Current and non-current portions of the liability for reimbursement of premiums are based on projected actuarially determined payments.

2. Summary of significant accounting policies (continuation)

(f) *Policy Acquisition Costs*

Acquisition costs consist of salaries and certain underwriting expenses, which are primarily related to the issuance of new policies. These costs are expensed as incurred since regular policies are issued for a one–year period, which is consistent with the Corporation's fiscal year, July 1st to June 30th. Acquisition costs related to incidental policies with terms beyond one year are deemed to be insignificant and are charged to expense as incurred.

(g) *Reinsurance*

The Corporation does not use reinsurance agreements to reduce its exposure to large losses.

(h) *Incurred but Unpaid Benefits and Benefit Adjustment Expenses*

All liabilities have been discounted at the requests of the CFSE. All future cash flows associated with benefits are discounted using an interest rate provided by the CFSE. As per the CFSE, an annual interest rate of 3.6941% is reflected for the discounting of loss.

The loss runoff is based upon the selected paid loss development factors for each benefit type. Reserves for LAE have been discounted at an annual interest rate of 3.6941%as well. The return premium liability is discounted to 7/1/2019using an annual interest rate of 5.5995%, which was also provided by the CFSE.

Benefit expenses are recorded as incurred. The Corporation establishes liabilities for estimated incurred but unpaid benefits and benefit adjustment expenses based on the ultimate estimated cost of settling the benefits. Incurred but unpaid benefits and benefit adjustment expenses include: (a) individual case estimates for reported cases (b) aggregate accrual estimates for reported and unreported cases based on experience modified for current trends, and (c) an estimate of expenses for investigating and settling cases. The liabilities for cases reported which have not been adjudged and cases incurred but not yet reported are estimated by an independent actuary. The estimated liability also includes cases under reconsideration or on appeal before the Industrial Commission of Puerto Rico, a governmental agency, for additional medical treatment or benefits.

Management believes that discounting such liability results in a better matching of costs and revenues since compensation benefits have a long payment cycle.

2. Summary of significant accounting policies (continuation)

Management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined on June 30, 2019, is a reasonable estimate of the ultimate net cost of settling benefits and benefit expenses incurred. Because actual benefit costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other social and economic factors, the process used in computing the ultimate cost of settling benefits and expenses for administering benefits is necessarily based on estimates. The amount ultimately paid may be above or below such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur. Current and non-current portions of the liability for estimated incurred but unpaid benefits and benefit adjustment expenses are based on projected actuarially determined payments.

(i) ***Securities Purchased under Agreements to Resell***

From time to time, the Corporation enters into purchases of securities under agreements to resell (resell agreements). The amounts advanced under these agreements generally represent short–term loans and are reflected as an asset. The securities underlying these agreements are usually held by the broker or his/her agent, with whom the agreement is transacted.

(j) ***Investments***

Investments mainly include U.S. government and agencies' obligations, mortgage-backed securities, and corporate debt and equity obligations. Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Investments in equity securities with readily determinable fair values and all investments in debt securities are carried at fair value. Money market investments with a remaining maturity at time of purchase of one year or less are carried at cost. Investment positions in 2a–7 like external investment pools is carried at the pools' share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. The Corporation has private equity investments, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers. Securities transactions are accounted for on the trade date. Realized gains and losses from the sale of securities and unrealized changes in the fair value of outstanding securities are included in net increase (decrease) in fair value of investments**.** Realized gains and losses are computed as the difference between the proceeds of the sale and the original cost of the investment sold. Gains and losses on the sale of securities are determined based on the specific identification method.

2. Summary of significant accounting policies (continuation)

(k) *Securities Lending Transactions*

The Corporation accounts for and reports its security lending transactions in accordance with the provisions of GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, as amended. This statement establishes standards of accounting and financial reporting for securities lending transactions in which governmental entities (lenders) transfer their securities to broker–dealers and other entities (borrowers) for collateral and simultaneously agree to return the collateral for the same securities in the future. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the Corporation can pledge or sell them without a borrower default. Liabilities resulting from these securities lending transactions also are reported in the Statement of Net Position (Deficit). Securities lending transactions collateralized by letters of credit or by securities that the Corporation does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Position (Deficit).

(l) *Allowance for Doubtful Accounts*

The allowance for uncollectible insurance premiums and other receivables is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collectability of the receivables and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

(m) *Inventories*

Inventories are stated at cost (first–in, first–out method).

(n) *Capital Assets*

Capital assets are stated at cost. Depreciation and amortization expense is computed using the straight–line method over the estimated useful lives of the assets, or in the case of assets under capital lease, over the term of the lease, whichever is shorter. The Corporation records as capital expenditures, assets with an individual cost of more than $100. The useful lives of these assets are as follow:

2. Summary of significant accounting policies (continuation)

Description	**Useful Lives**
Buildings and improvements	3-50 years
Medical and office equipment	3-10 years
Software and related assets	3-5 years
Motor vehicles	5 years
Assets under capital lease	Lease Term

Expenditures for repairs and maintenance, which do not extend the useful lives of the assets, are charged to operations in the year incurred. At the time capital assets are sold or otherwise disposed, the cost and related accumulated depreciation are removed from the books and the resulting gain or loss, if any, is credited or charged to operations.

The Corporation capitalizes interest cost incurred in the construction of significant real estate projects, which consist primarily of facilities for its own use. The amount of interest cost to be capitalized for qualifying assets is intended to be that portion of the interest cost incurred during the assets' acquisition periods that theoretically could have been avoided if outlays for the assets had not been made.

(o) ***Accounting for the Impairment of Capital Assets***

The Corporation accounts for asset 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 impairments of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. 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 or change in circumstances are outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the Corporation should be reported at the lower of carrying value or fair value. No impairment of assets occurred in fiscal year 2019.

2. Summary of significant accounting policies (continuation)

(p) ***Deferred Outflows and Inflows of Resources***

The Corporation reports deferred outflows and inflows of resources in addition to assets and liabilities. A deferred outflow of resources is a consumption of net position by the Corporation that is applicable to a future reporting period. A deferred inflow of resources represents an acquisition of net position by the Corporation that is applicable to a future period. Pension related deferred outflows and inflows of resources may include changes in proportionate share contributions, contributions to the pension plan subsequent to the measurement date, differences between expected and actual experience in the total pension liability and net difference between projected and actual earnings on pension plan investments.

(q) ***Compensated Absences***

Compensated absences, for vacation pay, are accrued when incurred using the pay or salary rates in effect at the Statement of Net Position (Deficit)'s date. The employees of the Corporation are granted 30 days of vacation. An additional amount is accrued for certain salary related benefits associated with the payment of compensated absences. In the event of employee resignation, an employee is reimbursed for accumulated vacation. As a result of Act No.66 of June 17, 2014, some of these excess accumulations are no longer payable to the employees.

(r) ***Termination Benefits***

The Corporation accounts for termination benefits in accordance with the provisions of GASB Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting standards for termination benefits. Pursuant to this Statement, the Corporation should recognize a liability and expense for voluntary termination benefits (for example, early-retirement incentives) when the offer is accepted, and the amount can be estimated. On June 30, 2019, no formal voluntary termination benefits were incurred.

(s) ***Pensions***

The Corporation accounts for pension costs under the provisions of GASB Statement No. 73, Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement 68, and amendments to certain Provisions of GASB Statements 67 and 68.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated

2. Summary of significant accounting policies (continuation)

for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities.

This Statement also clarifies the application of certain provisions of Statements 67 and 68 regarding the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported
2. Accounting and financial reporting for separately financed specific liabilities of individual employers and non-employer contributing entities for defined benefit pensions
3. Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

(t) ***Postemployment Benefits Other Than Pensions***

Other postemployment benefits (OPEB) expense is recognized and disclosed using the accrual basis of accounting. The Corporation recognizes the total OPEB liability since the Corporation's OPEB program is funded on pay-as-you-go basis. Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources and deferred outflows of resources depending on the nature of the change, in the period incurred. Those charges in total OPEB liability that are recorded as deferred inflow 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 and recorded as a component of OPEB expense beginning with the period in which they arose. The Corporation accounted for postemployment benefits other than pensions under the provisions of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions".

(u) ***Income Taxes***

The Corporation, as a component unit of the Commonwealth, is exempt from the payment of income taxes.

2. Summary of significant accounting policies (continuation)

(v) *Statement of Cash Flows*

The accompanying statement of cash flows is presented in accordance with the provisions of GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*. The provisions of governmental accounting standards require that the direct method be used to present the funds inflows and outflows of the Corporation. For purposes of the statement of cash flows, the Corporation considers all highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents.

(w) *Risk Management*

The Corporation is exposed to the risk of loss from torts, theft, damages to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters, environmental and other losses. Commercial insurance coverage is obtained for claims that may arise from such matters. The commercial insurance coverage is negotiated by the Department of the Treasury of the Commonwealth of Puerto Rico, and the cost is paid by the Corporation. No additional payments were made after the annual insurance costs were determined.

(x) *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accounts requiring the use of significant estimates include certain receivables, liability for incurred but unpaid benefits and benefit adjustment expenses, unearned premiums reserve, accrual for reimbursement of premiums, pension and OPEB liabilities, deferred outflows and inflows of resources and useful lives of property and equipment. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

3. CASH AND CASH EQUIVALENTS

The Corporation's cash and cash equivalents as of June 30, 2019, are comprised of the following:

3. Cash and cash equivalents (continuation)

Description		
Cash on hand	$	451,740
Cash in commercial banks		327,470,458
Total cash on hand and in banks		327,922,198
Cash equivalents-investments (see Note 4)		14,326,434
Total	$	342,248,632

Custodial Credit Risk

Custodial credit risk related to deposits is the risk that, in the event of the failure of a financial institution, the Corporation's deposits or collateral securities might not be recovered. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited more than federal depository insurance ($250,000 on June 30, 2019). All securities pledged as collateral are held by the Secretary of Treasury of the Commonwealth. As of June 30, 2019, the Corporation had approximately $164 million in depository balance with a financial institution, which were insured and/or collateralized.

Foreign Current Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of a deposit. Cash in foreign currency present minimal foreign currency risk on June 30, 2019. See Note 4 for additional information related to credit risk, foreign currency risk and custodial credit risk on cash equivalent investments.

4. INVESTMENTS

The Board of Directors (BOD) of the Corporation has enacted the Statement of Investment Policy, Guidelines and Objectives (the SIPGO) (amended on December 3, 2013), with the objective of providing general and specific guidance for the maximization of resources available for the payment of benefits to injured workers as the pervasive goal of the workers' compensation coverage of its insurance program. SIPGO sets as the primary objective for the available funds, to maximize the yield of invested assets, while having the adequate liquidity to pay obligations as they become due.

The strategic objective is accomplished through a proper mix of adequate time horizon, risk tolerance and return expectation, and is achieved through strategic assets allocation. SIPGO provides guidance for the strategic assets' allocation including the internally managed short-term funds, securities selection and related restrictions; sets the responsibilities of the BOD, the Corporation's management, investment consultants, portfolio managers, and custodians.

4. Investments (continuation)

The SIPGO establishes standards for review and communication of compliance with the prevailing policies and procedures. The SIPGO also provides that the Finance Committee of the BOD (the Finance Committee) is responsible for implementing and monitoring the investment program of the Corporation. The Finance Committee meets on a quarterly basis. The SIPGO, as amended, allows management to purchase or enter the following investment instruments:

- United States Government and agencies obligations
- Obligations of the Commonwealth, its agencies, municipalities, public Corporations and instrumentalities
- Government National Mortgage Association (GNMA)
- Mortgage pass–through guaranteed by United States Government agencies other than GNMA, such as Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA), among others
- Mortgage and asset–backed securities
- Common and preferred stocks
- Corporate bonds and notes (convertible or non–convertible)
- Money market funds and bank–sponsored short–term investment funds
- Resell agreements
- Commercial paper
- Non-US Government and corporate issues
- Collateralized mortgage obligations (CMOs)
- Senior secured loans
- Certificates of deposit
- Principal protected structured notes
- Obligations of life insurance companies
- Shares in institutional shares of mutual funds
- Fixed income exchange-traded funds (ETFs)
- Options, futures and interest–rate swap agreements for hedging and risk control purposes, as well as for the creation of synthetic products, which qualify under any of the foregoing investment categories

4. Investments (continuation)

- Open–end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or AAA by Moody's

- Securities lending transactions

The SIPGO, as amended, establishes limitations and other guidelines on amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policy provides guidelines on the institutions with which investment transactions can be entered. Further, the BOD of the Corporation will determine, from time to time, other transactions that the Corporation may enter. Certain investment transactions that are generally considered to carry a greater than normal risk, require prior approval of the BOD. As of June 30, 2019, investments were classified as current and non-current in the accompanying Statement of Net Position (Deficit) as follows:

Description		
Current assets:		
Cash equivalents	$	14,326,434
Investments in debt and equity securities		437,150,182
Total current assets		451,476,616
Non-current assets		218,213,769
Total	$	669,690,385

The Corporation's investments presented as cash equivalents as of June 30, 2019, are comprised of the following:

Description		
Investments in debt securities held under securities lending transactions:		
Resell agreements, due overnight	$	14,326,434

Fair Value of Investments

The Corporation measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

Level 1: Quoted prices for identical investments in active markets;

Level 2: Observable inputs other than quoted market prices; and,

4. Investments (continuation)

Level 3: Unobservable inputs.

On February 20, 2020, the Corporation became aware that the Securities and Exchange Commission (SEC) had filed a civil enforcement action in the United States District Court for the Middle District of Florida against defendants Kinetic Investment Group, LLC and Michael Scott Williams (collectively, defendants). In their Complaint, the SEC alleged that the defendants conducted a fraudulent and unregistered securities offering that raised approximately $39 million from several dozen investors located in Florida and Puerto Rico. Subsequently, the Corporation recovered $7.2 million (see Note 20) of the approximately $19.7 million in fair value recorded in its books on June 30, 2019, prior to becoming aware of this situation. Since the Corporation became aware of the impairment before issuing its financial statements for the year ended June 30, 2019, it recognized as of that date the impaired value of the investment and recorded a receivable for the amount subsequently received.

The Corporation's investment managers generally use the market approach to value its investment securities, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or a group of assets and liabilities. Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Equity securities, namely private equity funds, classified in Level 3 are valued using financial information provided by individual capital fund managers, adjusted if deemed appropriate. Investments valued using the net asset value (NAV) per share (or its equivalent) are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. The Corporation values these investments based on the partnerships' unaudited financial statements. If June 30 statements are available, those values are used preferentially.

However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is progressed from the most recently available valuation considering subsequent calls and distributions.

The fair value of investments in limited partnerships and alternative investments as of June 30, 2019, amounted to approximately $194.1 million. The fair values of these investments have been estimated by the corresponding general partner or fund manager of these partnerships and disclosed in its respective separate audited financial statements. The allocations of net gain and net loss to the limited partners are based on certain percentages, as established in the limited partnership agreements. The following table presents the unfunded commitments for the alternative investments measured at NAV:

4. Investments (continuation)

Description	Source	Net Assets Value (NAV)	Capital Commitments	Capital Contributed	Unfunded Commitments
Guayacán Private Equity Fund L.P., II	Unaudited	$ 8,285,902	$ 10,000,000	$ 9,818,945	$ 181,055
Guayacán Private Equity Fund L.P., III	Unaudited	2,482,693	15,000,000	375,000	14,625,000
Guayacán Fund of Funds III L.P.	Unaudited	20,424,411	40,000,000	39,688,896	311,104
Guayacán Fund of Funds IV L.P.	Unaudited	37,419,698	50,000,000	33,856,460	16,143,540
McCoy Investment II, L.P.	Unaudited	15,007,104	15,000,000	12,403,389	2,596,611
Palladium Equity Partners IV, L.P.	Unaudited	24,141,563	31,000,000	26,631,439	4,368,561
Pluscios Fund, LLC	Unaudited	49,818,998	46,500,000	46,500,000	-
Puerto Rico Fund Growth, L.P.	Unaudited	19,955,072	35,000,000	21,500,209	13,499,791
Kinetic Funds: KFYIELD	Unaudited	6,412,012	15,000,000	18,000,000	(3,000,000)
Institutional Senior Loan Fund	Unaudited	10,116,015	Not available	Not available	Not available
	TOTAL	**$ 194,063,468**			

4. Investments (continuation)

On June 30, 2019, the Corporation had the following recurring fair value measurements:

		Fair Value Measurement Using		
	June 30, 2019	**Quoted Prices in Active Market for Identical Assets (Level 1)**	**Significant Other Observe Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investment by fair value level				
Debt securities				
U.S. Treasuries	$ 36,428,629	$ 36,428,629	$ -	$ —
U.S. Treasury Bills	8,864,029	8,864,029	—	—
Corporate bonds and notes	90,024,448	—	90,024,448	—
Asset-backed securities	2,022,494	—	2,022,494	—
CMO-FHLMC	5,756,441	—	5,756,441	—
CMO-FNMA	5,432,269	—	5,432,269	—
CMO-GNMA	5,967,568	—	5,967,568	—
Foreign government and corporate bonds and notes	3,019,892	—	3,019,892	—
Federal Home Loan Bank (FHLB)	3,736,406	—	3,736,406	—
Federal Home Loan Mortgage Corporation (FHLMC)	7,412,569	—	7,412,569	—
Federal National Mortgage Association (FNMA)	2,461,478	—	2,461,478	—
Government National Mortgage Association (GNMA)	2,428,100	—	2,428,100	—
Uniform Mortgage Backed Security (UMBS)	10,182,650	—	10,182,650	—
Municipal bonds	47,998,645	—	47,998,645	—
Others	3,207,034	—	3,207,034	—
Total debt securities	234,942,651	45,292,658	189,649,993	—
Equity securities	213,629,823	—	—	213,629,823
Exchange traded funds	12,728,009	—	—	12,728,009
Private equity funds -equity securities:	194,063,468	—	—	194,063,468
Total equity securities	420,421,300	—	—	420,421,300
Total investment by fair value level	$ 655,363,951	$ 45,292,658	$ 189,649,993	$ 420,421,300

4. Investments (continuation)

Expected maturities will differ from contractual maturities, because counter parties may have the right to call or prepay obligations with or without call or prepayment penalties. The following table summarizes the type and maturity of investments held by the Corporation as of June 30, 2019:

Investment Type	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
U.S. Treasuries	$ 2,676,959	$ 14,557,633	$ 11,188,808	$ 8,005,229	$ 36,428,629
U.S. Treasury Bills	8,864,029				8,864,029
U.S. sponsored agencies bonds and notes:					
Federal Home Loan Bank (FHLB)	2,897,073	513,320	326,013		3,736,406
Federal Home Loan Mortgage Corporation (FHLMC)		710,353	528,668	6,173,548	7,412,569
Federal National Mortgage Association (FNMA)		316,684	1,117,114	1,027,680	2,461,478
Mortgage-backed securities:					
Government National Mortgage Association (GNMA)				2,428,100	2,428,100
Uniform Mortgage Backet Security (UMBS) FHLMC		379,882		9,802,768	10,182,650
Collateralized Mortgage Obligations (CMO's) issued and/or guaranteed by:					
FHLMC			1,105,071	4,651,370	5,756,441
FNMA			51,227	5,381,042	5,432,269
GNMA			103,742	5,863,826	5,967,568
Asset-backed securities		940,743	1,081,751		2,022,494
Corporate bonds and notes	5,264,903	38,576,086	38,347,443	7,836,016	90,024,448
Foreign government and corporate bonds and notes	371,295	2,246,968	401,629		3,019,892
Municipal bonds		1,262,457	580,699	46,155,489	47,998,645
Other		570,215	1,879,134	757,685	3,207,034
Total debt securities and fixed–income external investment pools	$ 20,074,258	$ 60,074,340	$ 56,711,299	$ 98,082,753	$ 234,942,651
Equity securities					213,629,823
Exchange traded funds					12,728,009
Private equity funds - equity securities					194,063,468
				Total	$ 655,363,951

On June 30, 2019, the Corporation has variable-rate interest investments, which reset in the frequency shown below, at 100% of an interest rate index plus a spread, as follows:

Interest Rate Risk

The custody of these investments is held by a custodial bank in the name of the Corporation. The investments portfolio is managed by more than 15 asset management firms and external

4. Investments (continuation)

consultants, and the internal cash position is managed by the Director of Finance, Planning and Budgeting.

Interest risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Administration manages its exposure to declines in fair value by (1) maintaining a diversified portfolio of debt and equity investments and (2) diversifying the weighted average maturity of its investments in debt securities.

Credit Risk

The credit risk related to investments is the risk that debt securities in the Corporation's portfolio will decline in price or fail to make principal and interest payments when due because the issuer of the security experiences a decline in the financial condition. The Corporation limits its credit risk by investing principally in high quality investments (rated BBB or better, according to Standard and Poor's or other equivalent rating agencies when maturities are longer than a year). Up to 20% of the total fixed income portfolio may be invested at any time in Selective High Yield securities (i.e. securities rated below BBB), but never lower than B. BBB is the lowest of investment grade ratings. In addition, the Corporation restricts investment in certain securities to avoid concentration and/or increase duration.

All the Corporation's investments in U.S. Treasury securities and mortgage–backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government and represent no risk therefore have been excluded from the following table. The credit quality ratings for investments in debt securities, excluding U.S. Treasury securities and mortgage–backed securities guaranteed by GNMA, on June 30, 2019, are as follows:

4. Investments (continuation)

Investment Type:	Credit Risk Rating AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC	D	Not Rated	Total
U.S. sponsored agencies bonds and notes:										
Federal Home Loan Bank (FHLB)	$ 1,143,128	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 2,593,278	$ 3,736,406
Federal Home Loan Mortgage Corporation (FHLMC)	—	—	—	—	—	—	—	—	5,756,441	5,756,441
Federal National Mortgage Association (FNMA)	1,117,114	—	—	—	—	—	—	—	1,344,364	2,461,478
Federal National Mortgage Association (GNMA)	—	—	—	—	—	—	—	—	2,428,100	2,428,100
Mortgage-backed securities:										
UMBS	—	—	—	—	—	—	—	—	10,182,650	10,182,650
FHLMC	605,912	—	—	—	—	—	—	—	6,806,657	7,412,569
Collateralized mortgage obligations (CMO's) issued and/or guaranteed by:										
FNMA	—	—	—	—	—	—	—	—	5,432,269	5,432,269
FHLMC		—	—	—	—	—	—	—		-
GNMA	—	—	—	—	—	—	—	—	5,967,568	5,967,568
Asset-backed securities	1,722,694	—	—	—	—	—	—	—	299,800	2,022,494
Corporate bonds and notes	6,879,884	13,793,720	34,349,823	21,475,612	1,229,090	731,916		—	11,564,403	90,024,448
Foreign government bonds and notes	—	—	247,568	917,577	612,131	—	—	—	1,242,615	3,019,892
Municipal bonds	1,262,457	580,699	—	—	—	—	—	—	46,155,489	47,998,645
Other	3,207,034	—	—	—	—	—	—	—	—	3,207,034
Total debt securities and fixed-income external investment pools	$ 15,938,223	$ 14,374,420	$ 34,597,391	$ 22,393,189	$ 1,841,221	$ 731,916	$ -	$ -	$ 99,773,634	$ 189,649,993
									Plus: U.S. Treasuries	36,428,629
									Plus: U.S. Treasuries Bills	8,864,029
									TOTAL DEBT SECURITIES	$ 234,942,651

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the Corporation may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. On June 30, 2019, all securities held in portfolio were registered in the name of the Corporation and were held in the possession of the Corporation's custodian bank, JP Morgan Chase Bank, N.A., except for securities lent (see Note 11). Interest bearing deposits with other banks held under securities lending transactions (see Note 11) are uninsured and uncollateralized. These deposits are exposed to custodial credit risk.

In accordance with its investment policy, the Corporation manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for compensation and medical benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. Investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. The Corporation is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade core fixed–income securities. As of

4. Investments (continuation)

June 30, 2019, investment maturities as a percentage of total debt securities and fixed–income external investment pools are as follows:

Maturity	Maturity %
Within one year	9%
After one to five years	25%
After five years to ten years	24%
After ten years	42%

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Corporation's investment policy permits investing in international stocks to diversify the risks of the investment portfolio. The Corporation limits its exposure to foreign currency risk by limiting the total amount invested to a 5% of the portfolio. As of June 30, 2019, the Corporation had the following investments denominated in foreign currency:

Description	Currency	Fair Value
Common stock and preferrd stocks and	Australian Dollar	$ 545,553
equity	Swiss Franc	2,948,460
	Danish Krone	1,921,944
	Euro	11,594,370
	British Pound	3,397,970
	Hong Kong Dollar	1,237,450
	Indonesian Rupiah	466,938
	Japanese Yen	6,763,326
	Norwegian Krone	424,876
	Swedish Krona	1,509,400
	Singapore Dollar	568,868
	South African Rand	550,469
Total		$ 31,929,624

4. Investments (continuation)

Interest and dividend income for the year ended June 30, 2019, consists of the following:

Description		
Interest income on investments	$	8,214,827
Dividend income on investments		6,079,124
Other interest income		31,190
		14,325,141
Less investment managers' fees		(2,237,363)
Total interest and dividend income-net	$	12,087,778

Net increase in the fair value of investments for the year ended June 30, 2019, consists of the following:

Description		**Investments Total**
Gross realized gains	$	44,699,910
Gross realized losses		(19,764,634)
Net increase in fair value (unrealized)		8,735,377
Total	$	33,670,653

5. ACCOUNTS RECEIVABLE-NET

Accounts receivable as of June 30, 2019, consist of:

Description		**2019**
Insurance premiums receivable, including estimated additional premiums-net of allowance for uncollectible insurance premiums of $375,344,819	$	53,036,827
Interest and dividends receivable		11,983,479
Securities sold but not yet delivered		10,096,114
Employees' accounts receivable, collateralized with motor vehicles-net of of allowance for uncollectible insurance premiums of $1,093,303		548,571
Other accounts receivable-net of allowance for uncollectible accounts of $169,144,498		878,875
Total	$	76,543,866

Insurance premiums receivable include an estimate for additional premiums of $67,545,906 as of June 30, 2019. The Corporation follows a policy of not charging–off uncollectible insurance

5. Accounts Receivable (continuation)

premiums against the related allowance for uncollectible accounts. Other accounts receivable mainly include the portion of insurance premiums of uninsured employers considered to be collectible.

6. INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method, and market represents the lower of replacement cost or estimated realizable value. Inventories as of June 30, 2019, consist of:

Medicines and medical supplies	$	2,133,258
Office materials and supplies		265,454
Total	$	2,398,712

7. CAPITAL ASSETS-NET

The activity of capital assets for the year ended June 30, 2019 is as follows:

Description	Balance June 30, 2018	Additions (Depreciation Expense)	Retirements and Reclassifications	Balance June 30, 2019
Capital assets not subject to depreciation and amortization:				
Land	$ 11,382,166	$	$ —	$ 11,382,166
Land-under capital lease	7,150,000	—	—	7,150,000
	18,532,166	—	—	18,532,166
Construction in progress	44,746,493	5,000,000		49,746,493
Total nondepreciable assets	63,278,659	5,000,000	—	68,278,659
Capital assets subject to depreciation and amortization:				
Buildings and improvements	112,047,793	3,211,365	(60,466)	115,198,692
Medical and office equipment	28,018,177	1,435,869	(1,746,307)	27,707,739
Software and related assets	43,580,344	252,677	(1,153,612)	42,679,409
Motor vehicles	887,984	—	—	887,984
Assets under capital leases:				
Building and improvements	27,850,000	—	—	27,850,000
Total depreciable assets	212,384,298	4,899,911	(2,960,385)	214,323,824
Less accumulated depreciation and amortization:				
Buildings and improvements	(61,247,661)	(2,835,171)	—	(64,082,832)
Medical and office equipment	(25,026,621)	(637,928)	945,350	(24,719,199)
Software and related assets	(42,536,846)	(1,586,072)	954,623	(43,168,295)
Motor vehicles	(861,257)	(7,501)	—	(868,758)
Assets under capital leases:				
Building and improvements	(16,709,998)	(696,250)	—	(17,406,248)
Total accumulated depreciation	(146,382,383)	(5,762,922)	1,899,973	(150,245,332)
Capital assets being depreciated and amortized-net	66,001,915	(863,011)	(1,060,412)	64,078,492
Capital assets-net	$ 129,280,574	$ 4,136,989	$ (1,060,412)	$ 132,357,151

7. Capital Assets Net (continuation)

As of June 30, 2019, the net carrying value of assets under capital leases amounted to $10,443,752. Amortization of assets under capital leases amounted to $696,250 for the year ended June 30, 2019. No impairment on long lived assets was recorded for the year ended June 30, 2019.

8. LIABILITY FOR INCURRED BUT UNPAID BENEFITS AND BENEFIT ADJUSTMENT EXPENSES

The liability for incurred but unpaid benefits and benefit adjustment expenses is based on historical claims experience data, assumptions, and projections as to future events, including claims frequency, severity, persistency, and inflationary trends determined by an independent actuarial study. This liability has been discounted at 3.69% in 2019. The actuarial study for 2019 considered the experience of the Corporation from fiscal years 2003–2004 to 2018–2019 and included estimates for cases reported that have not been adjudged and cases incurred but not reported. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and trends. Any resulting adjustments are a change in an accounting estimate and accounted for as an increase (decrease) to expenses of the Corporation during the current period.

The Corporation has established a liability for both, reported and unreported insured events, which includes estimates of future payment of benefits and related benefit adjustment expenses. The liability for incurred but unpaid benefits and benefit adjustment expenses as of June 30, 2019, consists of:

Description	Non-Current	Current
Compensation benefits:		
Cases adjudged:		
Long-term partial disability	$ 43,199,523	$ 17,994,246
Long-term total disability	123,640,424	8,648,017
Death	13,901,921	1,486,590
	180,741,868	28,128,853
Cases reported not adjudged and cases incurred but not reported:		
Short-term disability (per diem)	33,358,364	13,428,303
Long-term partial disability	43,979,761	18,318,244
Long-term total disability	125,873,627	8,804,211
Death	14,153,008	1,514,340
	217,364,760	42,065,098
Total compensation benefits	398,106,628	70,193,951
Medical benefits	86,822,311	54,133,496
Loss adjustment expense, including legal fees	54,591,736	16,456,369
Total	$ 539,520,675	$ 140,783,816

8. Liability for Incurred but Unpaid Benefits and Benefit Adjustment (continuation)

The following provides a reconciliation of the beginning and ending balance for the liability for incurred but unpaid benefits and benefits adjustment expenses for the year ended June 30, 2019:

Description		Amount
Liability for incurred but unpaid benefits and benefit adjustment expenses at beginning of year	$	680,734,216
Incurred benefits related to:		
Insured events of the current year		304,564,275
Insured events of the prior years		-
Total incurred benefits		304,564,275
Benefit payments related to:		
Insured events of the current year		(212,519,000)
Insured events of the prior years		(92,475,000)
Total benefit payments		(304,994,000)
Liability for incurred but unpaid benefits and benefit adjustment expenses at end of year	$	680,304,491

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2019, consist of:

Description		Amount
Accounts payable:		
Securities purchased not yet received	$	4,293,959
Due to employers		22,424,082
Due to other governmental agencies		36,447,888
Suppliers, professional services and others		51,336,650
Total accounts payable		114,502,579
Accrued liabilities:		
Compensated absences-vacations and sick leave		28,463,895
Accruals for Christmas bonus, salary increases, compensatory time and other fringe benefits		4,418,786
Total accrued current liabilities		32,882,681
Accruals for claims and contingencies (see Note 18)		15,404,210
Total accrued liabilities		48,286,891
Total	$	162,789,470

9. Accounts Payable and Accrued Liabilities (continuation)

Accounts payable due to other governmental agencies as of June 30, 2019, consist of:

Commonwealth of Puerto Rico	$	29,122,192
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico		5,088,833
Puerto Rico Industrial Commission		1,600,000
Puerrto Rico Electric Power Authoriy		496,509
Other		140,354
Total	$	36,447,888

On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014, the "Fiscal Sustainability Act". This Act requires that all instrumentalities, entities, agencies and public Corporations of the Commonwealth of Puerto Rico reduce their operating expenses, specifically those related to payroll, professional services, contracted services and leases, among others. During the effective term of this Act, the excess accumulation of vacation and sick leave will not be paid to employees. The employees should exhaust the excess accumulation by the end of each fiscal year. The Act also establishes that the Christmas bonus paid to eligible employees shall not exceed $600. The Corporation is required to transfer the savings resulting from the enactment of this Act to the "Fund of Services and Therapies for Special Education Students", in equal monthly installments during fiscal year 2015, and an equal amount shall be transferred during fiscal years 2018 and 2019. On June 30, 2019, the Corporation accrued approximately $9.0 million related to this matter. The amount was recorded within accounts payable in the accompanying financial statements of net position.

10. ACCRUAL FOR REIMBURSEMENT OF PREMIUMS

As of June 30, 2019, the accrual for reimbursement of premiums as determined by the independent actuary was classified as current and non-current in the accompanying Statement of Net Position (Deficit) as follows:

Description		Amount
Current	$	41,256,169
Non-current		31,099,620
Total	$	72,355,789

10. Accrual for Reimbursement of Premiums (continuation)

The provision for reimbursement of insurance premiums for the year ended June 30, 2019 amounted approximately to $7.3 million, including a current year debit of approximately $9.5 million, to reflect changes in the accrual for reimbursement of premiums determined by an independent actuary. The accrual for reimbursement of premiums is discounted to reflect the present value of future reimbursable premium payments. Management believes that discounting such liability results in a better matching of costs and revenues since reimbursable premiums have a long payment cycle.

11. SECURITIES LENDING OBLIGATIONS

The Commonwealth statutes and the Corporation's SIPGO permit the Corporation to use its investments to enter securities lending transactions, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, securities and/or irrevocable bank letters of credit.

The Corporation's securities custodian, JP Morgan Chase Bank, N.A., as agent of the Corporation, manages the securities lending program and receives cash collateral, securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the Corporation unless the borrower defaults. The collateral requirement is equal to 102 percent for securities issued in the United States of America and 105 percent for securities issued outside of the United States of America, of the fair value of the security lent. Additional collateral has to be provided by the next business day if the collateral fair value falls below the fair value of the securities lent. All security loans can be terminated on demand by either the Corporation or the borrower. In lending securities, the term to maturity of the securities loans is matched with the term to maturity of the investment made with the cash collateral. Such matching existed at year end.

At year end, the Corporation has no credit risk exposure to borrowers because the amounts the Corporation owes the borrowers exceed the amounts the borrowers owe the Corporation. Contracts with the lending agents require them to indemnify the Corporation if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Corporation for income distributions by the securities' issuers while the securities are on loan.

Securities lent as of June 30, 2019, had a fair value of $14,013,986 and were secured with collateral received with a fair value of $14,326,434.

11. Securities Lending Obligations (continuation)

Securities lent for which cash was received as collateral as of June 30, 2019, consist of:

Description		Amount
Corporate bonds and notes	$	2,405,227
Foreign government and corporate bonds		2,618,383
Equity securities		8,990,377
Total	$	14,013,987

Cash collateral received as of June 30, 2019, amounted to $14,326,434 (see Note 4), and was invested as follows:

Description		Amount
Investments in debt securities held under securities lending transactions:		
Resell agreements, due overnight	$	14,326,434

In addition, the Corporation had the following lending obligations as of June 30, 2019, for which securities were received as collateral:

	Fair Value			
Description		Securities Lent		Collateral
U.S. Treasury notes and bonds	$	190,670	$	194,480
Corporate bonds and notes		2,214,557		2,263,822
Equity securities		8,990,377		9,189,674
Foreign government and corporate bond		2,618,383		2,678,458
Total	$	14,013,987	$	14,326,434

Net (rebates) costs of securities lending transactions for the years ended June 30, 2019, consist of the following:

Description		Amount
Borrower rebates	$	54,300
Agent fees		65,480
Total	$	119,780

12. OBLIGATION UNDER CAPITAL LEASE

In fiscal year 2000, the Corporation acquired under a capital lease agreement the facility where a regional office is located. The agreement requires the Corporation to make total payments of approximately $111.7 million over 30 years. The effective interest rate was determined at 10.26%. The activity of the obligation under capital lease for the year ended June 30, 2019, is as follows:

Description	Balance June 30, 2018	Payments	Balance June 30, 2019
Future payment on assets under capital lease	$ 44,698,500	$ (4,035,281)	$ 40,663,219
Portion representing interest	(19,008,176)	2,783,717	(16,224,459)
Present value of minimum lease payments	$ 25,690,324	$ (1,251,564)	$ 24,438,760

The schedule of future minimum lease payments under this lease agreement, together with the present value of such minimum lease payments as of June 30, 2019, is as follows:

Fiscal Year Ending June 30,	Present Value Capital Lease	Interest	Total
2020	$ 3,385,048	$ 339,827	$ 3,724,875
2021	3,076,224	648,651	3,724,875
2022	2,795,575	929,300	3,724,875
2023	2,540,530	1,184,345	3,724,875
2024	2,308,753	1,416,122	3,724,875
2025-2030	10,332,630	12,016,620	22,349,250
	$ 24,438,760	$ 16,534,865	$ 40,973,625
Less current portion	(3,385,048)		
Non current portion	$ 21,053,712		

13. TRANSACTIONS WITH GOVERNMENTAL AGENCIES

Revenues with governmental agencies

During the year ended June 30, 2019, insurance premiums earned by the Corporation from the governmental sector are approximately as follows: $86 million from the Commonwealth and its agencies and public Corporations and $33 million from the municipalities for a total amount

13. Transactions with Governmental Agencies (continuation)

of $125 million from the governmental sector. These amounts represent approximately 21% of the total of premiums earned on June 30, 2019.

Contributions with to governmental agencies

Contributions to other governmental agencies during the year ended June 30, 2019, are as follows:

Description		Amount
Industrial Commission of Puerto Rico	$	18,378,000
Department of Labor and Human Resources:		
Occupational Safety and Health Office		14,683,000
Department of Education: Special Education Student		
Services and Therapies Fund		9,000,000
Department of Labor and Human Resources		600,000
Public Building Authority		38,033
Commonwealth of Puerto Rico Human Resources Office		60,000
Other		100,000
Total	$	42,859,033

The expenses incurred by the Industrial Commission of Puerto Rico are covered by the Corporation under the provisions of Law No. 45 of April 18, 1935. These expenses shall not exceed 4% of the total of insurance premiums collected during the previous fiscal year. The contributions to the Department of Labor and Human Resources, Occupational Safety and Health and Labor Standards Offices, are in accordance with the applicable legislation as of July 20, 1990, which authorizes the Corporation to transfer certain amounts as prescribed by law to cover operational expenses of the above-mentioned offices. The contributions to the Department of the Family are made under the provisions of Law No. 243, of July 23, 1974, which requires the Corporation to transfer to the Vocational Rehabilitation Program an amount not to exceed $600,000 each year for the vocational rehabilitation of injured workers.

Act No. 3 of January 27, 2017, knows as "*Ley para Atender la Crisis Económica, Fiscal y Presupuestaria para Garantizar el Funcionamiento del Gobierno de Puerto Rico*", Article 15 stated the contribution of savings resulting from the cost reduction measure referred to in this Law on public corporations in the field of health to the deficit of the General Fund. The savings generated by the Corporation, because of the application of the provisions of this Act, if any, will be contributed to the "*Special Education Student Services and Therapies Fund*", in the custody of the Department of Education, during the term of this Act. During 2018, the Corporation achieved significant reductions in its operating expenses to cover the commitments established with the yearly current claims of the injured workers. In this year, the Corporation recognized and complied with the disability payments, workers allowances, housekeepers, assistance equipment and funeral expenses that had not been included in the

13. Transactions with Governmental Agencies (continuation)

general budget of the Commonwealth of Puerto Rico. Thus, the achievements made in the reductions in expenses were not classified as savings, but rather as a source of funds to cover the requirements established in Law 45 with their injured parties. In summary, our budgetary analysis shows that all the funds allocated were used without any surpluses that qualify as savings to be disbursed on behalf of the Treasury Department. Subsequently to June 30, 2019, the Financial Oversight and Management Board for Puerto Rico, under the PROMESA Act, assigned to the Corporation a $9,000,000 contribution on each budget for the fiscal years ending in 2019-2020 and 2020-2021 corresponding for the fiscal year 2018-2019 and 2019-2020 in compliance with the Act 3.

Capital expenditure commitment

The Corporation has a capital commitment outstanding of $5 million on June 30, 2019, related to the remodeling and expansion project of the Industrial Hospital through an interagency assistance contract entered with the Infrastructure Financing Authority of Puerto Rico, a public Corporation of the Commonwealth of Puerto Rico, for the development and management of this project in all its phases. The term of the contract was extended to December 31, 2019.

14. PENSION LIABILITY

The Corporation implemented GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68; former GASB Statement No. 68, Accounting and Financial Reporting for Pension, during fiscal year 2015, and new Required Supplementary Information schedules are included herein. Also, GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB No. 68, is implemented simultaneously with the provisions of GASB No. 73.

A. Description of the Plan

Prior to August 23, 2017, the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) implemented a cost-sharing multi-employer defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. Employees of the Corporation participate in the ERS. The ERS is a trust created by Act No. 447, approved on May 15, 1951, as amended (Act No. 447-1951) and began operation on January 1952, at which date, contributions by employers and participating employees commenced. All qualified permanent and probationary employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement system are eligible to participate in the ERS. As of June 30, 2015, there were 206 participating

14. Pension Liability (continuation)

employers (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the ERS). Membership is optional for the Governor, head of public agencies, and instrumentalities, among others. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

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

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Defined Benefit Program).

- Members of Act No. 1 are generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (Defined Contribution Program).

- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contributory Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

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 Defined Contributory Hybrid Program, and were rehired on or after July 1, 2013, become members of the Defined Contributory Hybrid Program as a condition to their employment. In addition, employees who on June 30, 2013, were participants of previous programs will become part of the Contributory Hybrid Program on July 1, 2013.

The assets of the Defined Benefit Program, the Defined Contribution Program and the Contributory Hybrid Program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets.

Eligibility of Membership

Shall mean, until June 30, 2013, every person for whom the administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447-1951. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contributory Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

14. Pension Liability (continuation)

The members of the ERS include all regular full-time and non-municipal temporary employees who are not contributing to the Retirement System (Article 1-104 and 1-105). Employees include those in the following categories:

Police of Puerto Rico,
Firefighters of Puerto Rico,
Elective officers of the People of Puerto Rico and the employees of the Legislature,
Officers and employees of the Government of Puerto Rico,
Officers and employees of the Government of Puerto Rico,
Officers and employees, including mayors of the municipalities, and
Irregular personnel fulfilling the requirement of regular employees.

Membership in the ERS is mandatory, except for the Governor of Puerto Rico, Government Secretaries, heads of public agencies and instrumentalities, the Governor's aides, gubernatorial appointees of commissions and boards, members of the Legislature, the Comptroller of Puerto Rico, the employees of the Agricultural Extension Service of the U.P.R., the Ombudsman and the Commonwealth Election Board employees (Article 1-105). In addition, memberships is optional for the eligible employees while working and residing outside the territorial limits of the Commonwealth of Puerto Rico (Act No. 112-2004).

As of July 1, 2013, every employee who is a participant of the ERS, including mayors, regardless of the date when he/she was first appointed to the Government of the Commonwealth of Puerto Rico, its instrumentalities, municipalities or participating employers of the ERS, shall become part of the Defined Contributory Hybrid Program.

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payments of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume, and he/she separates from service, payment of the suspended annuity shall resume, and he/she shall also have to option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars ($10,000). In the event the annuitant worked five (5) years or more and contributed ten thousand dollars ($10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447-1951, to receive an additional annuity computed pursuant to Section 5-110 of this Act, based on the contributions made since the date said annuitant returned to service until his/her separation from it.

14. Pension Liability (continuation)

This summary of plan provisions is tended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

1) Creditable Service

a) Creditable Service for Act No.447-1951 members – the years and months for plan participation, during which contributions have been made, beginning on the alternative date of hire or January 1, 1952, and ending on date of separation from service. For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
15 days during the same month	1 month
2 months and 15 days to 5 months and 14 days	$^1/_2$ year
5 months and 15 days to 8 months and 14 days	$^3/_4$ year
8 months and 15 days to 12 months	1 year

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the ERS. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation (Article 1-106). Creditable Service also includes purchased service, if any (Article 1-106).

b) Creditable Service for Act No. 1-1990 members —the years and completed months of plan participation, during which contributions have been made, beginning on date of hire and ending on date of separation from service (Article 1-106 and 2-109). For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
Less than 3 months	None
3 to 5 months	$^1/_2$ year
6 to 8 months	¾ year
9 months or more	1 year

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the ERS. The same rules hold for rehired employees who previously

14. Pension Liability (continuation)

received a refund of Accumulated Contributions at separation (Article 1-106). Creditable Service also include purchased service, if any (Article 1-106).

2) Eligibility of Service

a) *Eligibility for Act No. 447-1951 Members* – members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High-Risk Positions (the Commonwealth Police and Firefighters Corps, the Municipal Police and Firefighter Corps and Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5) for Mayors of municipalities attainment of age 50 with 8 years of credited service as Mayor. In addition, Act No. 447-1951 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

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

Date of Birth	Attained Age as of June	Retirement Eligibility Age
July 1, 1957, or	55 or less	61
July 1, 1956, to June 30,	56	60
Before July 1,	57 and up	59

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

Except for police, mayors and employees of the Agricultural Extension Service of the U.P.R., participants may elect to coordinate coverage under the System with Federal Social Security by selecting the lower of two contribution options. Those participants selecting Option (1), the Coordination Plan, are subject to a benefit recalculation upon attainment of Social Security Retirement Age. Those participants selecting Option (2), the Supplementation Plan, will continue to receive the same benefits for life, without any adjustments at SSRA. At any time up to retirement, participants may change from Option (1) to Option (2) by making a

14. Pension Liability (continuation)

contribution including interest to the System, retroactive to the later of July 1, 1968 or the date of plan entry, that will bring their employees of the Agricultural Extension Service of the U.P.R. are covered under Option (2), the Supplementation Plan.

b) *Eligibility for Act No 1-1990 Members* – members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service as Mayor.

Act No.1-1990 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1-1990 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013, are eligible to retire directly from active service upon attainment of age 55 with 30 years of credited service.

c) *Eligibility for System 2000 Member*s – members who were eligible to retire as of Jun 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in Hight-Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 55 for Public Officers in High-Risk Positions and upon attainment of retirement eligibility age shown in the table below otherwise.

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

d) Eligibility for Members Hired after June 30, 2013 – attainment of age 58 if a Public Officer in a Hight-Risk Position and attainment of age 67 otherwise.

3) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of Jun 30,

14. Pension Liability (continuation)

2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity.

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

   If the Act No. 447-1951 member had at least 30 years of credited service as of June 30, 2013, the accrued benefits equal 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined as 1.5% of average compensation up to $6,6000 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

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

   Further, if the Act No. 447-1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years,

14. Pension Liability (continuation)

plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

b) *Accrued Benefit as of June 30, 2013, for Act No. 1-1990 Members* – The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. 1 member, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1-1990 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1-1990 members, the accrued benefits equal 1.5% of Average Compensation multiplied by years of Creditable Service. The benefit is actuarially reduced for each year payment commences prior to age 65.

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

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

c) *Eligibility for System 2000 Members*: System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

14. Pension Liability (continuation)

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

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

4) Compulsory Retirement

Act No. 211 of December 8, 2015 (Act No. 211-2015), as amended by Act No. 170-2016, is an early retirement incentive program. All employers participating in ERS are eligible to apply to participate in Act No. 211-2015. Qualification is conditioned upon approval by the Office of Management and Budget (OMB) of the agency's plan to implement such program and its impact on the agency.

5) Termination Benefits

a) Lump Sum Withdrawal

Eligibility: Any current non-retired member is eligible.

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

b) Deferred Retirement

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

14. Pension Liability (continuation)

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

6) ***Death Benefits***

a) ***Pre-Retirement Death Benefit***

Eligibility: Any current non-retired member is eligible.

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

b) ***High-Risk Death Benefit under Act No. 127-1958***

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

Spouse's Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013.

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

Benefit if No Spouse or Children: The parents of the member shall each receive 50% of the participants compensation at date of death, payable as an annuity for life.

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

14. Pension Liability (continuation)

The cost of these benefits is paid by the Commonwealth's General Fund.

c) Post-Retirement Death Benefit for Members who Retired prior to July 1, 2013

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

Benefit: The benefit is as follows (Act No. 105-1969, as amended by Act No. 4-2017):

i) For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan — 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the General Fund for former government employees or by the public enterprise or Corporation for their former employees.

ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the member's estate. In no case, shall the benefit be less than $1,000. Either the Commonwealth's General Fund for former government employees or the public enterprise or Corporation for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. The ERS pays for the rest.

d) Post-Retirement Death Benefit for Members who began receiving a monthly benefit after to June 30, 2013

Eligibility: Any retiree or disabled member who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

14. Pension Liability (continuation)

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

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

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

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

7) Disability Benefits

a) Disability

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

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

b) High-Risk Death Benefit under Act No. 127-1958

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

Benefit: 80% (100% for Act No. 447-1951 members) of compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this

14. Pension Liability (continuation)

annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996, and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years (Act No. 127-1958, as amended). The cost of these benefits is paid by the Commonwealth's General Fund.

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

d) Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator. During fiscal year 2019-2020 the disability insurance amounted to $16,690.

8) Special Benefits

a) Minimum Benefits

i) *Past Ad hoc Increases*: The Legislature, from time, increases pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983. The benefits are paid 50% by the Commonwealth's General Fund and 50% by the ERS.

ii) *Minimum Benefit for Members who Retired before July 1, 2013 (Act No. 156-2003, Act No. 35- 2007, and Act No. 3-2013)*: The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month is paid by the Commonwealth's General Fund for former government and certain public corporations without

14. Pension Liability (continuation)

own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month is to be paid by the ERS for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

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

b) *Cost-of-Living Adjustments (COLA) to Pension Benefits*

The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007, and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004, less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month. The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the ERS. All other COLAs granted in 1995 and later shall be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

c) Special "Bonus" Benefits

i) *Christmas Bonus (Act No. 144-2005, as Amended by Act No. 3-2013):* An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

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

14. Pension Liability (continuation)

received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

9) Contributions

a) ***Member Contributions*** Not applicable. Eliminated July 1, 2017 by Act No. 106-2017

From July 1, 2013 to June 30, 2017, contributions by members are 10% of compensation. However, for Act No. 447-1951 members who selected the Coordination Plan, the member contributions are 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Members may voluntarily make additional contributions to their hybrid account.

Prior to July 1, 2013, contributions by Act No. 447-1951 members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have voluntary contribution of up to 1.725% of compensation prior to July 1, 2013.

b) Employer Contributions: Not applicable. Eliminated July 1, 2017 by Act No. 106-2017.

Formerly – Prior to July 1, 2011, employer contributions were 9.275% of compensation. On July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020 (Article 2-116 as amended by Act No. 116-2011 and Act No. 3-2013).

c) Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3-2013)

14. Pension Liability (continuation)

Effective July 1, 2013, the ERS will receive a supplemental contribution of $2,000 each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefiting as an Act No. 447-1951 or Act No. 1-1990 member while an active employee. This supplemental contribution will be paid by the Commonwealth’s General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees (Act No. 3-2013).

d) ***Additional Uniform Contribution:*** Not applicable. Eliminated July 1, 2017 by Act No. 106-2017.

Formerly – During the 2013-2014 fiscal year, the System will receive an Additional Uniform Contribution of $120 million. During each year from 2014-2015 through 2032-2033 the System will receive an Additional Uniform Contribution certified by the external actuary of the System as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below $1 billion. The AUC will be paid by the Commonwealth’s General Fund, public corporations with own treasuries, and municipalities (Act No. 32-2013)

10) Service Purchase

Prior to July 1, 2013, active members with eligible service from prior employment may elect to purchase service in ERS. The cost of the purchase is calculated by applying the ERS statutory contribution rates to the member's salary during the years of service at the former employer. The amount due to member contributions is accumulated at 9.5% per year (6% prior to April 4, 2013) until 6 months after the time of the service purchase request. Any amount not covered by asset transfers from the member's prior pension fund is payable by the member (Act No. 10-1992, Act No. 14-1981, Act No. 122-2000, Act No. 33-2007 and Act No. 203-2007). Effective July 1, 2013, only veterans may purchase service for time spent under military service are permitted to make voluntary contributions to the Defined Contribution Hybrid Contributory Account during the years of military leave prior to July 1, 2017.

11) Early Retirement Programs of 2010

On July 2, 2010, the Commonwealth Enacted Act No. 70 (Act No. 70-2010) establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Additional window periods occurred through December 31, 2012. Under Section 4A of Act No. 70-2010, active members could terminate employment immediately and receive a bonus equal to one, three, or six months of salary (paid by the Commonwealth). Under Section 4B of Act No. 70-2010, active members who had at

14. Pension Liability (continuation)

least 15 years of service, but less than 30 years of creditable services, could retire immediately with an enhanced benefit ranging from 37.5% to 50% of salary. This enhanced benefit is paid by the General Fund for government employees and Public Corporation for their employees until the member reaches the later of age 55 or the date the member would have completed 30 years of service had the member continued working. The ERS will pay the benefit after this time period.

While the General Fund I Public Corporation is paying the pension benefit to the member or any surviving beneficiary, the General Fund / Public Corporation will also pay a contribution equal to the employer contribution rate [12.275% for the 2013-2014 fiscal year plus the employee contribution rate for Public Corporation (currently 10%)] of final salary to the ERS. The employer contribution rate applied to final salary increases as under Act No. 116-2010 to a rate of 20.525% of payroll in 2020-2021 and thereafter. Under Section 4C if Act No. 70-2010, active members who had at least 30 years of service could retire immediately and receive a bonus equal to six months of salary (paid by Commonwealth). For any active employee who retired under Section 4C, the Public Corporation will pay a contribution equal to the employer contribution rate (12.275% for 2013-2014 fiscal year, increasing to 20.525% in 2020-2021 and thereafter) plus the employee contribution rate (currently 10%) of final salary to the ERS for five years after retirement.

The Corporation’s employees did not participate in the early retirement program of 2010.

12) Early Retirement Incentive Program of 2015

Act No. 211 of December 8, 2015 (Act No. 211-2015), as amended by Act No. 170-2016, is an early retirement incentive program. All employers participating in ERS are eligible to apply to participate in Act No. 211-2015. Qualification is conditioned upon approval by the Office of Management and Budget (OMB) of the agency's plan to implement such program and its impact on the agency.

Act No. 211-2015 states that employers who have outstanding debt with ERS must enter into a payment plan that includes using a portion of the employer's savings from Act No. 211-2015 in order to pay the outstanding debt. Eligible employees are Act No. 447-1951 members in ERS who have at least 20 years of service at the time of enrollment in the program, and who, except for Police, are not already eligible to retire under Act No. 447-1951. Under Act No. 211-2015, employees who elect to participate in the program will receive a variety of benefits, some of which do not impact ERS. The benefits which impact ERS are as follows:

14. Pension Liability (continuation)

a) Contributions to the Defined Contributory Hybrid Program while enrolled in the program equal to 10% of the average compensation as of December 31, 2015, paid in full by the employer until the member reaches age 61. Note that employer contributions will also be paid to the System on this basis.

b) Upon death while enrolled in the program prior to age 61, participation in the program will end and the death benefits payable to survivors if any will be the same as for an active Act No. 447-1951 member.

c) Upon attainment of age 61, the employee will begin collecting retirement benefits from ERS, with a guarantee at the time of retirement that the retirement benefit will be at least 50% of average compensation as of June 30, 2013 (60% for Puerto Rico Police provided the agency pays for the increase from 50% to 60%). Benefits for Coordination Plan members (which decrease upon attainment of Social Security Retirement Age) can never be less than 50% of average compensation as of June 30, 2013. The agency shall pay an additional contribution to ERS to cover the cost of providing this additional minimum benefit.

The Corporation's employees did not participate in the early retirement program of 2015.

13) Changes in Plan Provisions since Prior Valuation

Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of ERS. The following contributions were eliminated July 1, 2017 by Act No. 106-2017:

- Act No. 116-2011 Employer Contributions
- Act No. 32-2013 Additional Uniform Contribution
- Act No. 3-2013 Supplemental Contributions
- Member Contributions

14) Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

a) Total Pension Liability

Effective July 1, 2018, the Corporation implemented the provisions of GASB Statement No. 73, Accounting and Financial Reporting for Pensions – an

14. Pension Liability (continuation)

amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68, which significantly changed the Corporation's accounting for pension amounts. The information disclosed below is presented in accordance with these new standards. The Corporation's Total Pension Liability was measured as of June 30, 2018, later audited financial information. The total pension liability used to calculate the Pension Liability was determined by an actuarial valuation date of July 1, 2017.

The Corporation's proportion of the Total Pension Liability was based on a projection of the Corporation's long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined.

As June 30, 2018, the Corporation's proportionate share of the Total Pension Liability used was as follows:

Proportion - June 30, 2017	6.728582%
Proportion - June 30, 2018	7.094231%
Change - Increase (Decrease)	0.365649%

As June 30, 2018, the Corporation reported $1,737,343,112 (June 30, 2018 base) as Total Pension Liability for its share of the Total Pension Liability of ERS.

	June 30, 2018	
	Total	Proportionate Share (7.094231%)
Total Pension Liability	$ 24,489,519,237	$ 1,737,343,112

b) Pension Expense

For the fiscal year ended June 30, 2019, the Corporation recognized pension expense of $380,938,161.

c) Deferred Outflows/Inflow of Resources

As of June 30, 2019, the Corporation reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

14. Pension Liability (continuation)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earning	$ —	$ 52,546,204
Changes in proportion	85,941,693	—
Differences between expected and actual experience with regard to economic or demographic assumptions	—	56,971,143
	$ 85,941,693	$ 109,517,347
PayGO payments made subsequent to measurement date	92,836,739	
	$ 178,778,432	

Differences between expected and actual experience with regard to economic or demographic as

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

Year Ended June 30,	Amount
2020	$ $ 21,903,466
2021	21,903,466
2022	21,903,466
2023	21,903,466
Total	$ 87,613,864

d) Actuarial Methods and Assumptions

There have been no significant changes between the valuation date of July 1, 2015, and the fiscal year end. For this year, the June 30, 2015, census data used in the prior valuation is also used as the July 1, 2016, census data for the current valuation. The liability results as of June 30, 2016, were based on projecting the ERS obligations determined as of the census data collection date of July 1, 2015, for one year, using roll-forward methods and assuming no liability gains or losses.

Actuarial valuations of ERS involves estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual

14. Pension Liability (continuation)

revision as actual results are compared with past expectations and new estimates are made about the future.

For purposes of converting the Defined Contribution Hybrid Contribution Account to a lifetime annuity, the current factors adopted by the Board are the single life annuity factors using an interest rate of 4% and the RP-2000 Healthy Annuitant Mortality Table for ages 50 and over and the RP-2000 Employee Mortality Table for ages under 50, projected to 2025 using Scale AA and blended 50% male / 50% female.

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2016 is provided below, including any assumptions that differ from those used in the June 30, 2015 actuarial valuation. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees. The actuarial valuation used the following actuarial assumptions:

Actuarial Assumptions	
Inflation	2.50%
Investment Rate of Return	Not applicable due to Pay-As-You-Go funding. As of June 30, 2016 was 6.55%.
Municipal Bond Index	3.58%, as per Bond Buyer General Obligation 20 — Bond Municipal Bond Index
Discount Rate	3.58%
Projected Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as of result of Act No. 3-2017 fouryear extention of the Actt No. 66-2014 salary freeze and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males andfemales projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date.
	100.0% of deaths while in active service are assumed to be occupational for members covered underAct No. 127.
	Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan'sexperience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational table, it reflects mortality improvements both before and after the measurement date.

14. Pension Liability (continuation)

This valuation also reflects a salary freeze until July 1, 2017 due to Act No. 66 of 2014. While the Act No. 66 salary freeze only applies to Central Government employees, public corporations are mandated to achieve savings under Act No. 66, and actuaries have assumed that they will meet this mandate by freezing salaries. Also, while municipalities are not impacted by Act No. 66, the actuaries have also assumed the salary freeze for these employees due to the current economic conditions in Puerto Rico.

Most other demographic assumptions used in the July 1, 2013, valuation were based on the results of an actuarial experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

e) Long-Term Expected Rate of Return

The investment return assumption is no longer applicable due to Pay-As-You-Go funding. As of June 30, 2016 it was 6.55% per annum, net of investment expenses.

The projected mortality improvement scale was updated from Scale MP-2015 to Scale MP-2016, which was published by the Society of Actuaries in October 2016. The valuation also reflects a salary freeze until July 1, 2021 due the Act No. 3-2017, four-year extension of Act No. 66-2014. Act 66-2014 mandates a salary freeze only for Central Government employees and mandates savings for public corporations. Due to the Act No. 66-2014 required saving for public corporations and the current economic conditions in Puerto Rico, the salary freeze has also been assumed for public corporation and municipal employees.

f) Discount Rate

The asset basis for the date of depletion projection is the ERS's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the ERS's fiduciary net position was expected to be exhausted in the fiscal year 2015. After June 30, 2017, the Commonwealth enacted legislation that changed the structure of pension administration managed by ERS.

The ERS's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent rate that result in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the ERS's

14. Pension Liability (continuation)

fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the ERS's fiduciary net position is not projected to be sufficient.

The discount rate on June 30, 2017 and 2018, was as follow:

	June 30, 2017	June 30, 2018
Discount Rate	3.58%	3.87%
Municipal bond rate *	3.58%	3.87%
* Bond Buyer General Obligation 20-Bond Municipal Bond Index		

As directed by the ERS, the asset basis for the date of depletion projection is the ERS's net assets (the gross assets less the Pension Obligation Bond proceeds). On this basis, net assets were exhausted in the 2014-2015 fiscal year and no projection was needed to be performed as of June 30, 2019, as the tax-free municipal bond index applies in all years and is thus the single equivalent interest rate that is used as the discount rate in the determination of the Total Pension Liability.

g) Sensitivity of the Proportionate Share of the Total Pension Liability to Changes in the Discount Rate

The following presents the Corporation's proportionate share of the Total Pension Liability, calculated using the discount rate, as well as what the Corporation's proportionate share of the Total Pension Liability would be if it were calculated using a discount rate that is 1 – percentage point lower or 1 – percentage point higher than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Corporation's proportionate share of the total pension liability	$ 1,927,302,370	$ 1,737,343,112	$ 1,542,890,961
Commonwealth's TPL	$ 27,167,177,370	$ 24,489,519,237	$ 21,748,529,473
Corporation's proportionate share	7.0942%	7.0942%	7.0942%

h) Pay-As-You-Go Funding

On August 23, 2017, the Governor signed into law the "Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants" (Act No. 106-2017), which reformed the Commonwealth

14. Pension Liability (continuation)

Retirement Systems. Act. No. 106- for the ERS's participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017, are now enrolled in a new defined contributions program. Act No. 106- 2017 also established by law the Pay-Go mechanism for the payment of accumulated pension benefits and eliminated employers' contributions and other analogous contributions. Approximately $2 billion was allocated for the payment of Pay-Go benefits in each of the budgets for fiscal years 2018 through 2021.

Furthermore, Act No. 106-2017 modified the ERS's governance. Under Act No. 106-2017, the ERS' Board of Trustees was substituted with a new Retirement Board, which is currently responsible for governing all of the Commonwealth's Retirement Systems.

Act No. 106-2017 also ordered a suspension of the ERS's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the servicing of the ERS's existing loan portfolio may be externalized. Pursuant to Act No. 106-2017, the employees of the ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8-2017.

15. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Corporation has implemented GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits other than Pensions. This Statement replaces the requirement of Statement No. 45, "Accounting and Financial Reporting for Employers for Postemployments Benefits Other Than Pensions" (GASB 45). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense / expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state, and local governmental employers.

OPEB are part of an exchange of salaries and benefits for employee service rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial report to reflect systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB, and whether and to what extent progress is being made in funding the funding the plan.

There are two groups of participants, one administered through the Employee Retirement System (ERS), consisting primarily of a medical insurance plan contribution benefit, and the

15. Other Postemployment Benefits (OPEB) (continuation)

other, resulting from collective bargaining agreements that includes other benefits to all employees who meet certain age and years of service requirements.

In the Plan administered by the Corporation, benefits consist of a maximum monthly payment (annuity) to cover medical expenses. Based on the Authority's Plan features and functionally, and for the purpose of the actuarial valuation, it has been identified as a single – employer defined benefit healthcare plan. Participant groups covered are employees under the collective bargain agreements and similar agreements.

The benefits are funded from the Corporation's assets on a pay-as-you-go basis.

Descriptions of the plans follow:

A. Commonwealth Medical Insurance Plan Contribution Benefit

The other postemployment benefit plan of the Commonwealth of Puerto Rico for the retired participants of the Employees' Retirement System (the Plan) is an unfunded, multi-employer defined benefit other postemployment healthcare benefit plan. The Plan is administered on a pay-as-you-go basis. The Plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483 as amended by Act No. 3).

The Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from each employer monthly for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. The Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. The Act No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

Actuarial Methods and Assumptions

The following actuarial assumptions applied to all periods in the measurement period:

15. Other Postemployment Benefits (OPEB) (continuation)

Valuation date	July 1, 2017
Measurement date	From July 1, 2017 to June 30, 2018
Reporting date	From July 1, 2018 to June 30, 2019
Actuarial cost method	Entry age normal
Discount rate	3.87%
Mortality decrements	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvements Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scales MP-2017 from the 2006 base year, and projected forward using MP-2017 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. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future Mortality Improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates projected using Mortality Improvements Scale MP-2017 on a generational basis. As a generational table, it reflects Mortality Improvements both before and after measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of Plan's experience from 2007 to 2012 and updated expectations regarding future Mortality Improvement. The 2010 base rates equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvements Scale MP-2017 on a generational basis. As a generational table, it reflects Mortality Improvements both before and after measurement date.

Discount Rate

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

Sensitivity of the Corporation's Proportionate Share of the OPEB Liability to Changes in the Discount Rate

The following table presents the Corporation's proportionate share of the OPEB liability using the discount rate of 3.878%, as well as what the Corporation's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87%) or 1-percentage-point higher (4.87%) than the current rate:

15. Other Postemployment Benefits (OPEB) (continuation)

	1% Decrease to 2.87%	Current Discount Rate 3.87%	1% Increase to 4.87%
Corporation's proportionate share of the OPEB liability	$ 27,500,902	$ 26,414,287	$ 23,013,160
Commonwealth's OPEB Liability	$ 923,667,332	$ 842,153,064	$ 772,938,439
Corporation's proportionate share	2.9774%	2.9774%	2.9774%

B. *Corporation's postemployment benefits other than Family Health Insurance Plan*

The Corporation's Postemployment Benefits Other Than Pensions Program provides postemployment benefits other than pensions (OPEB) to all employees who meet certain age and years of service requirements. These benefits were agreed by the Corporation and employees in the collective bargain agreements and similar agreements. The benefits are funded from the Corporation's assets. The Corporation provides the following OPEB:

- Life insurance benefit — Life insurance coverage is provided to retirees for a period of one year following retirement. It is covered through the Corporation's health plan ($20,000 of life coverage for retiree only).

- Christmas bonus benefit — Same eligibility as for the health benefits but retirement must occur after March 31. The benefit is a one–time payment in the year of retirement equal to 9.5% of salary up to a maximum of $3,325, except for unionized lawyers who receive 8.5% of salary up to a maximum of $2,720.

- Retirement payment benefit — Eligibility required at least 15 years of service at the Corporation and the retiree must provide a letter of resignation at least 90 days prior to retirement. Benefit is a lump sum of $8,100.

- Retirement bonus benefit — Same eligibility as for the Corporation Medical Plan. The trust employees receive 21% of final salary as a lump sum and all other employees receive 30% of final salary as a lump sum.

- Disability benefit — To be eligible for disability benefits, the employee must be a permanent full–time employee. A totally disabled employee who meets the disability requirements of the Social Security Administration, the Worker Compensation or the Retirement System receives a lump sum of $5,000. A totally disabled employee who resigns and is not eligible for the Retirement System,

15. Other Postemployment Benefits (OPEB) (continuation)

receives a lump sum of 55% of the last year salary and up to $5,000 for rehabilitation costs ($4,800 for trust employees).

As a result of enactment of Act No. 66-2014, certain benefits were reduced or eliminated for the period of effectiveness of the Act, and were negotiated with the different unionized groups within the Corporation with the following maximum amounts for 2016:

- Christmas bonus benefit — $600 for management and non-union employees and for the different unionized groups within the Corporation.
- Retirement payment and retirement bonus benefits — suspended for certain unionized groups.

OPEB Actuarial Valuation

The actuarial valuation was based on personnel information from the Corporation consisted of the following:

Retirees and beneficiaries currently receiving benefits	397
Current participating employees	4,357
	4,754

The following table shows the most significant actuarial methods and assumptions used to estimate the net pension obligation:

Valuation year	July 1, 2018
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Actualrial gains and losses as well as assumption change are amortized over the average expected service until retirement. Plan changes are fully recognized in the year that they occur.
Asset valuation method	Fair value
Discount rate	3.87% The plan is unfunded, so the interest rate is based on the Bond Buyer GO-20 index as of June 30, 2017.
Salary growth	4.00%
Mortality decrement	RP-2014 Generational Healthy Mortality Table for blended healthy active employee/retiree RP-2000 Combined Disability Mortality Table for disabled participants

15. Other Postemployment Benefits (OPEB) (continuation)

Funding Policy and Annual OPEB Cost

The Annual OPEB Cost is calculated based on the annual required contribution of the employer (the ARC). The ARC is determined in accordance with plan provisions, demographic participant data, actuarial assumptions, actuarial cost method, and other actuarial methods prescribed by GASB Statement No. 75. While pre–funding is not required, the ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC will generally increase with benefit cost increases and participant growth; in addition, gains/losses resulting from demographic and/or assumption changes will also impact the ARC.

OPEB liability balance recognized at 6/30/2018	$	490,545
Changes recognized for the fiscal year:		
Service cost		17,412
Interest on the total OPEB liability		17,983
Difference between expected and actual experience		(49,000)
Changes of assumptions		(8,041)
		468,899
Benefit payments		(11,400)
OPEB liability balance recognized at 6/30/2019	$	457,499

C. *Corporation's postemployment Family Health Insurance Plan*

The Corporation's Postemployment Benefits Other Than Pensions Program (the OPEB Program) provides postemployment benefits other than pensions (OPEB) to all employees who meet certain age and years of service requirements. These benefits were agreed by the Corporation and employees in the collective bargain agreements and similar agreements. The benefits are funded from the Corporation's assets. The Corporation provides the following OPEB:

- Health and other health related benefits: medical, prescription drugs, dental, and vision benefits are provided together in a fully–insured comprehensive medical program administered through MCS.

- Upon retirement, an eligible employee receives two years of non–contributory healthcare benefits from the Corporation and through its healthcare plan. The Corporation's healthcare plan covers medical, prescription drugs, vision, dental, and life insurance.

15. Other Postemployment Benefits (OPEB) (continuation)

- After the two years following retirement (up-to 7 years for certain early retirees), there is not coverage offered for Medicare eligible retirees. The retiree can continue participation in the Corporation's plan (for lifetime) by contributing the difference between the plan premium and the Corporation's contribution of $40 per month for members of the "Unión de Empleados de la Corporación del Fondo del Seguro del Estado" per retiree (including dependents, if any). The $40 per month contributions end when the retiree reaches 65 years of age and, thereafter, the retiree must contribute the full plan premium. Some retirees who retired under special incentive programs have the two-years extended (ranging from 5 to 7 years total). After the two–year period (or the special retirement program period), the retiree can continue the spouse or family coverage for the lifetime of the retiree.

OPEB Actuarial Valuation

The actuarial valuation was based on personnel information from the Corporation's OPEB Program consisted of the following:

Retirees and beneficiaries currently receiving benefits	397	448
Current participating employees	4,357	3,169
	4,754	3,617

Funding Policy and Annual OPEB Cost

Benefits are actuarially calculated by an independent actuary. The Annual OPEB Cost is calculated based on the annual required contribution of the employer (the ARC). The ARC is determined in accordance with plan provisions, demographic participant data, actuarial assumptions, actuarial cost method, and other actuarial methods prescribed by GASB Statement No. 75. While pre–funding is not required, the ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC will generally increase with benefit cost increases and participant growth; in addition, gains/losses resulting from demographic and/or assumption changes will also impact the ARC.

The following table shows the components of the Corporation's annual OPEB cost for the fiscal year ended June 30, 219, the amount contributed to the OPEB Program, the change in the Corporation's net obligation and the funded status of the OPEB Program.

15. Other Postemployment Benefits (OPEB) (continuation)

OPEB liability balance recognized at 6/30/2018	$ 54,206,111
Changes recognized for the fiscal year:	
OPEB Benefits paid	(3,578,154)
Increaase (decrease)	2,237,803
OPEB liability balance recognized at 6/30/2019	$ 52,865,760

The estimated current portion of OPEB liability is $2,104,256.

On June 30, 219, the Corporation reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**	
	Commonwealth's Medical Plan	Corporation's Family Health Insurance Plan (Unaudited)	Corporation's postemployment benefits other than Family Health Insurance Plan (Unaudited)
Net difference between projected and actual investment earning	$ -	$ 850,621	$ 44,515
Changes of assumptions or inputs	-	427,760	24,330
	$ -	$ 1,278,381	$ 68,845
Subsequent year payment	2,082,589		
Total Outflows	$ 2,082,589	Total Inflows	$ 1,347,226

Differences between expected and actual experience with regard to economic or demographic assump

16. SEGREGATION OF FUNDS

The Corporation is required to maintain an adequate accounting system and to segregate the financial resources by funds, as defined by the Act No. 45 of April 18, 1935, as amended. The provisions of the Act establish the segregation of the funds be based on their purposes, as defined.

16. Segregation of Funds (continuation)

As of June 30, 2019, the Corporation was required to account for the Death and Total Disability Fund (DTDF) and for the Reserve for Catastrophic Fund (RCF). The DTDF recognizes the claims awarded to the workers (injured employees or its beneficiaries). The Corporation maintains a separate account to record the inventory of claims adjudicated, which is part of the liabilities for incurred but unpaid benefits and benefit adjustment expenses, reflected in the accompanying financial statements. As of June 30, 2019, the DTDF (adjudged cases) amounted to approximately $304.6 million, and the investments portfolio serves to fund the obligation incurred.

The RCF is required by the Act, which serves to provide funds in an event of catastrophic situation. The provisions of this Act allow the Corporation to use the funds in the RCF to reduce any deficit incurred by the Corporation. In October 2020, the Corporation's Board of Directors approved to establish RCF's bank account with $35.4 million for coverage of cases that are filed for injured by COVID-19.

17. COMMITMENTS

Operating Lease Agreements

The Corporation rents certain of its administrative offices and clinics under non–cancelable long–term operating lease agreements. Certain leases contain escalation clauses providing for increased rental. Rent charged to operations in fiscal year 2019 amounted to approximately $14,217,102.

On June 30, 2019, the minimum annual future rentals under non–cancelable leases, without considering renewal options, are approximately as follows:

Fiscal Year Ending June 30,		Amount
2020	$	12,705,346
2021		12,749,863
2022		8,804,557
2023		4,783,806
2024-2025		8,401,635
	$	47,445,207

18. CONTINGENCIES

The Corporation is included as defendant in various lawsuits as of June 30, 2019, most of current and former employees as a result of the Corporation's decision to declare null and void certain administrative personnel transactions which occurred in prior years. Plaintiffs' claims include damages and requests for reinstatements. On November 17, 2011, as part of one of the cases being litigated, the State Court of Appeals ratified a previous ruling in favor of plaintiffs on the subject related to nullification of personnel transactions. Management believes, based on the opinion of legal counsel, that their actions were appropriate, and these adverse rulings were appealed to the State Supreme Court. Also, the Corporation is included as defendant or co–defendant in several other claims and lawsuits pending final resolution. The Corporation had medical malpractice insurance coverage through June 3, 1991, and for the period from December 31, 1996 to April 1, 2007. During the periods from June 4, 1991 to December 30, 1996 and from April 2, 2007 to present, the Corporation had no medical malpractice coverage. Management accrued expenses of approximately $1,569,300 and maintains a provision of approximately $15,402,210 to cover claims and lawsuits that may be assessed against the Corporation, including malpractice cases not covered by the related policy as of June 30, 2019. The Corporation has certain labor-related, medical malpractice, general liability and other claims for which the probability of loss is not probable, but reasonably possible, therefore no accrual was necessary to be made in the financial statements on June 30, 2019.

In the opinion of management, any loss to be sustained as a result of an unfavorable outcome for the aforementioned cases has been provided for in the reserve estimates accrued and should not materially affect the Corporation's financial statements.

19. COMPLIANCE REQUIREMENT

The Act 45 of 1935, as amended, workers compensation for accident benefit system, requires that all incurred expenses, as budgeted, to be registered by the Corporation, after subtracting medical and hospitalization expenses, cannot exceed twenty two percent (22%) of the preceding year's total premiums income. As a result of requirements of GASB No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, effective for fiscal years beginning after June 15, 2015, and the related actuarially determined pension expense, administrative expense resulted in 14.9%, excluding pension expense, which experienced an unusual increase due to a change in estimate in pension liability.

20. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 15, 2021, which is the same date the financial statements were available to be issued.

Effects of the Coronavirus Disease

During the month of December 2019, a respiratory disease started to spread, caused by a novel virus called "Coronavirus" or COVID-19. The World Health Organization (WHO) declared a global health emergency in January 2020 and in March 2020, it declared the spread of COVID-19 as a global pandemic.

The effects of the disease have been swift. The pandemic has transformed economic outlooks, health, and social norms around the globe. Government and health care providers are working around the clock to slow the spread of the disease. The whole world is affected by the pandemic. Travel restrictions are in place, and global trade, commerce, tourism, investment, and supply chains were in disarray. Measures taken to contain the spread of the virus, including quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses locally and worldwide, resulting in an economic slowdown.

The Governor of the Commonwealth of Puerto Rico issued a lock-down starting on March 15, 2020. On May 20, 2021, the Governor issued Administrative Order OE-2021-036, lifting the lock-down effective May 24, 2021. From July 5, 2021, all Administrative Orders related to the COVID-19 disease were eliminated.

The Corporation's administrative offices were initially affected by the full lock-down but continue to operate remotely. The medical services operation experienced a reduction of load as many non-emergency procedures were suspended or limited by the Governor's Executive Orders. Notwithstanding, the Corporation covers the pandemic related illnesses of all covered employees (its own and others) infected while at work.

The Corporation cannot predict the exact impact on our activities in the reminder 2021 and thereafter. Depending on the duration of the COVID-19 crisis and the continued negative impact on the individuals, local and global economic activity, we might experience additional negative results, although, as of the basic financial statements issuance date, this is not expected.

Securities and Exchange Commission v. Kinetic Investment Group, LLC, et al., No. 8:20-cv-00394-WFJ-SPF (M.D. Fla., filed February 20, 2020)

On February 20, 2020, the Securities and Exchange Commission (SEC) filed a civil enforcement action in the United States District Court for the Middle District of Florida against defendants Kinetic Investment Group, LLC and Michael Scott Williams (collectively,

20. Subsequent Events (continuation)

defendants). In their Complaint, the SEC alleged that the defendants conducted a fraudulent and unregistered securities offering that raised approximately $39 million from several dozen investors located in Florida and Puerto Rico. As set forth further in the Complaint, the SEC also accused Williams of misappropriating at least $6.3 million through undisclosed loans to himself and entities he controlled. In addition to the defendants, the Complaint also names six relief defendants that received proceeds of the alleged fraud without any legitimate entitlement to the funds: Kinetic Funds I, LLC; KCL Services, LLC d/b/a Lendacy, Scipio, LLC; LF42, LLC; El Morro Financial Group, LLC; and KIH, Inc. f/k/a Kinetic International, LLC.

The SEC sought various forms of relief against the defendants including an asset freeze and the appointment of a receiver to assist in marshalling assets on behalf of creditors, including injured investors. Defendants opposed this relief.

On March 6, 2020, the Court held a hearing on the SEC's motions and that same day entered an Order appointing Mark Kornfeld as Receiver over Kinetic Investment Group and all Relief Defendants. Mr. Kornfeld is an attorney with the Buchanan Ingersoll & Rooney PC law firm and his bio is available here. In the Order Appointing Receiver, the Court directed the Receiver to (i) administer and manage the business affairs, funds, assets, and any other property of the defendants and relief defendants; (ii) marshal and safeguard the assets of the defendants and relief defendants; (iii) investigate the manner in which the affairs of the defendants and relief defendants were conducted and institute such legal proceedings for the benefit of the defendants and relief defendants and their investors and creditors as the Receiver deems necessary; and (iv) take whatever actions are necessary for the protection of the investors. The Receiver intends to fulfill his duties and responsibilities as efficiently and effectively as possible. The District Court overseeing this Receivership has broad powers and wide discretion to determine the appropriate relief.

On October 29, 2021, the Court entered an Order granting the Receiver's Motion to Approve First Interim Distribution and authorizing the Receiver to proceed with an initial distribution of 40% of each Investor Claimant with an Approved Claim. As set forth in the Motion, the distribution checks will be made payable to each Investor Claimant based on the source of investment and will be mailed to the addresses provided by the Investor Claimant on their respective Proof of Claim form.

On November 5, 2021, the Receiver issued a check to the Corporation for $7,200,000, which was received on November 24, 2021, and promptly deposited by the Corporation.

Voluntary Transition Program

The Oversight Board, pursuant to its authority under PROMESA, reviews all fiscal matters of the Commonwealth, including public corporations. To comply with the Oversight Board requirements, the Corporation proposed the in fiscal year 2019-2020 the implementation of a

20. Subsequent Events (continuation)

Voluntary Transition Program (VTP) open to qualifying employees. After securing Board approval, the Corporation implemented such program effective November 1, 2021, when 280 employees transitioned out of the Corporation.

Transfer of PREPA employees as part of agreement with LUMA for operating PREPA's energy distribution system

The Puerto Rico Energy and Power Authority (PREPA) established by the Puerto Rico Public-Private Partnership Authority (the "P3 Authority") pursuant to Section 5 of the Puerto Rico Electric System Transformation Act, Act No. 120-2018, as amended ("Act 120"), determined to recommend to the board of directors of the P3 Authority (the "P3 Authority Board") that the contract for the management, operation, maintenance, repair, restoration, and replacement of the Puerto Rico electric power transmission and distribution system (the "Project") be awarded to LUMA Energy. As part of the agreement, LUMA would hire all qualified employees of PREPA that applied voluntarily to transfer to LUMA. Those that didn't chose to transfer to LUMA, would remain government employees and be transferred to other government agencies and corporations.

On July 1, 2021, one hundred (100) of those employees were transferred to the Corporation.

Improvement in digital support of operation.

In its commitment to improve the efficiency of operation and remain accessible to employers and injured during disasters, the Corporation implemented during fiscal year 2021 a digital platform to store the Corporation's data and make it available to employees and providers regardless of the physical location of the servers.

Required Supplementary Information

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplementary Information

Ten - Year Claims Development Information (Unaudited)

Year ended June 30, 2019

(INumbers n Thousand)

Description		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1) Projected gross earned premiums	$	668,662	678,788	694,758	692,926	668,260	638,621	615,727	618,237	681,688	650,468
2) Unallocated expense		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
3) Estimated ultimate awards at end of policy year	$	496,427	462,174	462,174	433,384	419,716	373,238	338,675	313,250	283,725	224,221
4) Awarded as of:											
12 months	$	292,341	268,231	247,695	242,007	216,738	224,536	215,007	203,400	167,049	154,630
24 months		377,569	346,681	311,677	286,339	255,403	263,544	249,783	227,810	192,805	
36 months		420,914	385,763	346,266	309,732	270,039	280,331	261,595	240,514		
48 months		444,719	408,457	364,545	323,738	280,528	288,157	268,698			
60 months		460,389	422,667	375,635	332,583	285,921	293,183				
72 months		470,690	432,164	382,620	337,388	289,854					
84 months		477,606	438,252	386,676	341,381						
96 months		482,755	441,958	389,530							
108 months		485,923	444,976								
120 months		489,907									
5) Re-estimated ultimate incurred:											
12 months	$	496,427	462,174	433,384	419,716	377,238	373,135	338,675	313,250	283,725	224,221
24 months		501,982	469,985	425,528	395,275	345,761	341,800	318,900	298,650	246,705	
36 months		511,403	475,169	429,688	376,912	327,100	333,250	311,750	279,732		
48 months		516,950	478,540	426,189	372,050	322,800	324,761	292,613			
60 months		520,624	477,819	422,575	374,150	316,949	313,640				
72 months		520,318	484,788	423,254	371,715	309,326					
84 months		531,071	483,807	421,764	364,193						
96 months		533,052	483,043	418,512							
108 months		532,286	479,050								
120 months		529,014									

See accompanying independent auditor’s report and the notes to basic financial statements for the disclosures of the actuarial assumptions and method.

STATE INSURANCE FUND CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplementary Information
Schedules of the Corporation's Proportionate Share of the Pension Liability and Corporation's Contributions
Year Ended June 30, 2019

	Fiscal Year 2019	Fiscal Year 2018
Corporation's proportion of the net total pension liability	7.09423%	6.72858%
Corporation's proportionate share of the net total pension liability	$ 1,737,343,112	$ 1,897,769,500

Benefit Changes: Beginning on July 1, 2017, the pension benefits were paid through pay-as-you-go method. Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of ERS. As a result of the implementation of the PayGo system, the plan does not meet the criteria in paragraph 4 of GASB Statement No. 68, to be considered a plan that is administered through a trust or equivalent arrangement, and therefore, is required apply the guidance on GASB Statement No. 73.

Date References: Employee's Retirement System of the Government of the Commonwealth of Puerto Rico: Actuarial Valuation Report.

Notes to the Schedule:

(1) Fiscal year 2019 was the first year of implementation. The schedule will be expanded to show 10 years once the 'information becomes available in the future. Amounts presented have a measurement date of the previous fiscal year end.

(2) There are no assets accumulated in a trust for payment of defined pension benefits participants, and the plan is not administered through a trust or equivalent arrangement.

See accompanying independent auditor's report and the notes to basic financial statements for the disclosures of the actuarial assumptions and method.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Question Costs
Year Ended June 30, 2019

The following schedules 2a & 2b are being presented to provide information on the Corporation's proportionate share of the OPEB liability and the Corporation's contributions related to the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the

(2a) Schedule of the Corporation's Proportionate Share of the OPEB Liability

Measurement Year Ending		30-Jun-18		30-Jun-17
Reporting Year Ending		30-Jun-19		30-Jun-18
Corporation's proportion of the OPEB liability (Note 1)		2.97736%		2.86950%
Corporation's proportionate share of the OPEB liability (Note 1)	$	25,073,936	$	26,414,287
Corporation's covered-employee payroll	$	n/a	$	n/a
Corporation's proportionate share of the OPEB liability as a percentage of its covered-employee payroll		n/a		n/a
Plan's fiduciary net position as a percentage of the total OPEB liability		n/a		n/a
Commonwealth's plan fiduciary net position(deficit) as a percentage of the total OPEB liability (Note 1)		n/a		n/a

(2b) Schedule of the Corporation's Contributions

Statutorily required employer contribution (Note 1)	$	2,082,589	$	2,213,275
Amount of contributions recognized by the OPEB in relation to the statutorily required contribution (Note 1)		2,082,589	$	2,213,275
Contribution deficiency (excess)	$	—	$	—
Corporation's covered-employee payroll	$	n/a	$	n/a
Contributions recognized by the OPEB as a percentage of covered-employee payroll		n/a		n/a

See accompanying independent auditor’s report and the notes to basic financial statements for the disclosures of the actuarial assumptions and method.