GOVERNMENT OF PUERTO RICO
State Insurance Fund Corporation

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements
and Required Supplementary Information

June 30, 2022

(With Independent Auditor's Report Thereon)

State Insurance Fund Corporation

(A Component Unit of the Commonwealth of Puerto Rico)

Table of Contents
June 30, 2022

Table of Contents

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
Opinion

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, 2022, and the related notes to the financial statements, which collectively comprise the Corporations basic financial statements, as listed in the table of contents.

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, 2022, 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.

Emphasis of Matter

As discussed in Note 2(x) to the financial statements, in 2022 the Corporation adopted new accounting guidance (GASB Statement No. 87, Leases). Our opinion is not modified with respect to this matter.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

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Auditor's Responsibility for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 and the Ten-Year Claims Development Information on page 79 and required supplementary information by GASB Statements No. 73 and 75 on pages 75 thru 78, 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
July 27, 2023

Aquino, De Córdova, Alfaro & Co., LLP
by Eduardo González-Green
Lic. # 3171

Stamp number E535125
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, or SIFC) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Act 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 expected, the ratio for the year ended June 30, 2022, was 14.9%, well within compliance.

This section presents a narrative overview and analysis of the financial performance of the Corporation as of and for the year ended June 30, 2022. 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 $950.9 million on June 30, 2022, which comprised of $1,768.8 million in total assets and $353.6 million in deferred outflows of resources related to pension plan and post-employment benefits, less $2,988.7 million in total liabilities and $84.5 million in deferred inflows of resources related to pension plan, post-employment benefits and operating leases.

- Since the implementation of GASB 73 and GASB 75 (Pension and Other Post Employment Benefits, respectfully) in the year ended June 30, 2017, the Corporation began reflecting a net deficit in the accompanying Statement of Net Position. This deficit is caused by the recognition of its share of the liability of Commonwealth Employee Retirement System which impacts the Statement by approximately $1,716.2 million, net of related deferred outflows and inflows. Except for the effect of recognizing these liabilities, the Corporation continues to achieve a positive change in net position from its operations of approximately $172.4 million for the year ended June 30, 2022.

- Increase in total assets of $105.8 million, or 6.37%, in 2022 when compared to 2021.

- Decrease in total liabilities of $135.1 million, or 4.33% in 2022, when compared to 2021.

- Operating income increased by $122.1 million. The most significant changes affecting operating income include:

○ Decreased due to a decrease in credit for compensation and medical benefits	$118.5 million
○ Decreased due to a decrease in pension expense	$6.9 million
○ Increase in general and administrative expense	$8.4 million
○ Increase in operating revenue	$5.0 million

- The compensation and medical benefits decrease is due primarily to the credit component, which decreased by 184.71% and was the result of actuarial estimates being more favorable in part due to higher discount rates applied to future payments.

- The decrease in pension expenses was 5.77% and can be attributed in part to the expected attrition in beneficiaries and in part due to higher discount rates applied to future that influenced the estimates by external actuaries, something the Corporation has no control of.

- The increase in general and administrative expenses represents 9.17% over prior year's expense and can be attributed primarily to the amortization of right-of-use assets related to leases, and in part to increases in accrued expenses and provision for legal contingencies.

- The increase in operating revenue represents 0.8% over prior year's and is considered consistent with the level of economic activity.

- The new accounting standard, GASB Statement No 87, Leases, was adopted during the year ended June 30, 2022. The adoption effect of the new lease standard resulted in the following lease activities recognized by the Corporation as of July 1, 2022: as a lessee, the Corporation recorded a right of use assets and a lease liability of approximately $45.7 million; and as a lessor, the Corporation recorded a lease receivable and a deferred inflow of resources of approximately $2.8 million in the statement of net position (deficit).

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This management discussion and analysis is a 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. <u>Statement of Net Position (Deficit)</u> 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. <u>Statement of Revenues, Expenses, and Changes in Net Position</u> 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. <u>Statement of Cash Flows</u> 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. <u>Notes to the Basic Financial Statements</u> provide additional information 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 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, 2022, and 2021:

	June 30,		Change	
	2022	2021	Amount	Percent
Assets:				
Cash and cash equivalents	$ 612,664,597	$ 409,616,007	$ 203,048,590	49.57 %
Accounts receivable - net	96,375,950	93,016,205	3,359,745	3.61 %
Note receivable	83,010,958	80,000,000	3,010,958	3.76 %
Investments	802,218,159	886,730,105	(84,511,946)	(9.53)%
Prepaid expenses	522,037	—	522,037	100.00 %
Capital assets - net	169,730,095	188,497,715	(18,767,620)	(9.96)%
Lease receivable	2,873,576	3,485,441	(611,865)	(17.55)%
Other assets	1,410,232	1,596,091	(185,859)	(11.64)%
Total assets	1,768,805,604	1,662,941,564	105,864,040	6.37 %
Deferred outflows of resources	353,604,836	417,466,614	(63,861,778)	(15.30)%
Total assets and deferred outflows	$2,122,410,440	$2,080,408,178	$ 42,002,262	2.02 %
Liabilities:				
Current liabilities	$ 548,533,662	$ 479,478,957	$ 69,054,705	14.40 %
Non-current liabilities	2,440,240,846	2,644,431,364	(204,190,518)	(7.72)%
Total liabilities	2,988,774,508	3,123,910,321	(135,135,813)	(4.33)%
Deferred inflows of resources	84,564,799	79,846,527	4,718,272	5.91 %
Net position:				
Net investment in capital assets	101,263,977	108,093,383	(6,829,406)	(6.32)%
Unrestricted	(1,052,192,844)	(1,231,442,053)	179,249,209	(14.56)%
Total net position	(950,928,867)	(1,123,348,670)	172,419,803	(15.35)%
Total liabilities, deferred inflows and net position	$2,122,410,440	$2,080,408,178	$ 42,002,262	2.02 %

- **The Corporation's total assets increased by $105.8 million in 2022 or 6.37%**

Total assets of the Corporation increased to approximately $1,768.8 million in 2022 from $1,662.9 million in 2021. This increase is mainly attributed to an increase in cash and cash equivalent ($203.0 million), net of a reduction in investments ($84.5 million).

- **Capital assets-net decreased by $18.7 million in 2022 (or 9.96%)**

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 financed purchases, as well as right-of-use assets related to leased assets (see below). During the year ended June 30, 2022, the Corporation's capital assets had additions mainly related acquisition of medical and office equipment, and software and related assets. The Corporation had no outstanding capital commitment as of June 30, 2022. The decrease in capital assets-net is primarily attributed to depreciation.

Refer to Notes 8 to the basic financial statements for further information regarding the Corporation's net capital assets.

- **Lease right-of-use assets**

The Corporation implemented GASB Statement No. 87 – Leases as of June 30, 2022, which impact was greatest in the recognition of right-of-use assets and liabilities related to operating leases. These leases are for buildings and parking space for medical facilities and offices and include both the Corporation primarily as a lessee and as a lessor for subrental agreements. The leases have remaining lease terms of 1 year to 5 years, some of which include options to extend the leases up to 5 years, and some of which include options to terminate the leases within 1 year. Management has determined to include five years beyond the end for those leases which end within the next 12 months of June 30, 2022, as there is expectation of continuing use of critical facilities currently under contract.

As of June 30, 2022, right-of-use assets and related liabilities were approximately $45.7 million, a decrease of approximately $13.2 million from prior year's comparative amount, due primarily to the extinguishment of right of use with the passing of time. The receivable along with a deferred inflow of resources associated with subleases amounted to approximately $2.8 million, a reduction of approximately $611,000 from prior year's comparative amount.

- **The Corporation's total liabilities decreased by $135.1 million in 2022 (4.33%)**

Liabilities decreased to approximately $2,988.7 million in 2022 from comparative $3,123.9 million in 2021. This is mainly attributed to decreases in the actuary determined incurred but unreported benefits liability and pension liability of approximately $69.0 million and $49.1 million, respectively. Both of these estimates were influenced by higher discount rates applied to future payments in fiscal year 2022 versus those applied fiscal year 2021.

- **The Corporation's deferred outflows decreased by approximately $63.8 million in 2022 (or 15.3%) and deferred inflows increased by $4.7 million (or 5.91%)**

The decrease in deferred outflows was due primarily to changes in pension-related actuarial estimates to comply with GASB Statement No. 73. The increase in deferred inflows can be attributed in part to the implementation of GASB Statement No. 87, Leases, related to subleased facilities and in part to changes in pension-related actuarial estimates to comply with GASB Statement No. 73. On June 30, 2022, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pension plan of approximately $353.6 million and $84.5 million, respectively. The deferred outflows of resources include approximately $95.7 million in pension and other post-employment benefit payments after the measurement date of June 30, 2021.

- **The Corporation's net position increased by $172.4 million in 2022 (or 15.35%)**

The increase in the Corporation's net position as of June 30, 2022, is reflected primarily in the net increase in cash of approximately $203.0 million, and net reductions in investments, deferred outflow of resources and total liabilities of approximately $84.5 million, $63.8 million, and $135.1 million, respectively. The primary reductions in liability were for incurred but unpaid benefits and benefit and pension liability of approximately $69.0 million and $49.1 million respectively. The Corporation reported a deficit on June 30, 2022, of approximately $1,036.0 million in unrestricted net position, and $85.1 million invested in capital assets-net of related debt, for a total net deficit of approximately $950.9 million. By comparison, the Corporation reported a net deficit of approximately $1,123.3 million on June 30, 2021, for a reduction in net deficit of approximately $172.4 million.

- **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, 2022, and 2021:

	June 30,		Change	
	2022	**2021**	**Amount**	**Percent**
Operating revenues	$ 634,675,715	$ 629,636,800	$ 5,038,915	0.80 %
Operating expenses:				
Pension expense	113,298,717	120,240,133	(6,941,416)	(5.77)%
Compensation and medical benefits	182,920,541	301,486,756	(118,566,215)	(39.33)%
General and administrative	100,045,662	91,643,945	8,401,717	9.17 %
Total operating expenses	396,264,920	513,370,834	(117,105,914)	(22.81)%
Operating income	238,410,795	116,265,966	122,144,829	105.06 %
Non-operating (expenses) revenues - net	(35,755,992)	198,378,935	(234,134,927)	(118.02)%
Transfers to other governmental agencies	(30,235,000)	(35,719,750)	5,484,750	(15.35)%
Change in net position	172,419,803	278,925,151	(106,505,348)	(38.18)%
Net deficit- beginning of year	(1,123,348,670)	(1,402,273,821)	278,925,151	(19.89)%
Net deficit- end of year	$ (950,928,867)	$(1,123,348,670)	$172,419,803	(15.35)%

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.

- **Pension expense decreased by $6.9 million in 2022 (or 5.77%)**

Pension expenses decreased to approximately $113.3 million, from $120.2 million in fiscal year ended June 30, 2021. The decrease can be attributed to changes in actuarial estimates influenced by demographics and interest rates used to discount future payments. The portion of pension expense attributed to compensation and medical benefits for fiscal year 2022 amounted to approximately $69.9 million, which if included with the compensation and medical benefits, this component of operating expense would have shown a total expense of approximately $254.2 million. The portion of pension expenses attributed to general and administrative (G&A) amounted to approximately $43.3 million, for a total G&A of approximately $141.9 million.

- **Compensation and medical benefits decreased by $118.5 million in 2022 (or 39.33%)**

Excluding its share of pension expense, the decrease in compensation and medical benefits for the year ended June 30, 2022, can be attributed primarily to an increase in actuarial estimates for credit for compensation benefits, medical benefits, and benefits adjustments expense of approximately $124.5 million, net of an increase in compensation benefits of $2.7 million. Compensation and medical benefits for the year ended June 30, 2022, amounted to $182.9 million when compared to $301.4 million for the prior year.

- **General and administrative expenses (including depreciation and amortization) increased by $8.4 million in 2022 (or 9.17%)**

The increase in general and administrative expenses for the year ended June 30, 2022, can be attributed in part to increases in accrued expenses and provision for legal contingencies. For the year ended June 30, 2022, the Corporation reported general and administrative expenses of $100.0 million when compared to $91.6 million for 2021.

- **Non-operating (expenses) revenues - net decreased by approximately $234.1 million in 2022 (or 118.02%)**

The net decrease in non-operating revenues is primarily attributed to a net decrease in the fair value of investments of approximately $240.1 million.

- **Transfers to other governmental agencies-net decreased by approximately $5.4 million in 2022 (or 15.35%)**

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, 2022, the Corporation transferred approximately $30.2 million to other governmental agencies including, the Industrial Commission of Puerto Rico, the Department of Labor and Human Resources and the Department of the Family, as compared to $35.7 million in 2021.

GOING CONCERN — COMMONWEALTH OF PUERTO RICO

The Commonwealth of Puerto Rico (Commonwealth) went through a severe fiscal, economic and liquidity crisis, resulting from many years of significant governmental deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. This crisis stressed the Commonwealth's liquidity. Under these circumstances, the Commonwealth could not pay all its obligations as they became due while at the same time providing essential government services.

To assist the Commonwealth with the crisis, the U.S. Congress passed in May of 2016 the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), which enabled Puerto Rico to restructure its debt and achieve fiscal responsibility. The Oversight Board, together with the Government of Puerto Rico, so far restructured about 80% of Puerto Rico's outstanding debt, lowering total liabilities from more than $70 billion to a sustainable $37 billion, which will save Puerto Rico more than $50 billion in debt service payments. On January 18, 2022, Judge Laura Taylor Swain of the U.S. District Court for the District of Puerto Rico confirmed the Plan of Adjustment for the Commonwealth of Puerto Rico to restructure $33 billion of liabilities against the Commonwealth of Puerto Rico, the Public Building Authority (PBA), and the Employee Retirement System (ERS); and more than $55 billion of pension liabilities to sustainable $7 billion. The Plan of Adjustment became effective on March 15, 2022, concluding a major chapter in the largest public sector bankruptcy in U.S. history.

As part of the restructuring process, the Oversight Board imposed budgetary restrictions on the operations of the Commonwealth and its component units. Although a major agreement was reached in 2022, the Oversight Board monitors compliance with the budgetary restrictions the Commonwealth agreed to. As part of the financial constraints imposed by the Oversight Board, the Corporation made adjustments to its operations and continues to experience positive results from operations and related cash flows.

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, 2022

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position (Deficit)

June 30, 2022

Assets		
Current assets:		
Cash	$	612,664,597
Accounts receivable, net		96,375,950
Inventories		1,410,232
Prepaid expenses		522,037
Lease receivable		661,782
Investments		595,014,096
Total current assets		1,306,648,694
Noncurrent assets:		
Investments		207,204,063
Note receivable		83,010,958
Lease receivable		2,211,794
		292,426,815
Capital assets		
Non-depreciable assets		
Land		18,532,166
Depreciable assets, including software and Right of use assets		151,197,929
		169,730,095
Total non current assets		462,156,910
Total assets		1,768,805,604
Deferred Outflows of Resources		
Pension related		351,560,257
Other postemployment benefits related		2,044,579
		353,604,836
Total assets and deferred outflows of resources	$	2,122,410,440

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, 2022

(continuation)

Liabilities		
Current liabilities:		
Liability for incurred but unpaid benefits and benefit adjustment expenses	$	202,575,266
Accounts payable		111,345,804
Pension liability		110,952,566
Accrued payroll benefits		17,756,908
Unearned premiums		40,417,711
Accrual for reimbursement of premiums		47,575,763
Lease liabilities		16,016,201
Other postemployment benefits liability		1,893,443
Total current liabilities		548,533,662
Non current liabilities:		
Liability for incurred but unpaid benefits and benefit adjustment expenses		441,871,095
Accrued liabilities		18,591,410
Accrual for reimbursement of premiums		35,825,197
Lease liabilities		49,576,341
Other postemployment benefits liability		22,997,804
Pension liability		1,852,368,764
Reserve for legal claims		19,010,235
Total non current liabilities		2,440,240,846
Total liabilities		2,988,774,508
Deferred Inflows of Resources		
Pension plan		81,691,223
Leases		2,873,576
		84,564,799
Net Deficit		
Net investment in capital assets		101,263,977
Unrestricted		(1,052,192,844)
Total net deficit		(950,928,867)
Total liabilities, deferred inflows of resources and net deficit	$	2,122,410,440

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, 2022

Operating revenues:		
Insurance premiums earned	$	709,465,649
Miscellaneous income, net (includes $672,548 of lease revenue)		23,843,830
Less:		
Reimbursement of insurance premiums		(34,508,729)
Provision for uncollectible insurance premiums		(64,125,035)
Total operating revenues		634,675,715
Operating expenses:		
Compensation benefits		41,657,390
Pension expense		113,298,717
Medical benefits, legal fees and others (includes $8,620,944 in amortization of right-of-use leased assets)		198,393,790
Credit for compensation benefits, medical benefits, and benefit adjustment expenses		(57,130,639)
Administrative expenses (includes $4,642,046 in amortization of right-of-use leased assets)		93,589,573
Depreciation and amortization		6,456,089
Total operating expenses		396,264,920
Operating income		238,410,795
Non operating revenues (expenses):		
Interest and dividend income, net		12,547,556
Net decrease in fair value of investments		(45,915,015)
Interest expense		(2,150,204)
Contributions to Commonwealth		(30,235,000)
Loss on disposition of assets		(238,329)
Total non operating revenues, net		(65,990,992)
Change in net position		172,419,803
Net deficit at beginning of year		(1,123,348,670)
Net deficit at end of year	$	(950,928,867)

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, 2022

Cash flows from operating activities:	
Excess of collections over reimbursements of insurance premiums	$ 653,991,412
Payments of compensation benefits	(53,551,502)
Payment of employment benefits	(90,213,195)
Payments of medical benefits, legal fees and others	(198,393,790)
Payments of administrative expenses	(108,871,740)
Net cash provided by operating activities	202,961,185
Cash flows from non capital financing activities:	
Transfers to Commonwealth	(30,235,000)
Net cash used in non capital financing activities	(30,235,000)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(1,163,917)
Payment of interest	(2,150,204)
Principal and interest paid on leases	(14,441,328)
Principal and interest received on leases	672,548
Payments of principal under financed purchases	(1,574,674)
Net cash used in capital and related financing activities	(18,657,575)
Cash flows from investing activities:	
Proceeds from sales and redemptions of debt and equity securities	279,799,236
Purchases of debt and equity securities	(227,808,298)
Purchase of note receivable	(3,010,958)
Net cash used in investing activities	48,979,980
Net increase in cash and cash equivalents	203,048,590
Cash and cash equivalents at beginning of year	409,616,007
Cash and cash equivalents at end of year	$ 612,664,597

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, 2022

(continuation)

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	238,410,795
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for uncollectible accounts		64,125,035
Depreciation and amortization		19,719,079
Amortization of lease receivable		(578,987)
Loss on disposition of assets		238,329
Changes in assets and liabilities, and deferred items, that increase (decrease) cash flows from operating activities:		
Accounts receivable		(67,484,780)
Inventories		185,859
Prepaid expenses		(522,037)
Liability for incurred but unpaid benefits and benefit adjustment expenses		(69,024,751)
Change in Other Post-employment benefit liability		(2,130,272)
Deferred outflows and inflows of resources pension related		65,706,474
Change in Pension liability		(49,111,624)
Accounts payable		(12,496,384)
Accrued liabilities		(7,329,980)
Unearned premiums		15,461,058
Accrual for reimbursement of premiums		7,793,371
Net cash provided by operating activities	$	202,961,185
Summary of non-cash transactions:		
Securities purchased but not yet received	$	7,334,555
Securities sold but not yet delivered	$	1,100,190
Net decrease in the fair value of investments (unrealized gains/losses)	$	80,032,333

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements

1. ORGANIZATION

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 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. 76, *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:

- Net investment in capital assets 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.

- Restricted consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

- Unrestricted 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) ***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,

2. Summary of significant accounting policies (continuation)

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.

(e) *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.

(f) *Reinsurance*

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

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

All liabilities have been discounted at the requests of the Corporation. All future cash flows associated with benefits are discounted using an interest rate provided by the Corporation of 3.376% 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 5.5% as well. The return premium liability is discounted to July 1, 2021 using an annual interest rate of 3.076 %, 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

2. Summary of significant accounting policies (continuation)

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.

Management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined on June 30, 2022, 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.

(h) *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.

(i) *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

2. Summary of significant accounting policies (continuation)

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.

(j) ***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).

There were no outstanding securities lending transactions as of June 30, 2022.

(k) ***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.

(l) ***Inventories***

Inventories are stated at lower of cost, (first-in/first-out method) or net realizable value.

2. Summary of significant accounting policies (continuation)

(m) *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 $500. The useful lives of these assets are as follow:

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.

(n) *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 2022.

2. Summary of significant accounting policies (continuation)

(o) *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.

(p) *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 to a maximum permitted by Act No. 66 of 2014 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 of to the maximum allowed by the Act.

(q) *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, 2022, no formal voluntary termination benefits were incurred.

(r) *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.

2. Summary of significant accounting policies (continuation)

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 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.

(s) ***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".

2. Summary of significant accounting policies (continuation)

(t) *Income Taxes*

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

(u) *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.

(v) *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.

(w) *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

2. Summary of significant accounting policies (continuation)

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.

(x) ***Leases***

On July 1. 2021. the Corporation adopted the provisions of Statement No. 87 of the Governmental Accounting Standards Board, Leases (GASB ,No. 87). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for government leases. This Statement requires the recognition of certain leases' assets and liabilities that were previously classified as operating leases and recognized as inflow of resourcess, or outflows of resources, based on the payment provisions of the contract.

GASB No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financing agreements of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

For purposes of applying this Statement, a lease is defined as a contract that conveys control of the right to use another entity nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

(y) ***Fiscal Sustainability***

The Corporation complies with Act No. 66, the "Fiscal Sustainability Act, which 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.

(z) ***Implementation of accounting standards***

The provisions of the following Governmental Accounting Board (GASB) Statements are effective and have been implemented, when applicable, during the year ended June 30, 2022.

GASB Statement No. 87, Leases. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-of-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. For lessors, GASB No. 87 was implemented and has an impact on the Corporation's basic financial statements, as the Corporation is both a lessee and a lessor. The right-of-use

2. Summary of significant accounting policies (continuation)

asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. Right of use assets are amortized over the shorter of the asset useful life or the term of the lease. This statement changes the term "capital lease" to financed purchase.

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB No. 89 does not have any impact on the Corporation's basic financial statements as the Corporation did not have any financed construction at June 30, 2022.

GASB Statement No. 92, Omnibus 2020. This Statement addresses a variety of topics and specific provisions in GASB Statements 67, 68, 73, 74, 84 and 87. The major impact of GASB No. 92 on the Corporation's basic financial statements was in the recognition of right of operating leases use assets and liabilities (GASB No.87).

GASB Statement No. 93, Replacement of Interbank Offered Rates. As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This Statement addresses the accounting and financial reporting implications for derivative instruments that result from the replacement of an interbank offered rate (IBOR). GASB No. 93 does not have any impact on the Corporation's basic financial statements.

(aa) ***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.

2. Summary of significant accounting policies (continuation)

(continued)

GASB Statement No.	Name	Application required in fiscal year (per GASB 95)
91	Conduit Debt Obligations: This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment.	2023
92	Omnibus 2020: This Statement addresses a variety of topics and specific provisions in GASB Statements 67, 68, 73, 74, 84 and 87.	2022*
93	Replacement of Interbank Offered Rates: This Statement addresses to address accounting and financial reporting implications for derivative instruments that result from the replacement of an IBOR.	2022*
95	Postponement of the Effective Dates of Certain Authoritative Guidance	*by one year ** by 18 months
96	Subscription-Based Information Technology Arrangements: This Statement (1) defines a subscription-based information technology arrangements (SBITAs); (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.	2023
97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans: This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.	2023

2. Summary of significant accounting policies (continuation)

GASB Statement No.	(continued) Name	Application required in fiscal year (per GASB 95)
99	Affects the following: Amends GASBS 10, ¶49, ¶56, and ¶130; Supersedes GASBS 24, ¶6 and fn3–fn5: Will supersede GASBS 62, ¶109, ¶110, and fn43; Amends GASBS 24, ¶2, ¶3, and ¶16: Amends GASBS 30, ¶6: Amends GASBS 33, ¶5: Amends GASBS 34, ¶6, ¶13, and fn23: Amends GASBS 53, ¶20, ¶23, ¶25, ¶35, and fn7: Will amend GASBS 53, ¶12, ¶20, ¶23, ¶25, and ¶69: Will supersede GASBS 62, ¶109, ¶110, and fn43: Amends GASBS 62, ¶280, ¶485, and fn228: Will amend GASBS 62, ¶98 and ¶99: Will amend GASBS 72, ¶80: Amends GASBS 87, ¶16, ¶22, ¶26, ¶28, ¶45, ¶50, and ¶61: Amends GASBS 93, ¶11: Amends GASBS 94, ¶10, ¶28, ¶45, and ¶47: Amends GASBS 96, ¶9, ¶21, and ¶23: Amends GASBI 1, ¶11: Amends GASBIG 2015-1, Q7.34.4 and Q10.13.7: Will amend GASBIG 2015-1, Q1.65.5, Q10.13.6, Q10.15.3, Q10.15.6, Q10.16.4, Q10.16.5, and Q10.18.1–Q10.18.4: Amends GASBIG 2016-1, Q4.7 and Q5.15: Will amend GASBIG 2016-1, Q4.7 and Q4.67: Will amend GASBIG 2019-1, Q4.6: Amends GASBIG 2019-3, Q4.13, Q4.14, Q4.19, Q4.28, Q4.29, Q4.34, and Q4.46–Q4.48	2023 and 2024
100	Accounting Changes and Error Corrections (an amendment of GASB Statement No. 62 (June 2022, effective for fiscal years beginning after June 15, 2023. Earlier application is encouraged.) Paragraphs 15 through 18, 20, 21, 23, 24, 27 through 31, and 32 through 34.	2024
101	Compensated Absences (June 2022, effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged.) Paragraphs 30, 31, and 33.	2025

3. CASH

The Corporation's cash and cash equivalents as of June 30, 2022, are comprised of the following:

Description		
Cash on hand	$	11,900
Cash in investment trust account		109,905,639
Cash in commercial banks		502,747,058
Total	$	612,664,597

3. Cash (continuation)

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, 2022).

All securities pledged as collateral are held by the Secretary of Treasury of the Commonwealth. As of June 30, 2022, the Corporation had approximately $502.7 million and $109.9 million in depository balance with a financial institution and a fiduciary 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, 2022. 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 June 18, 2018), 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 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. 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

4. Investments (continuation)

- 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
- 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, 2022, investments were classified as current and non-current in the accompanying Statement of Net Position (Deficit) as follows:

4. Investments (continuation)

Current assets:		
Investments in debt and equity securities	$	595,014,096
Total current assets		595,014,096
Non-current assets		207,204,063
Total	$	802,218,159

The Corporation did not hold cash equivalents as of June 30, 2022.

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,

Level 3: Unobservable inputs.

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, 2022, amounted to approximately $300.7 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

4. Investments (continuation)

partnership agreements. The following table presents the unfunded commitments for the alternative investments measured at NAV:

Description	Source	Net Assets Value (NAV)	Capital Commitments	Capital Contributed	Unfunded Commitments
Guayacán Private Equity Fund L.P., II	Unaudited	$ 3,741,867	$ 10,000,000	$ 9,818,945	$ 181,055
Guayacán Private Equity Fund L.P., III	Unaudited	5,035,228	10,000,000	7,384,929	2,615,071
Guayacán Fund of Funds III L.P.	Unaudited	12,948,637	40,000,000	39,688,897	311,103
Guayacán Fund of Funds IV L.P.	Unaudited	79,357,268	50,000,000	49,581,460	418,540
McCoy Investment II, L.P.	Unaudited	22,890,783	15,000,000	12,403,897	2,596,103
Palladium Equity Partners IV, L.P.	Unaudited	26,016,541	31,000,000	28,929,707	2,070,293
Pluscios Fund, LLC	Unaudited	9,375,541	46,500,000	46,500,000	—
Puerto Rico Fund Growth, L.P.	Unaudited	56,794,143	35,000,000	26,466,326	8,533,674
Actrust III Inc.	Unaudited	25,501,149	25,000,000	25,000,000	—
Institutional Senior Loan Fund	Unaudited	22,019,574	Not available	Not available	Not available
Carter Multi	Unaudited	14,309,075	15,000,000	15,000,000	—
Madison Retail	Unaudited	15,000,000	15,000,000	15,000,000	—
Mill Green	Unaudited	7,758,333	8,000,000	8,000,000	—
	TOTAL	**$ 300,748,140**			

On June 30, 2022, the Corporation had the following recurring fair value measurements:

Investment by fair value level	June 30, 2021	Fair Value Measurement Using: Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
US Treasures	$ 40,864,313	40,864,313	$ —	$ —
US Treasures Bills	4,501,803	4,501,803	—	—
Corporate bonds and notes	76,485,344	—	76,485,344	—
Municipal bonds	52,505,201	—	52,505,201	—
Agency Bonds	282,732	—	282,732	—
Federal National Mortgage Association (FNMA)	1,509,081	—	1,509,081	—
Federal Home Loan Mortgage Corporation (FHLMC)	5,699,853	—	5,699,853	—
Federal Farm Credit Banks Funding Corporation (FFCBF	6,841,886	—	6,841,886	—
CMO-FHLMC	3,710,690	—	3,710,690	—
CMO-FNMA	2,877,448	—	2,877,448	—
CMO-GNMA	2,318,490	—	2,318,490	—
Government National Mortgage Association (GNMA)	2,176,398	—	2,176,398	—
Asset-backed securities	921,975	—	921,975	—
Uniform Mortgage Backet Security (UMBS)	17,987,124	—	17,987,124	—
Collateralized Mortgage Obligations	362,220	—	362,220	—
Foreign government and corporate bonds and notes	3,281,725	—	3,281,725	—
Total debt securities	222,326,283	45,366,116	176,960,167	—
Equity securities	263,564,186	263,564,186	—	—
Exchange traded funds	15,579,550	15,579,550	—	—
Private equity funds -equity securities:	300,748,140	—	—	300,748,140
Total equity securities	579,891,876	279,143,736	—	300,748,140
Total investment by fair value level	$ 802,218,159	$ 324,509,852	$ 176,960,167	$ 300,748,140

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, 2022:

Investment Type	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
U.S. Treasuries	$ 99,023	$ 13,699,231	$ 16,314,517	$ 10,751,541	$ 40,864,312
U.S. Treasury Bills	4,501,803	—	—	—	4,501,803
U.S. sponsored agencies bonds and notes:					
Federal Home Loan Mortgage Corporation (FHLMC)	—	373,395	2,759,188	2,567,270	5,699,853
Federal National Mortgage Association (FNMA)	—	1,069,816	125,737	313,528	1,509,081
Federal Farm Credit Banks Funding Corporation (FFCBFC)	—	1,504,118	3,617,202	1,720,567	6,841,887
Mortgage-backed securities:					
Government National Mortgage Association (GNMA)	—	—	522,794	1,653,604	2,176,398
Uniform Mortgage Backet Security (UMBS)	—	50,677	—	17,936,446	17,987,123
Collateralized Mortgage Obligations	—	—	—	362,220	362,220
(CMO's) issued and/or guaranteed by:					
FHLMC	—	29,005	156,968	3,524,718	3,710,691
FNMA	—	—	134,162	2,743,286	2,877,448
GNMA	—	74,387	22,189	2,221,914	2,318,490
Asset-backed securities	—	851,798	—	70,177	921,975
Corporate bonds and notes	5,734,224	36,017,176	23,149,275	11,584,669	76,485,344
Foreign government and corporate bonds and notes	178,151	808,670	2,294,904	—	3,281,725
Agency Bonds	—	282,732	—	—	282,732
Municipal bonds	499,855	2,389,620	1,187,825	48,427,901	52,505,201
Total debt securities and fixed–income external investment pools	$ 11,013,056	$ 57,150,625	$ 50,284,761	$ 103,877,841	222,326,283
Equity securities					263,564,186
Exchange traded funds					15,579,550
Private equity funds - equity securities					300,748,140
				Total	$ 802,218,159

4. Investments (continuation)

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 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 carry the explicit guarantee of the U.S. government and represent no risk. The credit quality ratings for investments in debt securities, on June 30, 2022, are as follows:

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4. Investments (continuation)

	June 30, 2022							
	Credit Risk Rating							
Investment Type:	**AAA**	**AA+ to AA-**	**A+ to A-**	**Baa+ to Baa-**	**Ba+ to Ba-**	**B+ to B-**	**Not Rated**	**Total**
U.S. sponsored agencies bonds and notes:								
Federal Home Loan Mortgage								
Corporation (FHLMC)	$ 3,220,417	$ —	$ —	$ —	$ —	$ —	$ 2,479,436	$ 5,699,853
Federal National Mortgage								
Association (FNMA)	1,195,553	—	—	—	—	—	313,528	1,509,081
Federal Farm Credit Banks Funding								
Corporation (FFCBFC)	6,841,886	—	—	—	—	—	—	6,841,886
Uniform Mortgage Backet Security (UMBS	—	—	—	—	—	—	17,987,126	17,987,126
Collateralized Mortgage Obligations	362,220	—	—	—	—	—	—	362,220
(CMO's) issued and/or guaranteed by:								
FHLMC	—	—	—	—	—	—	3,710,690	3,710,690
FNMA	—	—	—	—	—	—	2,877,448	2,877,448
Asset-backed securities	921,975	—	—	—	—	—	—	921,975
Corporate bonds and notes	2,191,192	6,603,623	35,343,065	23,649,478	136,609	3,350,186	5,211,192	76,485,345
Foreign government and corporate bonds and n	—	201,556	1,756,506	1,145,512	—	—	178,151	3,281,725
Agency Bonds	—	—	—	—	—	—	282,732	282,732
Municipal bonds	1,959,649	3,899,799	—	—	—	—	46,645,750	52,505,198
Total debt securities and fixed-income external investment pools	$ 16,692,892	$ 10,704,978	$ 37,099,571	$ 24,794,990	$ 136,609	$ 3,350,186	$ 79,686,053	172,465,279
Plus: U.S. Treasuries								40,864,313
Plus: Government National Mortgage Association (GNMA)								4,494,888
Plus: U.S. Treasuries Bills								4,501,803
Total debt securities								$ 222,326,283

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, 2022, 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. As of June 30, 2022, there were no securities lent or interest-bearing deposits with other banks held under securities lending transactions.

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

4. Investments (continuation)

a diversified portfolio of marketable, investment grade core fixed–income securities. As of June 30, 2022, investment maturities as a percentage of total debt securities and fixed–income external investment pools are as follows:

Within one year	5%
After one to five years	26%
After five years to ten years	23%
After ten years	46%

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, 2022, the Corporation had the following investments denominated in foreign currency:

Description	Currency		Fair Value
Common stock and preferrd stocks and equity	Australian Dollar	$	1,301,730
	Swiss Franc		2,213,423
	Danish Krone		1,410,310
	Euro		11,777,286
	British Pound		4,241,602
	Hong Kong Dollar		2,142,746
	Indonesian Rupiah		365,359
	Japanese Yen		6,129,667
	Swedish Krona		2,113,532
	Singapore Dollar		895,110
Total		$	32,590,765

This amount represents approximately 4.0% of total investment.

4. Investments (continuation)

Interest and dividend income for the year ended June 30, 2022, consists of the following:

Description		
Interest income on investments	$	9,163,660
Dividend income on investments		6,108,168
Other interest income		5,386
		15,277,214
Less investment managers' fees		(2,729,658)
Total interest and dividend income-net	$	12,547,556

Net increase in the fair value of investments for the year ended June 30, 2022, consists of the following:

Description		**Investments Total**
Gross realized gains	$	55,790,806
Gross realized losses		(21,673,488)
Net decrease in fair value		(80,032,333)
Total	$	(45,915,015)

5. ACCOUNTS RECEIVABLE-NET

Accounts receivable as of June 30, 2022, consist of:

Description		**2022**
Insurance premiums receivable, including estimated additional premiums-net of allowance for uncollectible insurance premiums of $457,345,131	$	90,390,300
Interest and dividends receivable		3,945,492
Securities sold but not yet delivered		1,100,190
Employees' accounts receivable, collateralized with motor vehicles-net of allowance for uncollectible insurance premiums of $996,720		68,920
Other accounts receivable-net of allowance for uncollectible accounts of $174,526,579		871,048
Total	$	96,375,950

Insurance premiums receivable include an estimate for additional premiums of approximately $75.6 million as of June 30, 2022. The Corporation follows a policy of not charging–off uncollectible insurance 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, 2022, consist of:

Medicines and medical supplies	$	1,115,145
Office materials and supplies		295,087
Total	$	1,410,232

7. NOTES RECEIVABLE

On December 27, 2019, the Corporation entered into a credit agreement with The Phoenix Fund LLC. amounting to $40,000,000, bearing annual interest of 7%, paid quarterly at a rate of $700,000 per quarter, commencing on April 1, 2020. Final payment of principal amount is due on December 31, 2026. As of June 30, 2022, the Corporation accrued interest receivable of $700,000.

On May 19, 2021, the Corporation entered into an unsecured credit agreement with PUC Holdings LLC in the amount of $40,000,000. The Borrower shall pay interest on the outstanding principal amount of the Loan at an interest rate equal to seven percent (7%) per annum calculated on a non-compounding basis. At Borrower's election, interest may be paid as PIK Interest (payment-in-kind, or non-cash) for any three (3) year period consecutive or otherwise ("PIK Payments") and shall accrue at a rate of seven and a half (7.5%) percent per annum (the "PIK Interest Rate"). For the avoidance of doubt, the total PIK Interest Rate is 7.5% and is not additive to the 7% cash interest rate. Interest shall be due and payable on the first business day of each calendar quarter after the Closing Date (unless the Borrower elects to make PIK Payments) until the time the Loan is paid in full. The term of the Loan shall be the period from the Closing Date set forth in the Credit Agreement until the earlier of either (a) the close of business on the last day of the period ending eighty-four (84) months thereafter or (b) such sooner date as the Loan may be required to be paid in full, by acceleration or otherwise, under any of the Loan Documents (the "Maturity Date"), as the same may be extended by Lender as determined by Lender in its sole discretion. As of June 30, 2022, the Corporation accrued interest $3,010,958 was added to the principal amount.

8. CAPITAL ASSETS-NET

The activity of capital assets for the year ended June 30, 2022, is as follows:

Description	Balance June 30, 2021	Additions (Depreciation Expense)	Retirements and Reclassifications	Balance June 30, 2022
Capital assets not subject to depreciation and amortization:				
Land	$ 11,382,166	$ —	$ —	$ 11,382,166
Land-under financed purchases	7,150,000	—	—	7,150,000
	18,532,166	—	—	18,532,166
Construction in progress	—	—	—	—
	18,532,166	—	—	18,532,166
Capital assets subject to depreciation and amortization:				
Buildings and improvements	166,118,419	—	(1)	166,118,418
Medical and office equipment	23,030,626	598,131	(3,755,971)	19,872,786
Software and related assets	45,049,468	565,786	(3,263,335)	42,351,919
Motor vehicles	887,984	—	(178,730)	709,254
Assets under financed purchases:				
Building and improvements	27,850,000	—	—	27,850,000
Right of use leased assets				
Building	—	53,176,072	—	53,176,072
Equipment	—	5,835,747	—	5,835,747
	262,936,497	60,175,736	(7,198,037)	315,914,196
Less accumulated depreciation and amortization:				
Buildings and improvements	(76,337,956)	(4,038,799)	—	(80,376,755)
Medical and office equipment	(18,874,990)	(806,115)	4,227,510	(15,453,595)
Software and related assets	(41,298,287)	(909,376)	2,553,467	(39,654,196)
Motor vehicles	(882,434)	(5,549)	178,731	(709,252)
Assets under financed purchases:				
Building and improvements	(14,563,229)	(696,250)	—	(15,259,479)
Right of use leased assets				
Building	—	(12,270,790)	—	(12,270,790)
Equipment	—	(992,200)	—	(992,200)
	(151,956,896)	(19,719,079)	6,959,708	(164,716,267)
Capital assets being depreciated and amortized-net	110,979,601	40,456,657	(238,329)	151,197,929
Capital assets-net	$ 129,511,767	$ 40,456,657	$ (238,329)	$ 169,730,095

For the year ended June 30, 2022, the Corporation reported dispositions of fully depreciated assets of approximately $6.9 million.

9. 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 5.5% in 2022. The actuarial study for 2021 considered the experience of the Corporation from fiscal years 2003–2004 to 2020–2021 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, 2022, consists of:

Description	Non-Current	Current	Total
Compensation benefits:			
Temporary Total	$ 25,291,766	$ 10,667,912	$ 35,959,678
Permanet Parcial	59,888,694	33,150,592	93,039,286
Permanent Total	246,737,049	36,718,880	283,455,929
Death	18,992,838	5,095,833	24,088,671
Total compensation benefits	350,910,347	85,633,217	436,543,564
Medical benefits	66,820,932	55,018,642	121,839,574
Loss adjustment expense (LAE)	63,554,462	22,508,761	86,063,223
Total	$ 481,285,741	$ 163,160,620	$ 644,446,361

9. Liability for Incurred but Unpaid Benefits and Benefit Adjustment Expenses (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, 2022:

	6/30/2022 Valuation (undiscounted)		
	Losses	LAE	Losses & LAE
2021 Reserves Estimate	$ 885,543,974	$ 124,881,122	$ 1,010,425,096
New AY Incurred Losses	260,396,434	51,079,287	311,475,721
Change in Prior Years' Reserves	(169,702,423)	(21,348,894)	(191,051,317)
Claims Payments	(196,331,000)	(36,049,301)	(232,380,301)
2022 Reserves Estimate	$ 779,906,985	$ 118,562,214	$ 898,469,199

	6/30/2022 Valuation (discounted)		
	Losses	LAE	Losses & LAE
2021 Reserves Estimate	$ 634,015,123	$ 90,650,060	$ 724,665,183
New AY Incurred Losses	186,433,742	37,077,986	223,511,728
Change in Prior Years' Reserves	(121,500,350)	(15,496,966)	(136,997,316)
Claims Payments	(140,565,377)	(26,167,857)	(166,733,234)
2022 Reserves Estimate	$ 558,383,138	$ 86,063,223	$ 644,446,361

The expense amount of $223,511,728 is recorded in compensation benefits, medical benefits, legal fees and other as part of Statement of Revenues, Expenses and Changes in Net Position. Claims paid for $166,733,234 is included in the statement of Cash Flows on payment of compensation benefits and payment of medical benefits, legal fees and others.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2022, consist of:

Description	Amount
Accounts payable:	
Securities purchased not yet paid	$ 7,334,555
Due to employers	27,981,326
Due to other governmental agencies	23,612,244
Suppliers, professional services, and others	52,417,679
Total accounts payable	111,345,804
Accrued liabilities:	
Current	
Compensated absences	16,906,758
Accruals for Christmas bonus	850,150
Total current	17,756,908
Noncurrent	
Compensated absences	18,591,410
Accruals for claims and contingencies	19,010,235
Total noncurrent	37,601,645
Total accrued liabilities	55,358,553
Total	$ 166,704,357

10. Accounts Payable and Accrued Liabilities (continuation)

The following is a summary of the changes in noncurrent liabilities related to compensated absences, termination benefits and claims and judgments reported in Statement of Net Position for the year ended June 30, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated absences	$ 27,117,317	$ 36,767,143	$ (27,536,142)	$ 36,348,318	$ 17,756,908
Accruals for claims and contingencies	18,024,525	1,096,420	(110,710)	19,010,235	-
Total	$ 45,141,842	$ 37,863,563	$ (27,646,852)	$ 55,358,553	$ 17,756,908

Accounts payable to agencies of the Commonwealth as of June 30, 2022, consist of:

Commonwealth of Puerto Rico	$ 21,287,765
Puerto Rico Industrial Commission	10,362
Other	2,314,117
Total	$ 23,612,244

11. ACCRUAL FOR REIMBURSEMENT OF PREMIUMS

As of June 30, 2022, 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	$ 47,575,763
Non-current	35,825,197
Total	$ 83,400,960

The provision for reimbursement of insurance premiums for the year ended June 30, 2022, amounted approximately to $83.4 million, including a current year debit of approximately $7.8 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.

12. LEASES

A lease is defined as a contractual agreement that conveys control of the right to use another entity's nonfinancial asset, for a minimum contractual period of greater than one year, in an exchange or exchange like transaction.

Lessee Activity

The Corporation leases facilities, office equipment and other assets under long-tern, noncancellable lease agreements recorded in accordance with GASB Statement No. 87.

At June 30, 2022, the Corporation had minimum principal and interest payment requirements in its lessee activity as follows (expressed in thousands):

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, 2022, is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2023	$ 16,016,201	$ 2,224,509	$ 18,240,710
2024	15,138,848	2,625,065	17,763,913
2025	13,630,942	2,897,134	16,528,076
2026	7,538,189	2,255,450	9,793,639
2027	3,428,859	1,376,712	4,805,571
2028-2030	9,839,503	2,086,787	11,926,290
	$ 65,592,542	$ 13,465,657	$ 79,058,199
Less current portion	16,016,201		
Noncurrent portion	$ 49,576,341		

Lessor Activity

The Corporation leases space in owned and leased buildings to others, primarily food concessionaries, under long-tern, noncancellable lease agreements recorded in accordance with GASB Statement No. 87. During the year ended June 30, 2022, the amount recognized as lease revenue and lease interest amounted to approximately $ 578.988 and $93,561, respectively.

At June 30, 2022, the Corporation had minimum principal and interest lease receivable payment requirements in its lessor activity as follows (expressed in thousands):

12. Leases (continuation)

Fiscal Year Ending June 30,	Principal	Interest	Total
2023	$ 661,782	$ 10,767	$ 672,549
2024	627,247	38,202	665,449
2025	553,774	61,243	615,017
2026	362,949	58,483	421,432
2027	328,833	71,174	400,007
2028-2030	338,991	134,278	473,269
	$ 2,873,576	$ 374,146	$ 3,247,722
Less current portion	661,782		
Noncurrent portion	$ 2,211,794		

13. TRANSACTIONS WITH COMMONWEALTH

Revenues with governmental agencies

During the year ended June 30, 2022, insurance premiums earned by the Corporation from the governmental sector are approximately as follows: $84.0 million from the Commonwealth and its agencies and public Corporations and $32.9 million from the municipalities for a total amount of approximately $117.0 million from the governmental sector. These amounts represent approximately 17.4% of the total of premiums earned on June 30, 2022.

Contributions with to Commonwealth

Contributions to instrumentalities of the Commonwealth during the year ended June 30, 2022, are as follows:

Description	Amount
Industrial Commission of Puerto Rico	$ 19,351,000
Department of Labor and Human Resources:	
Occupational Safety and Health Office	10,128,000
Labor Standards Offices	100,000
Department of Education: Special Education Student Services and Therapies Fund	(4,000)
Department of Labor and Human Resources	600,000
Commonwealth of Puerto Rico Human Resources Office	60,000
Total	$ 30,235,000

13. Transactions with Commonwealth (continuation)

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 yearl. The $30.2 million represents a 4.5% of prior year's insurance premium earned. 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 fiscal year ending June 30, 2022, 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 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.

14. PENSION LIABILITY

The Corporation follows 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, issued during fiscal year 2015, and 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 followed 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

14. Pension Liability (continuation)

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 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. 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, membership 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.

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.

14. Pension Liability (continuation)

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 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

14. Pension Liability (continuation)

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 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.

14. Pension Liability (continuation)

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, 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

14. Pension Liability (continuation)

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 $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447-1951 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, 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.

14. Pension Liability (continuation)

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.

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.

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.

14. Pension Liability (continuation)

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.

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.

14. Pension Liability (continuation)

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.

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.

14. Pension Liability (continuation)

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.

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

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.

a. 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 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

14. Pension Liability (continuation)

three years (Act No. 127-1958, as amended). The cost of these benefits is paid by the Commonwealth's General Fund.

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

c. ***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 2020-2021 the disability insurance amounted to $16,759.

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 *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.

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 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.

14. Pension Liability (continuation)

ii. *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 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.

14. Pension Liability (continuation)

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)

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).

14. Pension Liability (continuation)

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 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.

14. Pension Liability (continuation)

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:

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.

14. Pension Liability (continuation)

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, 2019, the Corporation implemented the provisions of GASB Statement No. 73, Accounting and Financial Reporting for Pensions – an 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 standards. The Corporation's Total Pension Liability was measured as of June 30, 2021, with was used to calculate the Pension Liability for the year ended June 30, 2022, as determined by an actuarial valuation date of July 1, 2021. The reporting date is for periods ending July 1, 2020, through June 30, 2021.

14. Pension Liability (continuation)

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, 2021, the measurement date, the Corporation's proportionate share of the Total Pension Liability used was as follows:

Proportion - June 30, 2020	7.16939%
Proportion - June 30, 2021	7.22225%
Change - Increase (Decrease)	0.05286%

As June 30, 2022, the Corporation reported $ 1,963,321,330 (June 30, 2021 base) as Total Pension Liability for its share of the Total Pension Liability of Employee Retirement System.

	June 30, 2022	
	Total	Proportional Share (7.22226%)
Total Pension Liability	$ 27,184,320,381	$ 1,963,321,330

b. *Pension Expense*

For the fiscal year ended June 30, 2022, the Corporation recognized pension expense of $113,297,717.

c. *Deferred Outflows/Inflow of Resources*

As of June 30, 2022, the Corporation reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	Pension Deferred Outflows/Inflows (Unaudited)	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Net difference between projected and actual investment earning	$ 3,136,159	$ —
Changes in assumptions	200,980,902	23,199,707
Changes in proportion	53,746,263	—
Differences between expected and actual experience with regard to economic or demographic assumptions	—	58,491,516
	257,863,324	$ 81,691,223
PayGO payments made subsequent to measurement date	93,696,933	
	$ 351,560,257	

14. Pension Liability (continuation)

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, after measurement period ending June 30, 2021, as follows:

Year Ended June 30,		Amount
2022	$	61,184,686
2023		61,184,686
2024		53,802,729
2025		—
Total	$	176,172,101

d. Actuarial Methods and Assumptions

There have been no significant changes between the valuation date of July 1, 2020, and the fiscal year end. For this year, the June 30, 2021, census data used in the prior valuation as the July 1, 2020. The liability results as of June 30, 2021, were based on projecting the ERS obligations determined as of the census data collection date of July 1, 2021, for one year, using roll-forward methods and assuming no liability gains or losses.

Actuarial valuations of ERS involve 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 revision as actual results are compared with past expectations and new estimates are made about the future.

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2022, is provided below:

Actuarial Assumptions

Municipal Bond Index	2.16%, as per Bond Buyer General Obligation 20 — Bond Municipal Bond Index
Discount Rate	2.16%
Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry age normal

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.

14. Pension Liability (continuation)

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 was 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.

The discount rate on June 30, 2021, and 2022, was as follows:

	June 30, 2021	June 30, 2022
Discount Rate	2.21%	2.16%
Municipal bond rate *	2.21%	2.16%
* Bond Buyer General Obligation 20-Bond Municipal Bond Index		

f. 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 to 1.16%	Current Discount Rate 2.16%	1% Increase to 3.16%
Corporation's proportionate share of the total pension liability	$ 2,252,092,417	$ 1,963,321,330	$ 1,730,454,834
Commonwealth's TPL	$ 31,182,670,330	$ 27,184,320,380	$ 23,960,030,335
Corporation's proportion	7.2223%	7.2223%	7.2223%

g. 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 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

14. Pension Liability (continuation)

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 2021 through 2022.

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 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.

h. Change in pension liability

	Total Pension Lliability	Deferred outflows	Deferred Inflows
Beginning Balance FY2020	$ 2,012,432,954	$ 416,082,819	$ 79,846,527
Benefits Peyment	(94,622,861)		
Increase (decrease)	45,511,237	(158,219,495)	1,844,696
Ending Balance per GASB 73 Report FY2021 (Measurement date 06/30/2020)	$ 1,963,321,330	257,863,324	$ 81,691,223
Pension Benefits paid subsequent to measurement date		93,696,933	
Deferred outflow of resources and benefits paid after measurement date		$ 351,560,257	

15. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Corporation implemented GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits other than Pensions, which governs the specifics of accounting for public OPEB plan obligations for participating employers and is required to be implemented for employer fiscal years beginning after June 15, 2017. GASB 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Net OPEB Liability (Total OPEB Liability for unfunded plans) will be immediately recognized as OPEB Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

15. Other Postemployment Benefits (OPEB) (continuation)

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 75 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.

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

Descriptions of the plan 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:

Actuarial Assumptions

Municipal Bond Index	2.16%, as per Bond Buyer General Obligation 20 — Bond Municipal Bond Index
Discount Rate	2.16%
Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry age normal

15. Other Postemployment Benefits (OPEB) (continuation)

Discount Rate

The discount rate for June 30, 2021, was 2.16%. 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 2.16%, 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 (1.16%) or 1-percentage-point higher (3.16%) than the current rate:

	1% Decrease to 1.16%	Current Discount Rate 2.16%	1% Increase to 3.16%
Corporation's proportionate share of the OPEB liability	$ 27,322,504	$ 24,891,247	$ 22,820,928
Commonwealth OPEB Liability	$ 876,074,118	$ 798,117,828	$ 731,734,711
Corporation's proportion	3.1187%	3.1187%	3.1187%

The OPEB expense for the year ended June 30, 2022, was approximately $1.9 million.

Balance Movement

	OPEB Liability	Deferred outflows	Deferred Inflows
Beginning Balance FY2020	$ 27,021,519	$ 2,051,329	$ -
Benefits Payment	(2,051,329)		
Increase (decrease)	(78,943)	(2,051,329)	-
Ending Balance per GASB 75 Report FY2021 (Measurement date 06/30/2020)	$ 24,891,247	-	$ -
OPEB Benefits paid subsequent to measurement date		2,044,579	
Deferred outflow of resources for benefits paid after measurement date		$ 2,044,579	

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.

As of June 30, 2022, 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), while the RCF recognizes the need to maintain a cash reserve for access in an event of catastrophic situation. 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, 2022, the DTDF (adjudged cases) amounted to approximately $151.2 million, and the investments portfolio serves to fund the obligations 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, which remains as of June 30, 2022,

17. CONTINGENCIES

The Corporation is included as defendant in various lawsuits as of June 30, 2022, most of current and former employees because 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 maintains a provision of approximately $18,024,525 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, 2022. 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, 2022. In the opinion of management, any loss to be sustained because 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.

18. 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 18%, excluding pension expense, which experienced an unusual increase due to a change in estimate in pension liability.

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 27, 2023, which is the same date the financial statements were available to be issued.

Status of PROMESA Title III and potential impact to the Corporation

Although the Oversight Board, together with the Government of Puerto Rico, so far restructured about 80% of Puerto Rico's outstanding debt, the Oversight Board monitors compliance with the budgetary restrictions the Commonwealth agreed to. These restrictions could have an undetermined effect on future operation of the Corporations.

Impact to the Corporation due to reduction of insurance rates for small and medium size employers

On June 21, 2023, the Governor of Puerto Rico, announced relief for Small and Medium-sized Enterprises (SMEs) will be able to take advantage of a new benefit that will allow them to pay half the cost of employer insurance that they now pay to the State Insurance Fund Corporation.

Effective for policies renewing on July 1, 2023, the Corporation received approval from the Oversight Board, together with the Government of Puerto Rico, to implement a two-year reduction of 50% in premium rates for small and medium size employers. This could impact approximately 31,700 employers, with 50 employees or less and an annual payroll no greater than $1,525,000. This reduction in premium is intended to stimulate the economy and could impact the Corporation's revenue up to $111.2 million.

For further information, refer to the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

Required Supplementary Information

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)
Required Supplementary Information
Schedules of the Corporation's proportion of the Pension Liability and related ratios
Year Ended June 30, 2022

	Measurement Date		
	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019
Corporation's proportion of the net total pension liability	7.22226%	7.16939%	7.14100%
Corporation's proportionate share of the net total pension liability	$ 1,963,321,330	$ 2,012,432,954	$ 1,774,570,763

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.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)
Required Supplementary Information
Schedules of the Corporation's proportion of the Other Post Employment Liability and related ratios
Year Ended June 30, 2022

The following schedule (2a) is being presented to provide information on the Corporation's proportion of the OPEP liability and related ratios.

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

Measurement Year Ending	30-Jun-21	30-Jun-20	30-Jun-19
Reporting Year Ending	30-Jun-22	30-Jun-21	30-Jun-20
Corporation's proportion of the OPEB liability (Note 1)	3.11874%	3.08949%	3.01444%
Corporation's proportionate share of the OPEB liability (Note 1)	$ 24,891,247	$ 27,021,519	$ 25,087,103

<u>Benefit Changes:</u> Beginning on July 1, 2017, the post employment 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. The Corporation began recognizing the liability in fiscal year ending June 30, 2018 under GASB Statement No. 75.

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

<u>Notes to the Schedule:</u>

(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.

Supplementary Information

Ten – Year Claims Development Information (Unaudited)

Year Ended June 30, 2022

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

Ten – Year Claims Development Information (Unaudited)
for fiscal year ended June 30, 2022

Accident Year	Ultimate Earned Premiums ($)	Ultimate Loss ($)	Cumulative Paid Losses ($ '000) As Of (Months):									
			12	**24**	**36**	**48**	**60**	**72**	**84**	**96**	**108**	**120**
2013	690,928	374,642	242,477	289,184	314,026	328,962	338,370	343,050	345,937	349,245	351,268	353,806
2014	664,624	323,857	211,047	251,879	274,129	284,472	289,747	293,527	297,486	299,808	301,831	**304,523**
2015	639,891	328,200	224,122	265,737	282,969	290,628	295,403	299,304	302,077	303,917	**306,847**	**309,466**
2016	615,480	310,449	215,706	251,916	264,781	271,906	277,692	281,170	283,619	**287,075**	**289,858**	**292,325**
2017	614,912	289,940	201,609	227,893	241,309	250,194	254,815	258,729	**263,434**	**266,765**	**269,464**	**271,873**
2018	676,872	256,659	167,552	194,947	208,541	214,741	219,190	**225,002**	**229,645**	**232,900**	**235,563**	**238,040**
2019	654,562	227,496	154,787	171,273	179,636	184,250	**192,003**	**197,418**	**201,768**	**204,818**	**207,324**	**209,634**
2020	652,968	208,406	138,591	151,558	157,134	**167,296**	**174,436**	**179,438**	**183,508**	**186,360**	**188,723**	**190,959**
2021	626,570	229,608	141,900	160,178	**178,788**	**189,057**	**196,224**	**201,235**	**205,282**	**208,118**	**210,457**	**212,656**

See accompanying independent auditors' report.