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, 2024

(With Independent Auditor's Report Thereon)

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)
June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

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

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, 2024, 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, 2024, 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.

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.

Responsibilities of Management 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.

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

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 12 and the Ten-Year Claims Development Information on page 67 and required supplementary information by GASB Statements No. 73 and 75 on pages 64 thru 66, 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
September 9, 2025

Aquino, De Córdova, LLC

COLEGIO DE CONTADORES
PÚBLICOS AUTORIZADOS DE PUERTO RICO
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DLLC422-494
State Insurance Fund Corporation

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 expenses, provision for (recoveries of) uncollectible accounts, interest expenses and investment managers' fees. As expected, the ratio for the year ended June 30, 2024, was 11.4%, 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, 2024. 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 $40.2 million on June 30, 2024, which comprised of $2,476.2 million in total assets and $166.0 million in deferred outflows of resources related to pension plan and post-employment benefits, less $2,671.6 million in total liabilities and $10.8 million in deferred inflows of resources related to pension plan, post-employment benefits and operating leases.

- Since the implementation of GASB Statements No. 73 and No. 75 (pertaining to Pension and Other Postemployment Benefits, respectively) in the fiscal year ended June 30, 2017, the Corporation had reported a net deficit in the accompanying Statement of Net Position. This was primarily due to the recognition of its proportionate share of the Commonwealth Employees' Retirement System liability. As of June 30, 2024, the Corporation reports a positive net position, reflecting a continued positive change from operations of approximately $616.7 million for the year, exclusive of the effect of these pension-related liabilities.

- Increase in total assets of $374.7 million, or 17.83%, in 2024 when compared to 2023.

- Decrease in total liabilities of $133.2 million, or 4.75% in 2024 when compared to 2023.

- Operating income increased by $158.9 million. The most significant changes affecting operating income include:
  - Increased due to a decrease in credit for compensation and medical benefits $131.2 million
  - Increased due to a decrease in pension expense $54.4 million
  - Increased in operating revenues, (premium and other revenues) $71.8 million

- The compensation and medical benefits decrease is due primarily to the credit component, which decreased by 35.28% from approximately $131.2 million to a credit of approximately $4.3 million, which were the result of changes in actuarial estimates.

- The decrease in pension expense credit was approximately $54.4 million or 61.0% and is attributed to changes in actuarial estimates, which took into account changes in the plan as a result of the implementation of the Plan of Debt Adjustment (PDA), which changes assumptions used in determining pension liability estimates. Changes in external actuarial estimates are out of the Corporation's.

- The increase in operating revenue was primarily due to an increase in insurance premiums earned of approximately $71.8 million, or 9.5% over prior year's and is considered consistent with the level of economic activity.

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

4. Notes to the Basic Financial Statements provide additional information 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*.

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FINANCIAL ANALYSIS

The following is the condensed financial position of the Corporation as of June 30, 2024 and 2023:

	June 30,		Change	
	2024	2023	Amount	Percent
Assets:				
Cash and cash equivalents	$ 578,042,092	$ 858,336,152	$ (280,294,060)	(32.66)%
Accounts receivable - net	110,280,832	88,243,694	22,037,138	24.97 %
Note receivable	-	85,953,320	(85,953,320)	(100.00)%
Investments	1,630,176,927	908,335,004	721,841,923	79.47 %
Prepaid expenses	361,414	1,706,822	(1,345,409)	(78.83)%
Capital assets - net	154,527,739	155,485,990	(958,251)	(0.62)%
Lease receivable	1,021,343	1,883,825	(862,482)	(45.78)%
Other assets	1,712,307	1,526,332	185,975	12.18 %
Total assets	2,476,122,654	2,101,471,139	374,651,515	17.83 %
Deferred outflows of resources	166,025,702	303,509,364	(137,483,662)	(45.30)%
Total assets and deferred outflows	$ 2,642,148,356	$ 2,404,980,503	$ 237,167,853	9.86 %
Liabilities:				
Current liabilities	$ 502,986,063	$ 524,153,380	$ (21,167,317)	(4.04)%
Non-current liabilities	2,168,656,648	2,280,696,025	(112,039,377)	(4.91)%
Total liabilities	2,671,642,711	2,804,849,405	(133,206,694)	(4.75)%
Deferred inflows of resources	10,796,978	166,008,667	(155,211,689)	(93.50)%
Net position (deficit):				
Net investment in capital assets	102,008,657	103,743,849	(1,735,192)	(1.67)%
Unrestricted	(142,299,990)	(669,621,418)	527,321,428	(78.75)%
Total net position (deficit)	(40,291,333)	(565,877,569)	525,586,236	(92.88)%
Total liabilities, deferred inflows and net position (deficit)	$ 2,642,148,356	$ 2,404,980,503	$ 237,167,853	9.86 %

- **The Corporation's total assets increased by $374.7 million in 2024 or 17.83%**

Total assets of the Corporation increased to approximately $374.7 million in 2024 from $2,101.4 million in 2023. This increase is mainly attributed to an increase in investments ($721.8 million), net of a reduction in cash and cash equivalent ($280.3 million) and notes and interest receivable (91.1 million).

- **Capital assets-net decreased by $958 thousand in 2024 (or 0.62%)**

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, 2024, 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, 2024.

Refer to Note 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 July 1, 2021, 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 9 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 at least one year beyond June 30, 2024, for those leases which end within the next 12 months of June 30, 2024, and the equipment or facilities are still being used at the time of preparation of these financial statements, as there is expectation of continuing use of critical facilities currently under contract.

As of June 30, 2024, right-of-use asset, net was approximately $36.0 million, a net increase of approximately $2.4 million from the prior year's comparative amount, due primarily to the extinguishment of right of use with the passing of time. The receivable associated with subleases amounted to approximately $1.02 million, a reduction of approximately $862 thousand from prior year's comparative amount.

- **Subscription-based information technology assets**

Governmental Accounting Standards Board Statement No. 96 requires the recognition of subscription-based information technology arrangement as an intangible asset (SBITA) and a corresponding subscription liability in its financial statements.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

The Corporation has Purchase Orders of one year, which are short-term SBITAs. Therefore, GASB No. 96, Subscription-Based Information Technology Arrangements, does not apply to the afore-mentioned Purchase Orders.

- **The Corporation's total liabilities decreased by $133.2 million in 2024 (4.75%)**

Liabilities decreased to approximately $2,671.6 million in 2024 from comparative $2,804.8 million in 2023. This is mainly attributed to decreases in the actuarily determined pension liability of approximately $117.6 million, and a decrease in the actuarily determined liability for incurred but unpaid benefits of approximately $4.5 million.

- **The Corporation's deferred outflows decreased by approximately $137.5 million in 2024 (or 45.3%) and deferred inflows decreased by approximately $155.2 million (or 93.50%)**

Both decreases in deferred outflows and in deferred inflows were due primarily to changes in pension-related actuarial estimates to comply with GASB Statement No. 73.

- **The Corporation's net position increased by $525.6 million in 2024 (or 92.88%)**

The increase in the Corporation's net position as of June 30, 2024, is reflected primarily in the increases in investments of approximately $721.8 million. The primary reduction in liabilities was in pension liability of approximately $95.4 million, and a decrease of approximately $4.6 million in liability for incurred but unpaid benefits adjustment expense, net of a recognition of notes receivable loss of approximately $91.1 million. The Corporation reported a net deficit on June 30, 2024, of approximately $142.3 million in unrestricted net position, and decreased of $958 thousand invested in capital assets-net of related debt, for a total net deficit of approximately $40.3 million. By comparison, the Corporation reported a total net deficit of approximately $565.9 million on June 30, 2023, for a reduction in net deficit of approximately $616.7 million.

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

The following summarizes the condensed changes in net deficit of the Corporation for the years ended June 30, 2024 and 2023:

	June 30,		Change	
	2024	2023	Amount	Percent
Operating revenues	$ 827,458,254	$ 755,681,982	$ 71,776,272	9.50 %
Operating expenses:				
Pension expense	(34,798,348)	(89,243,965)	54,445,617	(61.01)%
Compensation and medical benefits	240,686,190	371,871,361	(131,185,171)	(35.28)%
General and administrative	99,291,552	109,698,184	(10,406,632)	(9.49)%
Total operating expenses	305,179,394	392,325,580	(87,146,186)	(22.21)%
Operating income	522,278,860	363,356,402	158,922,458	43.74 %
Non-operating revenues - net	49,146,376	58,954,896	(9,808,520)	(16.64)%
Transfers to other governmental agencies	(45,839,000)	(37,260,000)	(8,579,000)	23.02 %
Change in net position (deficit)	525,586,236	385,051,298	140,534,938	36.50 %
Net (deficit) position beginning of year	(565,877,569)	(950,928,867)	385,051,298	(40.49)%
Net position (deficit)- end of year	$ (40,291,333)	$ (565,877,569)	$ 525,586,236	(92.88)%

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 credit decreased by approximately $54.4 million in 2024 (or 61.01%)**

Pension expense decreased to a credit of approximately $34.8 million, from a balance expense of approximately $89.2 million in fiscal year ended June 30, 2023. The decrease is attributed to changes in actuarial estimates influenced by changes in the plan and assumptions. The portion of pension expense attributed to compensation and medical benefits for fiscal year 2024 amounted to approximately $21.9 million, which if included with the compensation and medical benefits, this component of operating expense would have shown a total expense of approximately $218.8 million. The portion of pension expenses attributed to general and administrative (G&A) amounted to approximately $86.4 million.

- **Compensation and medical benefits decreased by $131.2 million in 2024 (or 35.28%)**

Excluding its share of pension expense, the decrease in compensation and medical benefits for the year ended June 30, 2024, can be attributed primarily to a decrease in actuarial estimates for credit for compensation benefits of approximately $4.3 million. Compensation and medical benefits for the year ended June 30, 2024, amounted to $240.7 million when compared to $371.8 million for the prior year.

- **General and administrative expenses (including depreciation and amortization) decreased by approximately $10.4 million in 2024 (or 9.49%)**

The decrease in general and administrative expenses for the year ended June 30, 2024, can be attributed in part to reductions in salary expense, net of increases in medical insurance benefit, compensated absences, and professional services. For the year ended June 30, 2024, the Corporation reported general and administrative expenses of approximately $99.3 million when compared to $109.6 million for 2023.

- **Non-operating revenues – net decreased by approximately $9.8 million in 2024 (or 16.64%)**

The net decrease in non-operating revenues is primarily attributed the recognition of the notes and interest receivable loss of approximately $91.1 million, net of increases in interest and dividend income-net and the net increase in the fair value of investments of approximately $62.4 million and $79.7 million, respectively.

- **Transfers to other governmental agencies increased by approximately $8.5 million in 2024 (or 23.02%)**

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, 2024, the Corporation transferred approximately $45.8 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 $37.2 million in 2023.

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.

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2024

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position (Deficit)
June 30, 2024

Assets		
Current assets:		
Cash	$	578,042,092
Accounts receivable, net		110,280,832
Inventories		1,712,307
Prepaid expenses		361,414
Lease receivable		443,920
Investments		1,136,236,880
Total current assets		1,827,077,445
Non current assets:		
Investments		493,940,047
Lease receivable		577,423
Subtotal		494,517,470
Capital assets		
Non-depreciable assets		
Land		18,532,166
Depreciable assets, net		135,995,573
Total capital assets		154,527,739
Total non current assets		649,045,209
Total assets		2,476,122,654
Deferred Outflows of Resources		
Pension related		164,100,310
Other postemployment benefits related		1,925,392
		166,025,702
Total assets and deferred outflows of resources	$	2,642,148,356

(Continued)

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, 2024

(continuation)

Liabilities		
Current liabilities:		
Liability for incurred but unpaid benefits and benefit adjustment expenses	$	152,634,225
Accounts payable		110,806,523
Pension liability		95,377,994
Accrued payroll benefits		15,557,269
Unearned premiums		64,160,573
Accrual for reimbursement of premiums		49,407,465
Lease liabilities		14,401,566
Other postemployment benefits liability		640,448
Total current liabilities		502,986,063
Non current liabilities:		
Liability for incurred but unpaid benefits and benefit adjustment expenses		617,089,086
Accrued liabilities		16,232,226
Accrual for reimbursement of premiums		34,981,128
Lease liabilities		38,117,516
Other postemployment benefits liability		17,805,893
Pension liability		1,430,355,022
Reserve for legal claims		14,075,777
Total non current liabilities		2,168,656,648
Total liabilities		2,671,642,711
Deferred Inflows of Resources		
Pension plan		9,515,643
Leases		1,281,335
		10,796,978
Net Position		
Net investment in capital assets		102,008,657
Unrestricted		(142,299,990)
Total net Deficit		(40,291,333)
Total liabilities, deferred inflows of resources and net position	$	2,642,148,356

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, 2024

		2024
Operating revenues:		
Insurance premiums earned	$	848,802,673
Miscellaneous income, net		13,838,678
Less:		
Reimbursement of insurance premiums		(29,159,975)
Provision for uncollectible insurance premiums		(6,023,122)
Total operating revenues		827,458,254
Operating expenses:		
Compensation benefits		57,155,500
Pension expense (reversal of accrual)		(34,798,348)
Medical benefits and legal fees		187,871,536
Credit for compensation benefits, medical benefits, and benefit adjustment expenses		(4,340,846)
Administrative expenses		86,366,381
Depreciation and amortization		12,925,171
Total operating expenses		305,179,394
Operating income		522,278,860
Non operating revenues (expenses):		
Interest and dividend income, net		62,402,907
Net increase in fair value of investments		79,737,103
Interest expense		(1,818,169)
Contributions to Commonwealth		(45,839,000)
Loss on disposition of assets		(105,478)
Provision for uncollectible Notes Receivable		(91,069,987)
Total non operating revenues, net		3,307,376
Change in net position		525,586,236
Net deficit at beginning of year		(565,877,569)
Net deficit at end of year	$	(40,291,333)

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, 2024

Cash flows from operating activities:		
Excess of collections over reimbursements of insurance premiums	$	799,918,584
Payments of compensation benefits to insureds		(57,385,157)
Payment of employment payroll and benefits		(15,004,187)
Payments of medical benefits and legal fees		(154,714,484)
Payments of administrative expenses		(221,988,729)
Net cash provided by operating activities		350,826,027
Cash flows from non capital financing activities:		
Transfers to Commonwealth		(45,839,000)
Net cash used in non capital financing activities		(45,839,000)
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(3,805,064)
Payment of interest		(1,818,169)
Payments of principal under financed purchases		(18,485,372)
Net cash used in capital and related financing activities		(24,108,605)
Cash flows from investing activities:		
Proceeds from sales and redemptions of debt and equity securities		392,445,107
Purchases of debt and equity securities		(1,016,020,496)
Interest and dividend income, net		62,402,907
Net cash used in investing activities		(561,172,482)
Net decrease in cash and cash equivalents		(280,294,060)
Cash and cash equivalents at beginning of year		858,336,152
Cash and cash equivalents at end of year	$	578,042,092

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, 2024

(continuation)

Reconciliation of operating income to net cash used in operating activities:		
Operating income	$	522,278,860
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for uncollectible accounts		6,023,122
Depreciation and amortization		12,925,171
Provision for uncollectible notes receivable		91,069,987
Changes in assets and liabilities, and deferred items, that increase (decrease) cash flows from operating activities:		
Accounts receivable		(28,060,260)
Lease receivable		259,992
Inventories		(185,975)
Prepaid expenses		1,345,408
Interest receivable		(5,953,320)
Notes receivable		(80,000,000)
Liability for incurred but unpaid benefits and benefit adjustment expenses		(4,570,503)
Change in other post-employment benefit liability		(1,340,452)
Change in deferred outflows and inflows of resources pension related		(17,125,537)
Change in total pension liability		(117,608,115)
Amortization of lease liability		(17,767,786)
Accounts payable		4,993,300
Accrued liabilities		(1,995,577)
Unearned premiums		2,017,912
Accrual for reimbursement of premiums		(7,515,444)
Reserve for legal claims		(7,964,756)
Net cash provided by operating activities	$	350,826,027
Summary of non-cash transactions:		
Securities purchased but not yet received	$	2,021,009
Securities sold but not yet delivered	$	572,328
Net increase in the fair value of investments (unrealized gains)	$	66,279,364
Retirement of capital asset, net of amortization	$	(105,478)
Impairment of notes receivable and related interest receivable of $80,000,000 and $11,069,987, respectively, see Note 7.	$	91,069,987

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 because 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, 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.

2. Summary of significant accounting policies (continuation)

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 request of the Corporation. All future cash flows associated with benefits are discounted using an interest rate provided by the Corporation of 4.27% for the discounting of loss.

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

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

Management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined on June 30, 2024, 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

2. Summary of significant accounting policies (continuation)

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 a remaining maturity at time of purchase of one year or less are carried at cost. Investment positions in money market funds under Security and Exchange Commission (SEC) rule 2a–7, like external investment pools, are 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

2. Summary of significant accounting policies (continuation)

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 the borrower's default. Liabilities resulting from these securities lending transactions are also 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, 2024.

(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 cost, (first-in/first-out method) or net realizable value.

(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 financed purchases	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 of, 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.

2. Summary of significant accounting policies (continuation)

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 impairment 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 the fiscal year 2023.

(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 and sick leave pay, are accrued when incurred using the pay or salary rates in effect at the Statement of Net Position (Deficit) date. The employees of the Corporation are granted 15 days of vacation per year and can accumulate more than 15 during the year, but cannot receive payment for excess accumulated leave, unless they terminate employment voluntarily or retire in which case, accumulated leave can only be paid for up to 60 days. The Corporation's employees are also granted 18 days of sick leave, which can be accumulated up to 90 days; however, none of the accumulation is payable upon termination. An additional amount is accrued to the maximum permitted by Act No. 26 of 2017, as amended, for certain salary-related benefits associated with the payment of compensated absences.

2. Summary of significant accounting policies (continuation)

(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 the 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, 2024, 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.

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-employed 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 non-employee 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 a pay-as-you-go basis. Changes in the total OPEB

2. Summary of significant accounting policies (continuation)

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".

(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, damage 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

2. Summary of significant accounting policies (continuation)

from those estimates. The accounts requiring the use of significant estimates include certain receivables, liability for incurred but unpaid benefits and benefit adjustment expenses, unearned premiums reserve, accrual for reimbursement of premiums, pension and OPEB liabilities, deferred outflows and inflows of resources and useful lives of property and equipment. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

(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 resources, 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) *Software licensing agreements*

On July 1, 2022, the Corporation adopted the provisions of Statement No. 96, which 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. As of June 30, 2024, management determined that there were no software licensing agreements under the provision of Statement No. 96.

(z) *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

2. Summary of significant accounting policies (continuation)

of Puerto Rico reduces their operating expenses, specifically those related to payroll, professional services, contracted services and leases, among others.

(aa) *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, 2024.

GASB Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement (1) defines subscription-based information technology arrangements (SBITAs); (2) establishes that a SBITA result 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.

Management determined GASB Statement No. 96 did not have an impact on these financial statements.

(Purposely left blank)

2. Summary of significant accounting policies (continuation)

(bb) *Accounting Pronouncements issued but not yet effective.*

GASB has issued the following accounting standards that the Authority has not yet adopted as follows:

GASB Statement No.	Name	Application required in fiscal year
101	Compensated Absences (June 2022, effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged.) Paragraphs 30, 31, and 33. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.	2025
103	Financial Model Improvements (April 2024, effective for fiscal years beginning after June 15, 2025, and reporting periods thereafter. Earlier application is encouraged.) Paragraph 10 .	2026
104	Disclosure of Certain Assets (September 2024, effective for fiscal years beginning after June 15, 2025, and reporting periods thereafter. Earlier application is encouraged.) Paragraphs 4,8, and 10.	2026

3. CASH

The Corporation's cash and cash equivalents as of June 30, 2024, are comprised of the following:

Description		
Cash on hand	$	9,900
Cash in investment trust account		119,969,855
Cash in commercial banks		458,062,337
Total	$	578,042,092

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, 2024).

All securities pledged as collateral are held by the Secretary of Treasury of the Commonwealth. As of June 30, 2024, the Corporation had approximately $458.0 million and $119.9 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 presents minimal foreign currency risk on June 30, 2024. 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.

4. Investments (continuation)

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

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

4. Investments (continuation)

The SIPGO, as amended, establishes limitations and other guidelines on amounts to be invested in the investment categories and by issuer/counterparty and on exposure by country. In addition, such policies provide 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, 2024, investments were classified as current and non-current in the accompanying Statement of Net Position (Deficit) as follows:

Current assets:	
Investments in debt and equity securities	$ 1,136,236,880
Total current assets	1,136,236,880
Non-current assets	493,940,047
Total	$ 1,630,176,927

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.

4. Investments (continuation)

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, 2024, amounted to approximately $493.9 million. The fair values of these investments have been estimated by the corresponding general partner or fund manager of these partnerships and disclosed in their respective separate audited financial statements. The allocations of net gain and net loss to the limited partners are based on certain percentages, as established in the limited partnership agreements. The following table presents the unfunded commitments for the alternative investments measured at NAV:

Description	Source	Net Assets Value (NAV)	Capital Commitments	Capital Contributed	Unfunded Commitments
Guayacán Private Equity Fund L.P., II	Unaudited	$ 2,867,293	$ 10,000,000	$ 9,818,945	$ 181,055
Guayacán Private Equity Fund L.P., III	Unaudited	7,659,352	10,000,000	10,863,802	-
Guayacán Fund of Funds III L.P.	Unaudited	7,219,948	40,000,000	39,688,897	311,103
Guayacán Fund of Funds IV L.P.	Unaudited	62,319,085	50,000,000	49,581,460	418,540
McCoy Investment II, L.P.	Unaudited	14,524,628	15,000,000	12,403,897	2,596,103
Palladium Equity Partners IV, L.P.	Unaudited	36,042,128	39,795,039	39,687,295	107,744
Institutional Senior Loan Fund	Unaudited	9,569,204	46,500,000	46,500,000	-
Pluscios Fund, LLC	Unaudited	63,503,853	46,500,000	46,500,000	-
Puerto Rico Fund Growth, L.P.	Unaudited	26,313,808	35,000,000	30,432,992	4,567,008
Arctrust III Inc.	Unaudited	27,075,000	25,000,000	25,000,000	-
Carter Multi	Unaudited	15,625,000	15,000,000	15,000,000	-
Parliament	Unaudited	9,882,495	9,400,000	9,400,000	-
Madison Retail	Unaudited	15,625,000	15,000,000	15,000,000	-
Mill Green Chase	Unaudited	8,333,333	8,000,000	8,000,000	-
Stonecrest	Unaudited	187,379,920	188,434,422	188,434,422	-
	TOTAL	$ 493,940,047			

4. Investments (continuation)

On June 30, 2024, the Corporation had the following recurring fair value measurements:

		Fair Value Measurement Using		
Investment by fair value level	**June 30, 2024**	**Quoted Prices in Active Market for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Debt securities				
US Treasuries	$ 585,917,276	$ 585,917,276	$ —	$ —
US Treasuries Bills	42,803,743	42,803,743	—	—
Corporate bonds and notes	52,954,337	—	52,954,337	—
Municipal bonds	41,519,283	—	41,519,283	—
Federal National Mortgage Association (FNMA)	224,230	—	224,230	—
Federal Home Loan Mortgage Corporation (FHLMC)	1,695,726	—	1,695,726	—
Federal Farm Credit Banks Funding Corporation (FFCBFC)	6,316,738	—	6,316,738	—
CMO-FHLMC	2,567,283	—	2,567,283	—
CMO-FNMA	2,007,762	—	2,007,762	—
CMO-GNMA	1,756,681	—	1,756,681	—
Government National Mortgage Association (GNMA)	2,216,045	—	2,216,045	—
Asset-backed securities	6,978,672	—	6,978,672	—
Uniform Mortgage Backet Security (UMBS)	39,058,839	—	39,058,839	—
Collateralized Mortgage Obligations	386,949	—	386,949	—
Total debt securities	786,403,564	628,721,019	157,682,545	—
Equity securities	334,059,519	334,059,519	—	—
Exchange traded funds	15,773,797	15,773,797	—	—
Private equity funds -equity securities:	493,940,047	—	—	493,940,047
Total equity securities	843,773,363	349,833,316	—	493,940,047
Total investment by fair value level	$ 1,630,176,927	$ 978,554,335	$ 157,682,545	$ 493,940,047

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4. Investments (continuation)

Expected maturities will differ from contractual maturity, 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, 2024:

Investment Type	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
U.S. Treasuries	$ 585,917,276	$ —	$ —	$ —	$ 585,917,276
U.S. Treasury Bills	1,029,741	18,063,490	13,048,489	10,662,023	42,803,743
U.S. sponsored agencies bonds and notes:					
Federal Home Loan Mortgage Corporation (FHLMC)	239,579	—	763,398	692,749	1,695,726
Federal National Mortgage Association (FNMA)	—	—	—	224,230	224,230
Federal Farm Credit Banks Funding Corporation (FFCBFC)	844,797	726,957	2,155,630	2,589,354	6,316,738
Mortgage-backed securities:					
Government National Mortgage Association (GNMA)	480,737	398,352	—	1,336,956	2,216,045
Uniform Mortgage Backet Security (UMBS)	—	—	—	39,058,839	39,058,839
Collateralized Mortgage Obligations	47,954	272,984	66,011	—	386,949
(CMO's) issued and/or guaranteed by:					
FHLMC	272,429	19,811	31,907	2,243,136	2,567,283
FNMA	243,969	3,804	45,977	1,714,012	2,007,762
GNMA	99,938	18,029	—	1,638,714	1,756,681
Asset-backed securities	116,025	5,572,267	1,290,380	—	6,978,672
Corporate bonds and notes	10,050,225	13,487,849	16,746,975	12,669,288	52,954,337
Municipal bonds	—	3,571,675	1,127,384	36,820,224	41,519,283
Total debt securities and fixed–income external investment pools	$ 599,342,670	$ 42,135,218	$ 35,276,151	$ 109,649,525	786,403,564
Equity securities					334,059,519
Exchange traded funds					15,773,797
Private equity funds - equity securities					493,940,047
				Total	$ 1,630,176,927

Equity securities includes investments with foreign currency risk of $40,247,939.

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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, 2024, are as follows:

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4. Investments (continuation)

	June 30, 2024							
	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)	$ —	$ 52,840	$ —	$ —	$ —	$ —	$ 1,642,886	$ 1,695,726
Federal National Mortgage Association (FNMA)	—	—	—	—	—	—	224,230	224,230
Uniform Mortgage Backet Security (UMBS)	—	—	—	—	—	—	39,058,839	39,058,839
Collateralized Mortgage Obligations	338,995	—	—	—	—	—	47,954	386,949
(CMO's) issued and/or guaranteed by:								
FHLMC	—	—	—	—	—	—	2,567,283	2,567,283
FNMA	—	—	—	—	—	—	2,007,762	2,007,762
Asset-backed securities	4,334,122	—	115,629	—	—	—	2,528,921	6,978,672
Corporate bonds and notes	1,784,674	5,042,727	23,231,070	19,724,981	—	—	3,170,885	52,954,337
Foreign government and corporate bonds and notes	—	—	—	—	—	—	—	—
Agency Bonds	6,157,504	—	—	—	—	—	159,234	6,316,738
Municipal bonds	2,095,232	4,505,768	353,211	—	—	—	34,565,072	41,519,283
Total debt securities and fixed-income external investment pools	$ 14,710,527	$ 9,601,335	$ 23,699,910	$ 19,724,981	$ —	$ —	$ 85,973,066	153,709,819
							Plus: U.S. Treasuries	585,917,276
							Plus: Government National Mortgage Association (GNMA)	3,972,726
							Plus: U.S. Treasuries Bills	42,803,743
							Total debt securities	$ 786,403,564

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, 2024, except for approximately $576 million invested in US Treasury securities held by Stonecrest Capital Markets, Inc., 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, 2024, 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, 2024, investment maturities as a percentage of total debt securities and fixed–income external investment pools are as follows:

Maturity	Maturity %
Within one year	76.2%
After one to five years	5.4%
After five years to ten years	4.5%
After ten years	13.9%

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 5 percent of the portfolio. As of June 30, 2024, the Corporation had the following investments denominated in foreign currency:

Description	Currency	Fair Value
Common stock and prefered stocks and equity	Australian Dollar	$ 2,403,851
	Swiss Franc	2,200,982
	Danish Krone	1,848,384
	Euro	16,071,174
	British Pound	4,666,555
	Hong Kong Dollar	1,117,499
	Indonesian Rupiah	368,435
	Japanese Yen	8,763,911
	Swedish Krona	1,665,110
	Singapore Dollar	1,142,038
Total		$ 40,247,939

This amount represents approximately 2.0% of total investment.

4. Investments (continuation)

Interest and dividend income for the year ended June 30, 2024, consists of the following:

Description		
Interest income on investments	$	58,673,137
Dividend income on investments		6,476,414
Other interest income		29
		65,149,580
Less investment managers' fees		(2,746,673)
Total interest and dividend income-net	$	62,402,907

Net increase in the fair value of investments for the year ended June 30, 2024, consists of the following:

Description		Investments Total
Gross realized gains	$	44,264,043
Gross realized losses		(30,806,300)
Net increase in fair value		66,279,360
Total	$	79,737,103

5. ACCOUNTS RECEIVABLE-NET

Accounts receivable as of June 30, 2024, consist of:

Description		Amount
Insurance premiums receivable, including estimated additional premiums, net of allowance for uncollectible insurance premiums of $508,742,844	$	106,516,662
Interest and dividends receivable		3,006,541
Employees' accounts receivable, collateralized with motor vehicles-net of allowance for uncollectible insurance premiums of $966,582		42,813
Other accounts receivable-net of allowance for uncollectible accounts of 182,681,867		714,816
Total	$	110,280,832

Insurance premiums receivable include an estimate for additional premiums of approximately $92.0 million as of June 30, 2024. 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, 2024, consist of:

Medicines and medical supplies	$	1,342,730
Office materials and supplies		369,577
Total	$	1,712,307

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, 2024, the Corporation accrued interest receivable of $2,100,000.

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, 2024, the Corporation accrued interest for the year amounting to $ 3,016,667, which was added to the principal amount, for a total note receivable from PUC Holdings LLC in the amount of $48,969,987.

As a result of the subsequent event described in Note 19, management has recognized a full loss on the notes receivable from Phoenix Fund LLC and PUC Holdings LLC. Accordingly, the carrying value of the notes have been adjusted to $0 as of June 30, 2024.

8. CAPITAL ASSETS-NET

The activity of capital assets for the year ended June 30, 2024, is as follows:

Description	Balance June 30, 2023	Additions (Depreciation Expense)	Retirements and Reclassifications	Balance June 30, 2024
Capital assets not subject to depreciation and amortization:				
Land	$ 11,382,166	$ -	$ -	$ 11,382,166
Land-under capital lease	7,150,000	-	-	7,150,000
	18,532,166	-	-	18,532,166
Capital assets subject to depreciation and amortization:				
Buildings and improvements	167,853,856	66,570	-	167,920,426
Medical and office equipment	19,961,791	1,542,599	(1,515,148)	19,989,242
Software and related assets	40,257,407	1,336,555	(1,949,459)	39,644,503
Motor vehicles	709,253	964,816	-	1,674,069
Right of use leased assets:				
Building	53,530,127	8,118,591	-	61,648,718
Equipment	4,257,190	43,268	-	4,300,458
Assets under financed purchases:				
Building and improvements	27,850,000	-	-	27,850,000
	314,419,624	12,072,399	(3,464,607)	323,027,416
Less accumulated depreciation and amortization:				
Buildings and improvements	(84,414,485)	(4,236,030)	-	(88,650,515)
Right of use leased assets:				
Building	(23,792,319)	(4,827,359)	-	(28,619,678)
Equipment	(363,816)	(922,515)	-	(1,286,331)
Medical and office equipment	(15,105,445)	(867,941)	1,410,568	(14,562,818)
Software and related assets	(37,124,755)	(1,302,690)	1,948,561	(36,478,884)
Motor vehicles	(709,252)	(72,386)	-	(781,638)
Assets under financed purchases:				
Building and improvements	(15,955,729)	(696,250)	-	(16,651,979)
	(177,465,801)	(12,925,171)	3,359,129	(187,031,843)
Capital assets being depreciated and amortized-net	136,953,823	(852,772)	(105,478)	135,995,573
Capital assets-net	$ 155,485,989	$ (852,772)	$ (105,478)	$ 154,527,739

For the year ended June 30, 2024, the Corporation reported dispositions of depreciated assets amounting to approximately $3.3 million with a loss on disposition of approximately $105,000.

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, persistence, and inflationary trends determined by an independent actuarial study. This liability has been discounted at 4.57% in 2024. The actuarial study for 2024 considered the experience of the Corporation from fiscal years 2013–2014 to 2023–2024 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) in the 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, 2024, consists of:

Description	Non-Current	Current	Total
Compensation benefits:			
Temporary Total	$ 27,332,084	$ 8,270,862	$ 35,602,946
Permanent Parcial	82,328,729	28,769,617	111,098,346
Permanent Total	301,206,099	49,445,709	350,651,808
Death	23,141,597	6,818,201	29,959,798
Total compensation benefits	434,008,509	93,304,389	527,312,898
Medical benefits	102,304,272	37,457,399	139,761,671
Loss adjustment expense (LAE)	80,776,305	21,872,437	102,648,742
Total	$ 617,089,086	$ 152,634,225	$ 769,723,310

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 4.57% as well. The return premium liability is discounted to July 1, 2023 using an annual interest rate of 4.57%, which was also provided by the Corporation.

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, 2024:

	6/30/2024 Valuation (undiscounted)		
	Losses	LAE	Losses & LAE
2023 Reserves Estimate	$ 821,258,610	$ 126,715,273	$ 947,973,883
New AY Incurred Losses	237,880,033	47,576,007	285,456,040
Change in Prior Years' Reserves	9,131,661	(7,484,896)	1,646,765
Claims Payments	(201,316,952)	(33,963,072)	(235,280,024)
2024 Reserves Estimate	$ 866,953,352	$ 132,843,312	$ 999,796,664

	6/30/2024 Valuation (discounted)		
	Losses	LAE	Losses & LAE
2023 Reserves Estimate	$ 670,498,112	$ 103,795,542	$ 774,293,654
New AY Incurred Losses	183,036,053	36,762,237	219,798,290
Change in Prior Years' Reserves	(31,556,894)	(11,665,587)	(43,222,481)
Claims Payments	(154,902,704)	(26,243,449)	(181,146,153)
2024 Reserves Estimate	$ 667,074,567	$ 102,648,743	$ 769,723,310

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2024, consist of:

Description	Amount
Accounts payable:	
Securities purchased not yet received	$ 2,021,009
Due to employers	17,114,323
Due to other governmental agencies	26,878,692
Suppliers, professional services and others	64,792,499
Total accounts payable	110,806,523
Accrued liabilities:	
Current	
Compensated absenses	14,771,869
Accruals for Christmas bonus	785,400
Total current	15,557,269
Noncurrent	
Compensated absences	16,232,226
Accruals for claims and contingencies	14,075,777
Total noncurrent	30,308,003
Total accrued liabilities	45,865,272
Total	$ 156,671,795

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, 2024:

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated absences including Chrismas Bonus	$ 33,785,232	$ 31,789,495	$ (33,785,232)	$ 31,789,495
Accruals for claims and contingencies	22,040,533	-	(7,964,756)	14,075,777
Total	$ 55,825,765	$ 31,789,495	$ (41,749,988)	$ 45,865,272

Accounts payable to agencies of the Commonwealth as of June 30, 2024, consist of:

Commonwealth of Puerto Rico	$ 19,498,026
Employee Retirement System	5,088,380
Puerto Rico Industrial Commission	1,600,000
Puerto Rico Health Department	394,870
Other	297,416
Total	$ 26,878,692

11. ACCRUAL FOR REIMBURSEMENT OF PREMIUMS

As of June 30, 2024, 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	$ 49,407,465
Non-current	34,981,128
Total	$ 84,388,593

The provision for reimbursement of insurance premiums for the year ended June 30, 2024, amounted approximately to $84.3 million including a current portion of approximately $49.4 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 payment cycle of approximately 2.94 years.

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. As of June 30, 2024 the balance of the right-to-use lease asset is $65,949,176, net of accumulated amortization of $36,043,167.

Lessee Activity

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

The Corporation's schedule of future minimum lease payments under lease agreements, together with the present value of such minimum lease payments as of June 30, 2024, is as follows:

Year ending June 30,	Principal	Interest	Total
2025	$ 14,401,566	$ 2,437,601	$ 16,839,167
2026	10,735,316	2,437,073	13,172,389
2027	6,833,719	1,874,905	8,708,624
2028	7,097,245	1,405,546	8,502,791
2029	6,807,985	675,710	7,483,695
Thereafter	6,643,251	416,475	7,059,726
Totals	$ 52,519,082	$ 9,247,310	$ 61,766,392

Lessor Activity

The Corporation leases space in owned and leased buildings to others, primarily food concessionaries, under long-term, noncancellable lease agreements recorded in accordance with GASB Statement No. 87. During the year ended June 30, 2024, the amount recognized as lease revenue and lease interest amounted to approximately $ 424,286 and $63,900, respectively.

At June 30, 2024, 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
2025	$	443,920	$	41,767	$	485,687
2026		101,703		26,937		128,640
2027		99,375		21,975		121,350
2028		104,562		16,787		121,349
2029		83,610		11,940		95,550
Thereafter		188,173		10,590		198,763
	$	1,021,343	$	129,996	$	1,151,339
Less current portion		443,920				
Non current portion	$	577,723				

13. TRANSACTIONS WITH COMMONWEALTH

Revenues with governmental agencies

During the year ended June 30, 2024, insurance premiums earned by the Corporation from the governmental sector are approximately as follows: $107.2 million from the Commonwealth and its agencies and public Corporations and $42.7 million from the municipalities for a total amount of approximately $149.5 million from the governmental sector. These amounts represent approximately 17.6% of the total of premiums earned on June 30, 2024.

Contributions with to Commonwealth

Contributions to instrumentalities of the Commonwealth during the year ended June 30, 2024, are as follows:

Description		Amount
Industrial Commission of Puerto Rico	$	21,257,000
Department of Labor and Human Resources:		
Occupational Safety and Health Office		17,804,000
Commonwealth of Puerto Rico Human Resources Office		60,000
Department of Education		6,718,000
Total	$	45,839,000

13. Transactions with Commonwealths (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 year. The $21.2 million represents 2.6% of prior year's insurance premium collected. 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, 2024, the Corporation maintained its level of operating expenses after achieving significant reductions in prior years, allowing the Corporation 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. The achievements made in the past reducing 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

The Defined Benefit Pension Plan for Participants of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (the Commonwealth) (the Plan) was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the Plan was administered by the Employees Retirement System of the Government of the

14. Pension Liability (continuation)

Commonwealth of Puerto Rico (the System). Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a pay-as-you-go (PayGo) system for the payment of pensions. Also pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

As a result of the implementation of the Pay Go system, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in 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. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan. Therefore, the accompanying schedule of employer allocations and the schedule of pension amounts by employer (collectively, the Schedules) present the pension amounts attributable to the Commonwealth reporting entity (i.e., the Commonwealth and its component units).

B. Basis of Presentation

The Schedules present amounts that are considered elements of the financial statements of the Commonwealth or its component units. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of the Commonwealth or its component units.

The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of the Commonwealth to make several estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

C. Pension Benefits

The Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al, ("2022 Plan of Adjustment") confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated several benefits to certain Plan participants. In summary, participants within benefits for System 2000 and Act 3 members, as previously defined, who were not in payment status as of March 15, 2022, were transferred out from Plan benefits. Also, eliminated future cost of living adjustments, and benefits to active members under the Act 127-1958 (members in high risk positions).

14. Pension Liability (continuation)

Plan participants within the System 2000 includes members hired on or after January 1, 2000, and on or before June 30, 2013 (defined contribution program). All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who on June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013 (Act No. 3 of 2013) froze all retirement benefits accrued through June 30, 2013, under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

Therefore, plan provision are different for the other two groups of members who entered the Plan prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (contributory, definedbenefit program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or afterApril 1, 1990, and on or before December 31, 1999 (contributory, defined benefit program).

1. Service Retirement Eligibility Requirements

a. *Eligibility for Act No. 447 Members*

Act No. 447 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 members could retire upon (1) attainment of age 55 with 25 years of credited service, 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 Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 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 with 10 years of credited service upon attainment of the retirement eligibility age shown in the table below.

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

14. Pension Liability (continuation)

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

b. *Eligibility for Act No. 1 Members*:

Act No. 1 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 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk.

Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

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

2. *Compulsory Retirement*

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

3. *Service Retirement Annuity Benefits*

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution 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 Members

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

14. Pension Liability (continuation)

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age Y 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 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 Defined Contribution

Hybrid Contribution Account begins after the member attains 30 years of credited service.

If the Act No. 447 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 more than 20 years. The 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 up to $6,600 multiplied by years of credited service in excess of 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.

For Act No. 447 Mayors with at least 8 years of credited service as Mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service more than 20 years. Non-Mayoral credited service includes service earned as a Mayor more than 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

14. Pension Liability (continuation)

b. Accrued Benefit as of June 30, 2013, for Act No. 1 Members

The accrued benefit as of June 30, 2013, shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 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 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

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

4. Special Benefits

a. Minimum Benefits

- Past Ad hoc Increases

  The legislature, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973, and Act No. 23 approved on September 23, 1983.

- Minimum Benefits for Members who Retired before July 1, 2013 (Act No. 156 of 2004, Act No. 35 of 2007, and Act No. 3 of 2013).

  The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007, and $300 per month up to June 30, 2007).

14. Pension Liability (continuation)

- 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. Special Bonus Benefits

- Christmas Bonus (Act No. 144, as Amended by Act No. 3)

  An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013.

- Medication Bonus (Act No. 155, as Amended by Act No. 3)

  An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

D. Allocation Methodology

GASB Statement No. 73 requires that the primary government and its component units that provide pension benefits through the same defined benefit pension plan recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). Effective with the June 30, 2022, measurement date, the proportionate share as of each measurement date is based on the ratio of the total pension liability determined directly for each agency based on each agency's members to the total pension liability for all Central Government members as of the measurement date. Previously, the proportionate share of each measurement date was based on the ratio of each agency's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date. Agency allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of pension amounts by agency may result in immaterial differences.

E. Total Pension Liability and Actuarial Information

The total pension liability was approximately $1,525.7 billion as of June 30, 2024. The total pension liability as of June 30, 2024, was determined by an actuarial valuation as of July 1, 2023, which was rolled forward to June 30, 2024 (measurement date as of June 30, 2023).

14. Pension Liability (continuation)

1. Actuarial Methods and Assumptions

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

Discount Rate

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

Mortality

The mortality tables used in June 30, 2022, actuarial valuation were as follows:

➢ *Pre-retirement Mortality*

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

100% of deaths while in active service are assumed to be occupational for members covered under Act 127-1958.

➢ *Post-retirement Retiree Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

➢ *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using

14. Pension Liability (continuation)

Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

➢ *Post-retirement Beneficiary Mortality*

Prior to retirees, beneficiary mortality is assumed to be the same as the post retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2023

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3.00% per year. No compensation increases are assumed until July 1, 2022, as a result of Act No. 3-2017, four-year extension of Act No 66-2014, and the current general economy.

2. Sensitivity of the Total Pension Liability to Changes in the Discount Rate

The following presents the total pension liability calculated using the discount rate of 3.65%, as well as what it would be if it were calculated using the discount rate of 1-percentage point lower (2.65%) or 1-percentage-point higher (4.65%) than the current rate (dollars in thousands):

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, 2023, the measurement date, the Corporation's proportionate share of the Total Pension Liability used was as follows:

Proportion - June 30, 2022	7.41832%
Proportion - June 30, 2023	7.34558%
Change - Increase (Decrease)	0.07274%

14. Pension Liability (continuation)

As June 30, 2024, the Corporation reported $ 1,525,733,016 (June 30, 2023, base) as Total Pension Liability for its share of the Total Pension Liability of Employee Retirement System.

	June 30, 2023	
	Total	Proportional Share (6.5382%)
Total Pension Liability	$ 23,335,683,397	$ 1,525,733,016

F. Deferred Outflows of Resources and Deferred Inflows of Resources

The following presents a summary of changes in total pension liability, deferred outflows of resources and deferred inflows of resources for the year ended June 30, 2024:

	Total Pension Lliability	Deferred outflows	Deferred Inflows
Beginning Balance FY2023	$ 1,643,341,131	$ 301,553,164	$ 164,124,842
Benefits Payment	(96,789,045)	-	-
Increase (decrease)	(20,819,070)	(234,241,899)	(154,609,199)
Ending Balance per GASB 73 Report FY2024 (Measurement date 06/30/2023)	$ 1,525,733,016	67,311,265	$ 9,515,643
Pension Benefits paid subsequent to measurement date		96,789,045	
Deferred outflow of resources and benefits paid after measurement date		$ 164,100,310	

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.

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.

15. Other Postemployment Benefits (OPEB) (continuation)

A. Plan Description

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees Retirement System (the Plan) is an unfunded, defined benefit other postemployment healthcare benefit plan (OPEB). The Plan is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB Statement No. 75). Under the guidance of GASB Statement No. 75, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single-employer defined benefit OPEB plan. Therefore, the accompanying schedule of employer allocations and the schedule of OPEB amounts by employer (collectively, the Schedules) present the OPEB amounts attributable to the Commonwealth reporting entity (i.e., the Commonwealth and its component units).

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

B. Basis for Presentation

The Schedules present amounts that are considered elements of the financial statements of the Commonwealth or its component units. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of the Commonwealth or its component units.

The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of the Commonwealth to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

C. Allocation Methodology

GASB Statement No. 75 requires that the primary government and its component units that provide OPEB benefits through the same defined benefit OPEB plan, recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense (benefit). Effective June 30, 2023,

15. Other Postemployment Benefits (OPEB) (continuation)

measurement date, the proportionate share as of each measurement date is based on the ratio of the total OPEB liability determined directly for each agency based on each agency's members to the total OPEB liability for all Central Government members as of the measurement date. Previously, the proportionate share of each measurement date was based on the ratio of each agency's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date. Agency allocation percentages have been rounded for presentation purposes; therefore, the amounts presented in the schedule of OPEB amounts by agency may result in immaterial differences.

D. Total OPEB Liability and Actuarial Information

The total OPEB liability was approximately $745.2 million as of June 30, 2023. The total OPEB liability as of June 30, 2023, was determined by an actuarial valuation as of July 1, 2022, which was rolled forward to June 30, 2023 (measurement date as of June 30, 2023). The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

1) Actuarial Assumption Discount

Discount Rate

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

Mortality

Post-retirement Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan’s experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan’s experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

15. Other Postemployment Benefits (OPEB) (continuation)

2) Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Plan at June 30, 2024, calculated using the discount rate of 3.65% discount as well as the Plan's total OPEB liability if it were calculated using the discount rate of 1-percentage point lower (2.65%) or 1-percentage point higher (4.65%) than the current rate:

	2.65%	3.65%	4.65%
Corporation's proportionate share of the OPEB liability	$ 20,012,712	$ 18,446,341	$ 17,093,423
Commonwealth OPEB Liability	$ 808,561,758	$ 745,282,507	$ 690,615,470
Corporation's proportion	2.4751%	2.4751%	2.4751%

E. Deferred Outflow of Resources and Deferred Inflow of Resources

Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year.

	Total OPEB Lliability	Deferred outflows
Beginning Balance FY2023	$ 19,786,793	$ -
Benefits Payment	(1,980,900)	
Increase (decrease)	640,448	3,906,292
Ending Balance per GASB 75 Report FY2024 (Measurement date 06/30/2023)	$ 18,446,341	3,906,292
Pension Benefits paid subsequent to measurement date		(1,980,900)
Deferred outflow of resources and benefits paid after measurement date		$ 1,925,392

F. OPEB Expense (Benefit)

The expenses of the Plan netted a credit of approximately $18 million, the result of computation of interest on total OPEB liability, the effect on economic/demographics gains and losses, net of effect of assumptions changes or inputs. The apportionment of OPEB expenses to the Corporation consist of the following:

Proportionate share of OPEB Expense	$ 393,708
Net amortization from changes in proportion	246,740
Total OPEB Expense	$ 640,448

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, 2024, 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, 2024, the DTDF (adjudged cases) amounted to approximately $149.7 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 approximately $38.0 million for coverage of cases that are filed for injured by COVID-19, which remains as of June 30, 2024.

17. CONTINGENCIES

The Corporation is included as defendant in various lawsuits as of September 9, 2025, 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 $14.0 million 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, 2024. 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, 2024. In the opinion of management, any loss to be sustained because of an unfavorable outcome for the cases has been provided for in the reserve estimates accrued and should not materially affect the Corporation's financial statements.

17. Contingencies (continuation)

The Corporation is subject to oversight from the Office of Inspector General (OIG), which may uncover situations in the future that may have an impact on the financial statements. Management is not aware of any situations or investigations by the OIG, which would affect the information presented in these 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 10.7%, excluding pension expense, which has experienced an unusual volatility due to a change in estimates of pension liability.

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 9, 2025, which is the same date the financial statements were available to be issued.

Notes Receivable from Obligor

Subsequent to the reporting period ended June 30, 2024, management became aware of material developments concerning one of the Entity's note obligors. Public reports indicate that the Office of the Commissioner of Financial Institutions of Puerto Rico ("OCFI") has launched an investigation into the obligor, citing alleged regulatory noncompliance and substantial investor claims.

On June 25, 2025, OCFI issued a Consent Order for (I) Special Examination and Appointment of Examiner and (II) Additional Actions under case number C25-V-001. The order addresses alleged violations of Act No. 185 of November 12, 2014, as amended (Private Equity Fund Act), Act No. 60 of July 1, 2019, as amended (Puerto Rico Incentives Code), and Regulation No. 9461. The order, effective immediately, mandates a special examination and outlines additional regulatory measures.

These developments, as reported in various news outlets, suggest a potential deterioration in the obligor's financial condition. Based on the information available and the nature of the event, management has evaluated the matter in accordance with the guidance provided by GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards. The event meets the criteria for recognition in the financial statements as it provides additional evidence about conditions that existed as of the reporting date. The related impact has been recognized and appropriately disclosed.

Management continues to monitor the situation and assess any further implications to the Entity’s financial position, contractual relationships, and internal control environment.

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, 2024

Schedule of the Corporation´s Proportionate Share of the Pension Liability

Measurement Year Ending	30-Jun-23	30-Jun-22	30-Jun-21	30-Jun-20
Reporting Year Edning	30-Jun-24	30-Jun-23	30-Jun-22	30-Jun-21
Corporation´s proportion of the total pension liability	6.5382%	7.4183%	7.2223%	7.1694%
Corporation´s proportionate share of the total pension liability	$ 1,525,733,016	$ 1,643,341,131	$ 1,963,321,330	$ 2,012,432,954

<u>Benefit Changes:</u> Beginning on July 1, 2017, the pension benefits were paid through the 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 to 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.

<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. The amounts presented have a measurement date of the previous fiscal year-end. Amounts presented have a measurement date of the previous fiscal year's 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, 2024

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

Measurement Year Ending	30-Jun-23	30-Jun-22	30-Jun-21	30-Jun-20
Reporting Year Ending	30-Jun-24	30-Jun-23	30-Jun-22	30-Jun-21
Corporation's proportion of the OPEB liability	2.85298%	2.84455%	3.11874%	3.08949%
Corporation's proportionate share of the OPEB liability	$ 18,446,341	$ 19,786,793	$ 24,291,247	$ 27,021,519

Benefit Changes: 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 No. 75

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

Notes to the Schedule:

1) The amounts presented have a measurement date of the previous fiscal year-end. Amounts presented have a measurement date of the previous fiscal year's end.

2) There are no assets accumulated in a trust for payment of OPEB 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, 2024

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, 2024

Accident Year	Ultimate Earned Premiums ($)	Ultimate Loss ($)	Cumulative Paid Losses ($ '000) As Of (Months):									
			12	**24**	**36**	**48**	**60**	**72**	**84**	**96**	**108**	**120**
2015	639,781	326,895	224,536	263,544	280,331	288,157	293,183	297,474	299,890	301,739	303,373	304,855
2016	614,625	305,762	215,007	249,783	261,595	268,698	274,499	277,501	279,836	281,807	283,710	**287,101**
2017	613,752	285,779	203,400	227,810	206,069	211,712	215,784	218,845	199,734	202,377	**204,540**	**206,890**
2018	676,605	249,831	167,049	192,805	206,069	211,712	215,784	218,845	221,501	**225,583**	**228,829**	**231,933**
2019	653,594	222,048	154,630	170,886	181,020	187,900	192,594	196,421	**199,734**	**202,377**	**204,540**	**206,890**
2020	655,151	198,482	138,625	152,577	159,922	164,947	169,202	**173,757**	**176,936**	**179,468**	**181,571**	**183,868**
2021	622,664	218,554	141,740	158,705	166,987	173,655	**183,076**	**188,697**	**192,576**	**195,682**	**198,277**	**201,000**
2022	708,131	222,269	140,428	155,052	164,564	**178,239**	**188,219**	**194,115**	**198,004**	**201,044**	**203,605**	**206,313**
2023	828,706	286,429	142,944	194,826	**218,130**	**231,069**	**240,251**	**247,629**	**253,236**	**257,169**	**260,486**	**263,519**
2024	841,777	230,227	140,317	**140,317**	**175,536**	**187,074**	**195,775**	**201,025**	**204,623**	**207,512**	**210,027**	**212,867**

See accompanying independent auditors' report.