José Rodríguez Amorós (Sub-Secretario) A-2023-5686

From:	Yamil Rivera (Secretario)
Sent:	Monday, June 12, 2023 8:13 AM
To:	José Rodríguez Amorós (Sub-Secretario); Crystal M. Castro Correa (Secretaría); Pedro L. González Uribe (Secretaría)
Subject:	FW: Estados Financieros Auditados
Attachments:	ASES Audited Financial Statements FY2020_Enmendado Cambio Opinion Enero 2023.pdf; ASES - FS 2022.pdf
Categories:	Secretaría

Dar cuenta.

From: Diana I. Dalmau Santiago (Sen. Dalmau Santiago) <DIDalmau@senado.pr.gov>
Sent: Wednesday, June 7, 2023 1:58 PM
To: Yamil Rivera (Secretario) <YVelez@senado.pr.gov>
Cc: Gladys Rodríguez (Secretaría) <gladrodriguez@senado.pr.gov>; Elba L. Rodríguez Soto (Sen. Dalmau Santiago) <elrodriguez@senado.pr.gov>
Subject: Fwd: Estados Financieros Auditados

Get Outlook for iOS

From: Joelys Sangiovanni Soto <jsangiovanni@asespr.org>
Sent: Wednesday, June 7, 2023 1:51:07 PM
To: José Luis Dalmau Santiago (Presidente) <jldalmau@senado.pr.gov>
Cc: Carmen L. Rodríguez Santiago <cleticia@asespr.org>; Samuel Nales <snales@asespr.org>; Lernice Dávila Aleman <ldavila@asespr.org>
Subject: Estados Financieros Auditados

Saludos:

Conforme con lo dispuesto en el Artículo VII, Sección 1 de la Ley Núm. 72 de 7 de septiembre de 1993, presentamos ante su consideración los Estados Financieros Auditados para el periodo terminado el 30 de junio de 2019, 2020, 2021 y 2022 de la Administración de Seguros de Salud de PR.

Gracias.

Joelys Sangiovanni Soto
Auxiliar de Contabilidad Finanzas & Administración
Finances & Administration Accounting Analyst
Administración de Seguros de Salud de Puerto Rico (ASES)
Puerto Rico Health Insurance Administration (PRHIA)
Tel. (787) 474-3300 ext. 1020
Fax. (787) 474-3347
Email. jsangiovanni@asespr.org

ADMINISTRACIÓN DE
SEGUROS DE SALUD
DE PUERTO RICO
ASES

Please consider the environment before printing this message.

Por favor considere el ambiente antes de imprimir este mensaje.

Puerto Rico Health Insurance Administration
(A Component Unit of the Commonwealth of Puerto Rico)
Financial Statements and Compliance Audit of Federal Financial Assistance for the Fiscal Year Ended June 30, 2022

TABLE OF CONTENTS

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

Jerry De Córdova, CPA, ESQ
Eduardo González-Green, CPA, CFF, CFE, FCPA
Maritza Rivera Serrano, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Puerto Rico Health Insurance Administration
San Juan, Puerto Rico

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Puerto Rico Health Insurance Administration (the Administration), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Administration's 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 Puerto Rico Health Insurance Administration as of June 30, 2022, and the respective changes in financial position and its 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 Puerto Rico Health Insurance Administration 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 opinions.

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, and for 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 Administration's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

P.O. Box 70262, San Juan, Puerto Rico 00936-8262 • Cecilia's Place Suite C-1, #7 Rosa Street
Isla Verde, P.R. 00979 • Phone (787) 253-9595 • Fax (787) 253-9511

free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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 and Government 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 the 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 and Government 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Administration 's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Administration 's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and required supplementary information by GASB statements No. 73 and 75 on pages 38 and 39 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 5, 2023, on our consideration of the Administration's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Administration's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards in considering Administration's internal control over financial reporting and compliance.

Carolina, Puerto Rico
May 5, 2023

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

Stamp number E525745
of Puerto Rico CPA Society
has been affixed to the
original report

This section of the financial statements is classified by the Governmental Accounting Standards Board (GASB) as required supplementary information. Management of the Puerto Rico Health Insurance Administration (the Administration or PRHIA) provides this Management Discussion and Analysis for the benefit of readers of the Administration's financial statements. Along with the financial statements and related notes, management's discussion and analysis should provide the most relevant information regarding the financial condition of the Administration for the fiscal year ended June 30, 2022.

Overview of the Financial Statements

This report includes the management's discussion and analysis, the independent auditor's report, and the basic financial statements and related Notes to the Financial Statements. The management's discussion and analysis focus on major components of the financial statements. The financial statements are designed to provide users with a broad overview of the Administration's finance with the intention to help answer the question whether the Administration is better off or worse off financially as a result of this year's activities. These financial statements are prepared under the accrual basis of accounting.

The Statement of Net Position presents information of the Administration's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. Over time, increases or decreases in net position, along with other financial information, serve as a useful indicator of the Administration's financial position and whether it is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Administration's net position changed during the fiscal year ended June 30, 2021. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Therefore, revenues and expenses are reported in this statement for certain items that will result in cash flows in future fiscal periods.

The Statement of Cash Flows shows how the Administration's cash and cash equivalents increased or decreased during the fiscal years reported. It also shows how cash and cash equivalents were provided by and used in the Administration's operating, non-operating and financing, and investing activities. The net increase or decrease in the Administration's cash and cash equivalents is added to the balance at the beginning of the year to arrive at cash and cash equivalents balance at end of year. This statement is presented on a cash basis and only presents cash receipts and cash disbursement information. The Administration uses the direct method of presenting cash flows, which includes a reconciliation of operating income to net cash provided by operating activities.

The notes to the financial statements provide additional information that is essential for a thorough understanding of the financial data presented in the financial statements.

These statements and information represent the actual financial condition of the Administration. Following, you will find a condensed discussion of these statements and notes.

Financial Highlights

For the fiscal year ended June 30, 2022, the Administration reported a net position of approximately $414.4 million, from $408.7 million in the prior year. The increase in net position was primarily driven by the contributions from the Commonwealth. The condensed Statements of Net Position of the Administration as of June 30, 2022, and 2021 was:

	June 30, 2022	June 30, 2021	Change In dollars	Change Percentage
Current assets	$ 1,353,393,725	$ 1,083,257,567	$ 270,136,158	25%
Non-current assets	24,685,016	53,519,490	(28,834,474)	-54%
Deferred outflows related to pension plan	1,323,797	1,565,928	(242,131)	-15%
Total assets and deferred outflows of resources	$ 1,379,402,538	$ 1,138,342,985	$ 241,059,553	21%
Current liabilities	$ 953,858,020	$ 682,993,432	$ 270,864,588	40%
Non-current liabilities	10,861,405	46,420,543	(35,559,138)	-77%
Deferred inflows related to pension plan	269,647	262,623	7,024	3%
Total liabilities and deferred inflows of resources	$ 964,989,072	$ 729,676,598	$ 235,312,474	32%
Net position:				
Net investment in capital assets	$ 444,099	$ 441,240	$ 2,859	1%
Net position	413,969,367	408,225,147	5,744,220	1%
Total net position	$ 414,413,466	$ 408,666,387	$ 5,747,079	1%
Total liabilities, deferred inflows of resources and net position	$ 1,379,402,538	$ 1,138,342,985	$ 241,059,553	21%

As of June 30, 2022, the Administration reported total assets and deferred outflows of resources of approximately $1.4 billion, an increase of approximately $241 million or 21% from the prior year. The increase in total assets was mainly due to an increase in receivable from federal grants ($180.8 million) and in cash and cash equivalents ($84.6 million) provided by its operating activities.

For the same period, total liabilities and deferred inflows of resources were $965 million, an increase of $235.3 million from the prior year. The increase in total liabilities was primarily due to increases in accounts payable for TPA administration fees ($288 million).

The Administration's net investment in capital assets as of June 30, 2022, amounted to $405,341, net of accumulated depreciation. During the fiscal year ended June 30, 2022, the Administration invested $187,484 in capital assets. Depreciation and amortization expense for the year ended June 30, 2021, amounted to $588,069.

The condensed Statements of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2022, and 2021 are summarized as follows:

	June 30, 2022	June 30, 2021	Change In dollars	Percentage
Operating revenues:				
Contributions from:				
Federal grants	$ 3,269,561,544	$ 2,999,633,483	$ 269,928,061	9%
Commonwealth of Puerto Rico	528,689,083	339,364,001	189,325,082	56%
Municipalities	88,796,787	63,831,156	24,965,631	39%
Employers	13,761,927	14,251,206	(489,279)	-3%
Pharmacy rebate program-net	80,061,196	255,966,739	(175,905,543)	-69%
Other	534,394	-	534,394	#DIV/0!
Bad debts expense	(24,619,517)	(11,860,507)	(12,759,010)	108%
	3,956,785,414	3,661,186,078	295,599,336	8%
Operating expenses:				
Medical premiums and claims	3,927,583,293	3,625,691,537	301,891,756	8%
General and administrative	24,413,747	21,422,233	2,991,514	14%
Depreciation and amortization	588,069	401,870	186,199	46%
Total operating expenses	3,952,585,109	3,647,515,640	305,069,469	8%
Non-operating revenues and expenses - net	1,546,774	5,134,040	(3,587,266)	-70%
Change in net position	5,747,079	18,804,478	(13,057,399)	-69%
Net position at beginning of year	408,666,387	389,861,909	18,804,478	5%
Net position, end of year	$ 414,413,466	$ 408,666,387	$ 5,747,079	1%

For the year ended June 30, 2022, the Administration reported operating revenues of approximately $3.96 billion, an increase of approximately $295.6 million from the prior year. The increase was mainly due to increases in federal grants and contributions from the Central Government of approximately $270 million and $189 million, respectively, while the rebate revenues decreased by approximately $176 million. Operating expenses were approximately $3.95 billion, an increase of approximately $305 million. The increase in operating expenses was mainly because of an increase in medical premiums and claims expenses. Net non-operating revenues and expenses decreased by approximately $3.6 million primarily due to the decrease in non-operating revenues from legislative appropriations.

Administration Overview

The Puerto Rico Health Insurance Administration is a public corporation of the Commonwealth of Puerto Rico, created by Act No. 72 on September 7, 1993, as amended. The Administration began operations on February 1, 1994 and is responsible for implementing, administering, and negotiating a health insurance program, through contracts with health insurers, mental behavioral health organizations, pharmacy benefit managers, third party administrators and Medicare Advantage organizations, among others. The purpose of the Administration is to provide access to quality medical and hospital care to eligible Puerto Rico residents.

The Administration is the sub-grantee of federal funds provided by the Medicaid Program under Title XIX of the Social Security Act and Title XXI of the State Children's Health Insurance Program (CHIP). The Single State Medicaid Agency is the Puerto Rico Department of Health (the Department of Health).

The Medicaid Program is responsible for administering to the Government Health Insurance Program of federal (those federally eligible for Medicaid) and Commonwealth beneficiaries (those non-eligible for federal Medicaid but who fall within the criteria set forth by Government of Puerto Rico for inclusion within the Government Health Insurance Program).

The Administration and the Medicaid Program have a Memorandum of Understanding in which the Medicaid Program delegates full responsibility to the Administration for implementing and administering the Government Health Insurance Program. Among the responsibilities, the Administration is responsible for establishing health coverage for qualified Puerto Rico residents in accordance with the Puerto Rico Medicaid State Plan and negotiating with health insurance organizations for the provision of such covered services, among others.

Consolidated Appropriations Act of 2023

On December 29, 2022, the Consolidated Appropriations Act, 2023 became Law 117-328, amending the allotments for Puerto Rico under Section 1108(g) of the Social Security Act (42 U.S.C. 1308(g)) for fiscal year 2023 and subsequent fiscal years as follows:

Fiscal year	Allotment
2023	$3,275,000,000
2024	$3,325,000,000
2025	$3,475,000,000
2026	$3,645,000,000
2027	$3,825,000,000

For fiscal year 2028, the sum of the amount that would have been provided for Puerto Rico for such fiscal year in accordance with the sum of the amount provided for the preceding fiscal year increased by the percentage increase in the medical care component of the Consumer Price Index for all urban consumers (as published by the Bureau of Labor Statistics) for the 12-month period ending in March preceding the beginning of the fiscal year, rounded to the nearest $100,000, had the amount provided under this subsection for Puerto Rico for each of fiscal years 2020 through 2027 been equal to the following:

(i) For fiscal year 2020, the sum of the amount provided for Puerto Rico for fiscal year 2019, increased by the percentage increase in the medical care component of the Consumer Price Index for all urban consumers (as published by the Bureau of Labor Statistics) for the 12-month period ending in March preceding the beginning of the fiscal year, rounded to the nearest $100,000.

(ii) For each of the fiscal years 2021 through 2027, the sum of the amount provided for the preceding fiscal year, increased in accordance with the percentage increase described in clause (i), rounded to the nearest $100,000.

For fiscal year 2029 and each subsequent fiscal year, the sum of the amount specified for the preceding fiscal year, increased by the percentage increase in the medical care component of the Consumer Price Index for all urban consumers (as published by the Bureau of Labor Statistics) for the 12-month period ending in March preceding the beginning of the fiscal year, rounded to the nearest $100,000.

Families First Coronavirus Response Act

On March 18, 2020, the President signed into law H.R. 6021, the Families First Coronavirus Response Act (FFCRA) (Pub. L. 116-127). Section 6008 of the FFCRA provides a temporary 6.2 percentage point increase to each qualifying state and territory's Federal Medical Assistance Percentage (FMAP) under section 1905(b) of the Social Security Act (the Act) effective beginning January 1, 2020, and extending through the last day of the calendar quarter in which the public health emergency declared by the Secretary of Health and Human Services for COVID-192, including any extensions, terminates.

Long-Term Debt

The Administration entered into a Credit Agreement with the Government Development Bank for Puerto Rico on March 14, 2011, in order to pay its obligations to healthcare insurers incurred prior to fiscal year 2009-2010. The aggregate principal amount of the non-revolving line of credit was $186,000,000 and is payable in nine payments of $20,666,667 from 2015 through 2023. Interests are accrued at a fluctuating annual rate of interest equal to the greater of (i) 1.5% over prime rate, and (ii) 6%.

As of June 30, 2022, the accrued interest amounted to $82,796,411. The Administration will pay the principal and interest with appropriations to be received from the Legislature of Puerto Rico through the Puerto Rico Office of Management and Budget (OMB) pursuant to Act No. 173 of 2010. Notwithstanding during the fiscal years ended June 30, 2016, through 2021, the OMB has failed to make principal and interest payments on behalf of the Administration.

Contacting the Administration Financial Management

This financial report is designed to provide our customers and creditors with a general overview of the Administration's finances and to demonstrate the Administration's accountability for the federal and commonwealth, among others, funds it receives. If you have questions about this report or need additional information, contact the Puerto Rico Health Insurance Administration, PO Box 195661, San Juan, PR 00926-2706.

The executive offices of the Administration are located at 1571 Alda Street, Urb. Caribe, Rio Piedras, Puerto Rico 00926-2712. The Administration's telephone number is (787) 474-3300. Ms. Edna A. Marín Ramos, MA is the Executive Director of the Administration.

* * * * *

Puerto Rico Health Insurance Administration
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position
June 30, 2022

ASSETS

Current assets:	
Cash and cash equivalents	$ 392,363,144
Accounts receivable:	
Federal grants	844,170,521
Pharmacy rebates program	116,286,250
Advance premium	573,810
Total current assets	1,353,393,725
Non-current assets:	
Accounts receivable	
Legislature appropriations and other - net of allowance for doubtful accounts of $744,520	16,636,535
Due from employers - net of allowance for doubtful accounts of $130,586,817	165,388
Other receivables	7,079
Property and equipment, net	444,099
Lease right-of-use asset	2,824,112
Due from MCO's - net of allowance for doubtful accounts of $10,585,358	1,031,672
Due from Commonwealth	3,576,131
Total non-current assets	24,685,016
Total assets	1,378,078,741
Deferred outflows of resources:	
Pension related	1,311,797
OPEB related	12,000
Total deferred outflows of resources:	1,323,797
Total assets and deferred outflows of resources	$ 1,379,402,538

See accompanying notes to financial statements.

LIABILITIES AND NET POSITION

Current liabilities:		
Premiums and claims payable	$	230,892,669
TPA administration fees payable		430,236,700
Obligation payable Governmental Development Bank		182,195,359
Interest payable		82,796,411
Accounts payable and accrued expenses		25,899,281
Accrued compensated absences		734,375
Accrued termination benefits		408,809
Total pension liability		312,332
Other postemployment benefits liability		12,000
Operating lease liability		370,084
Total current liabilities		953,858,020
Non-current liabilities:		
Accrued termination benefits		2,066,792
Total pension liability		6,168,217
Other postemployment benefits liability		133,610
Operating lease liability		2,492,786
Total non-current liabilities		10,861,405
Total liabilities		964,719,425
Deferred inflows of resources:		
Pension related		269,647
Total liabilities and deferred inflows of resources		964,989,072
Net position:		
Investment in capital assets		444,099
Unrestricted		413,969,367
Total net position		414,413,466
Total liabilities, deferred inflows of resources and net position	$	1,379,402,538

See accompanying notes to financial statements.

Puerto Rico Health Insurance Administration
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2022

Operating revenues:	
Contributions from:	
Federal grants	$ 3,269,561,544
Commonwealth of Puerto Rico	528,689,083
Municipalities	88,796,787
Employers	13,761,927
Pharmacy rebate program – net	80,061,196
Other	534,394
Bad debts expense	(24,619,517)
Total operating revenues	3,956,785,414
Operating expenses:	
Medical premiums and claims	3,927,583,293
General and administrative	24,413,747
Depreciation	588,069
Total operating expenses	3,952,585,109
Operating income	4,200,305
Non-operating revenues and expenses:	
Legislative appropriations from the Commonwealth of Puerto Rico	9,490,681
Interest expense	(8,180,373)
Interest income	236,466
Total non-operating revenues and expenses	1,546,774
Increase in net position	5,747,079
Net position at beginning of year	408,666,387
Net position at end of year	$ 414,413,466

See accompanying notes to financial statements.

Cash flows from operating activities:	
Cash receipts from contributions	$ 3,727,793,178
Cash receipts from pharmacy rebate program	75,628,359
Cash payments of premiums, health care organizations and third party administrators	(3,709,046,508)
Cash payments to vendors	(13,398,348)
Cash payments to employees	(5,222,413)
Net cash provided by operating activities	75,754,268
Cash flows from noncapital financing activities:	
Legislative appropriations from the Commonwealth of Puerto Rico	9,490,681
Payments of lease liability	(364,686)
Interest paid	(72,540)
Net cash provided by noncapital financing activities	9,053,455
Cash flows from capital and related financing activities:	
Purchase of capital assets	(187,484)
Net cash used for capital and related financing activities	(187,484)
Cash flows from investing activities:	
Interest collected	236,466
Increase in advanced premiums	(261,803)
Net cash used for investing activities	(25,337)
Net decrease in cash and cash equivalents	84,594,902
Cash and cash equivalents, at beginning of year	307,768,242
Cash and cash equivalents, at end of year	$ 392,363,144

Supplemental Disclosure of Cash Flow Information:

Noncash capital and related financing transactions:

Lease asset	$3,227,556
Lease liability	$3,227,556

See accompanying notes to financial statements.

Reconciliation of operating income to net cash provided by operating activities:

Operating income	$ 4,200,305
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation and amortization	588,069
Provision for bad debts	24,619,517
Changes in operating assets and liabilities:	
Decrease (increase) in assets:	
Accounts receivable:	
Federal grants	(205,466,133)
Municipalities	18,317,455
Legislative appropriations and other	(6,623,505)
Pharmacy rebates program	(4,432,837)
Employers	(9,954)
Due from MCO's	(230)
Due from State government	19,977,869
Other receivables	(190)
Deferred outflows of resources	
Pension related	242,131
Increase (decrease) in liabilities:	
TPA administration fees payable	287,994,210
Premiums and claims payable	(69,457,425)
Accounts payable and accrued expenses	6,244,110
Accrued termination benefits	(376,391)
Accrued compensated absences	75,842
Other postemployment benefits	(7,051)
Total pension liability	(138,548)
Deferred inflows:	
Pension related	7,024
Net cash provided by operating activities	$ 75,754,268

See accompanying notes to financial statements.

1. REPORTING ENTITY

The ***Puerto Rico Health Insurance Administration*** (the Administration or PRHIA) is a governmental entity and a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created on September 7, 1993 by Act No. 72 (the Act), as amended. The Administration commenced operations on February 1, 1994 and is considered a public corporation with full autonomy.

The Administration is responsible for implementing, administering, and negotiating a health insurance system, through contracts with health insurers, mental health organizations, pharmacy benefit managers, third party administrators and Medicare Advantage organizations, among others. The Administration thrives to provide all qualifying Puerto Rico residents access to quality healthcare services, including mental health, through a Managed Care Organization (MCO) model.

The Administration relies significantly on appropriations from the Commonwealth as well recurring and non-recurring federal funding. The Administration is the sub-grantee of federal funds provided by the Medicaid Program under Title XIX of the Social Security Act and Title XXI of the State Children's Health Insurance Program (CHIP). The Puerto Rico Department of Health (Department of Health) is the single state agency, and it has a cooperative agreement with the PRHIA which is responsible for implementing and administering the island-wide government health insurance program. Within the Department of Health, the Puerto Rico Medicaid Program (Medicaid Program) is the primary grantee of federal funds and is responsible for administering the eligibility to the government health insurance program of federal and Commonwealth beneficiaries.

A regionalization system was implemented to establish a network of participating providers throughout Puerto Rico and ensure the closest possible service to beneficiaries. The Administration pays a monthly premium to such insurance underwriters based on a contracted premium and the number of members subscribed in the health plan. Funds to pay for such premiums are requested from the Commonwealth net of funds available for such purposes from all other sources.

Under the provisions of Act No. 105 of July 19, 2002, which amended Act No. 72 of 1993, the Administration was authorized to negotiate directly with health providers under a pilot program. The Administration has, since then, entered into different direct contracts to cover the insured population of different regions and municipalities. Since November 1, 2006 through September 1, 2010, the Administration directly contracted providers that served approximately 190,000 lives from the metro-north region. Since June 30, 2011, the Administration has direct contracting projects with the Municipalities of Vieques and Guaynabo.

Effective October 1, 2010, a new integrated health care model named "Mi Salud" was developed with the following changes:

1) Set up a standard premium per region as established by the Administration.

2) Eliminate the referrals when the beneficiary needs the service of a specialist.

3) Better access to prescribed medicines without the authorization of the primary health care provider.

4) Extended hours for health care providers of basic services

5) Tele-emergency services available 24 hours.

1. REPORTING ENTITY (CONTINUED)

6) Integration of physical and mental health care in one place.

7) The risk of the primary health provider in relation to medicines, emergency and preventive health care test was decreased and was transferred to the health care insurance companies.

8) Increase the coverage to include the middle-class working force.

9) Set up a ceiling in relation to administrative expenses and gains of the health care insurance companies.

On October 14, 2014, the Board of Directors of the PRHIA awarded new contracts for the Government Public Health Insurance Plan (the “GHP”), which replaced the former “Mi Salud” plan, to five private insurance providers pursuant to a bidding process. The new contracts became effective on April 1, 2015. Under the new contracts, the Commonwealth of Puerto Rico's public health insurance model changed from a Third-Party Administrator (TPA) model, in which the Commonwealth was ultimately responsible for the cost of the health services provided, to a MCO model, in which the Administration will pay the insurers a fixed premium for each insured beneficiary and the insurers will be responsible for the cost of such services.

On July 3, 2018, the Board of Directors of the Administration awarded new contracts for the new Government Healthcare Program to five private managed care organizations pursuant to a bidding process. Under the new model, beneficiaries will have the option to select the MCO and the network of providers of their choice. In addition, it will offer an enhanced care model for patients with certain chronic and high-cost, high-need (HCHN) conditions such as cancer, diabetes, end-stage renal disease, chronic obstructive pulmonary disease with asthma, hypertension, severe cardiac insufficiency, serious mental illness, and serious emotional disorder. Furthermore, the new model will strengthen oversight and the audit process with the creation of the Medicaid Fraud Control Unit and will also comply with the measures and cost-control objectives established in the Commonwealth’s fiscal plan.

2. GENERAL MATTER

On March 14, 2011, the Administration requested a $186 million non-revolving line of credit from the Government Development Bank of Puerto Rico (GDB). On the same date, a Fiscal Oversight Agreement (FOA) was subscribed between the Administration and GDB to provide assistance and monitoring of the Administration’s finances. The FOA authorizes GDB to assist the Administration to adopt a fiscal stabilization plan and to take measures it deems necessary to ensure the Administration’s financial self-sufficiency. The FOA was terminated by GDB as of June 30, 2018.

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the “Qualifying Modification”). Pursuant to the Qualifying Modification and Act No. 109-2017, as amended (the “GDB Restructuring Act”), claims on account of deposits held by the Administration at GDB were applied to the above referenced line of credit, which as of June 30, 2022, was retained by GDB.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The accompanying financial statements have been presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned, regardless of when received, and expenses when incurred, regardless of when paid.

b. Basis of presentation

These financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB No. 34), Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB No. 34, as amended, establishes standards for external financial reporting for all state and local governmental entities, which includes a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

c. Cash and cash equivalents

The Administration considers all highly liquid investments with maturities of three months or less to be cash equivalents.

d. Allowance for doubtful accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable and prior credit loss experience.

e. Capital assets

Capital assets are stated at cost. Donated property is reported at their estimated fair value at the date received. When assets are retired or otherwise disposed of, the cost and accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recorded for the period. Expenditures for repairs and maintenance that do not extend the useful lives of the assets are charged to operations in the year incurred.

f. Impairment of Capital Assets

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 circumstance is outside the normal life cycle of the capital asset. The Administration reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. No impairment charges were recorded during the year ended June 30, 2022.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Depreciation and amortization

Depreciation is provided over the estimated useful life of each class of depreciable asset which range from four to ten years and is computed using the straight-line method.

h. Compensated absences

The employees of the Administration earn thirty (30) days of vacation and eighteen (18) days of sick leave annually. Since May 2017, the employees accumulate 1.25 days per month of vacation, which is equivalent to 15 days of vacation annually. Vacation time accumulated is fully vested to the employees from the first day of work but cannot be used during the first three months of work. In the event of resignation, an employee is reimbursed for accumulated vacation days up to sixty (60) days. Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation except that, in the event of retirement, an employee is reimbursed for accumulated sick leave days up to the maximum allowed of ninety (90) days after 10 years of services.

i. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditure) until then. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date. Changes in proportional share of contributions, differences between the expected and actual experience and changes in actuarial assumptions, are capitalized and recognized over a period of time equal to the expected remaining working lifetime of active and inactive participants.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as inflows of resources (revenues) until that time.

Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date. Changes in proportional share of contributions, differences between the expected and actual experience and changes in actuarial assumptions, are deferred and recognized over a period of time equal to the expected remaining working lifetime of active and inactive participants.

j. Accounting for pension cost

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

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

to the Department of Treasury of the Commonwealth to pay pension benefits. As a result of the implementation of the PayGo 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. The Administration accounts for pension costs under the provisions of 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.

GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined benefit pension plan of its primary government, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). The employer allocation percentage is based on the ratio of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date.

The Administration's funding policy is to contribute the amount required to fully fund the plan's current liability or the amount necessary to meet the applicable regulations. On June 27, 2017, the Secretary of the Treasury of the Commonwealth of Puerto Rico issued its Circular Letter 1300-46-17, implementing the PayGo System, which consists of a monthly charge as disclosed in Note 11 to the basic financial statements.

k. Other Postemployment Benefits

In accordance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, that replaces GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, changes similar to those implemented on GASB No. 67, Financial Reporting for Pension Plans, and No. 68, Accounting and Financial Reporting for Pensions should be made.

In addition to the pension benefits described above, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and postemployment healthcare benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. There are no member or employer contributions on behalf of the MIPC. This benefit is financed on a pay-as-you-go basis from the General Fund of the Commonwealth.

l. Revenue recognition

The Administration distinguishes operating revenue from non-operating revenue. Revenue from sources from the Puerto Rico Department of Health, the Commonwealth of Puerto Rico, Municipalities, Employers and Pharmacy Rebate Program are recorded as operating revenue. Revenue from legislative

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

appropriations and interest are recorded as non-operating revenue.

m. Contributions from the Commonwealth of Puerto Rico

Contributions received from the Commonwealth represent appropriations to cover the local share to meet federal funds matching requirements and funds for the payment of health insurance premiums and administrative expenses.

n. Contributions from the Puerto Rico Department of Health

Contributions received from the Department of Health represent payments to the Administration by the Medicaid Program which consist of a determined monthly amount of the funds allocated to Puerto Rico under Titles XIX and XXI of the Social Security Act and State Plan.

To comply with the federal funds matching requirements, the Administration is assigned funds from the Commonwealth. The Medicaid Program is the recipient of CHIPS and Prescription Drugs funds which are in whole transferred to the Administration for health care services for the eligible population.

o. Contribution from Municipalities

Contribution from Municipalities represent the budgetary appropriations of the municipal governments for direct health services in areas covered by the government health plan. The charges made by the Administration are based on established percentages applied to the corresponding Municipalities' operational budget for the lesser of current fiscal year or fiscal year 2004-2005 as set forth in Act No. 72 of September 7, 1993, as amended. These contributions are withheld by the Center for Municipal Revenue Collection from money assigned to the municipalities and remitted to the Administration on a monthly basis. During fiscal year 2021 no contributions were required to be made due to the passing of law.

p. Pharmacy rebate program

The Administration established a governmental pharmacy rebate program which consists of agreements negotiated for obtaining pharmaceutical rebates and discounts with regards to the utilization of prescription branded drugs dispensed to beneficiaries. The Administration has continued engaging service organization for the pharmacy rebate program implementation and administration. The Administration retains 100 percent of the income derived from this program.

q. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily related to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from those estimates.

The employees have the right to accumulate the excess of sixty (60) days in vacation and ninety (90) days in sick leave until December 31 of each year. The excess should be used by the employee before the end

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of the following natural calendar year. The excess not used is forfeited.Compensated absences are accrued when incurred using the pay or salary rates in effect at the date of the statement of net position.

r. Risk management

The Administration is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters, and other losses. Commercial insurance coverage is obtained for potential claims arising from such matters.

The commercial insurance coverage is negotiated by the Department of Treasury of the Commonwealth of Puerto Rico and the cost is billed to the Administration.

s. New accounting standard adopted

In Fiscal Year 2022, the Administration adopted the Governmental Accounting Standards Board Statement No. 87, *Leases*. Statement No. 87 establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset. In accordance with the statement, the Administration is required to recognize a lease liability and an intangible right-to-use lease asset (a capital asset hereinafter referred to as the lease asset). The new leases standard also requires enhanced disclosure which include a general description of the leasing arrangement, the aggregated amount of resource outflows recognized from lease contracts, including those not included in the measurement of the lease liability, and the disclosure of the long-term effect of lease arrangements on a government's resources.

t. Accounting pronouncements issued but not yet effective

GASB Statement No. 96, Subscription-Based Information Technology Arrangements

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No 99, Omnibus 2022.

This Statement establishes the objectives to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this Statement are effective as follows:

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Earlier application is encouraged and is permitted by topic.

GASB Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62.

The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, Compensated Absences

The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Implementation Guide No. 2020-1, Implementation Guidance Update—2020

The requirements of this Implementation Guide are effective as follows:

- Questions 4.1–4.5, 4.18, and 5.3 for reporting periods beginning after June 15, 2021 (FY 2021-2022)
- Questions 4.6–4.17 for fiscal years beginning after December 15, 2021 (FY 2022-2023), and all reporting periods thereafter.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Questions 4.19–4.21 for reporting periods beginning after December 15, 2021 (FY 2022-2023)
- Questions 5.1, 5.2, 5.4, and 5.5 for fiscal years beginning after June 15, 2021 (FY 2021-2022)

The provisions of paragraph 6 are effective immediately. Earlier application is encouraged if the pronouncement addressed by the question and answer has been implemented.

Implementation Guide No. 2021-1, Implementation Guidance Update—2021

The requirements of this Implementation Guide are effective as follows:

- Questions 4.1–4.3, 4.23, and 5.2–5.4 and the supersession of Questions Z.51.4–Z.51.7 in
- Implementation Guide 2015-1 for reporting periods beginning after June 15, 2022 (FY 2022-2023)
- Questions 4.4–4.21 for fiscal years beginning after June 15, 2022 (FY 2022-2023), and all reporting periods thereafter
- Question 4.22 for fiscal years beginning after June 15, 2021 (FY 2021-2022)
- Question 5.1 for reporting periods beginning after June 15, 2023 (FY 2023-2024).

Earlier application is encouraged if the pronouncement addressed by the question and answer has been implemented.

The Administration is evaluating the impact of these pronouncements.

4. CASH AND CASH EQUIVALENTS

The Administration's cash and cash equivalents as of June 30, 2022, consisted of the following:

Cash deposited in commercial banks	$ 392,362,644
Petty cash	500
Total Cash and Cash Equivalents	$ 392,363,144

5. CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the Administration deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance coverage. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth.

6. ACCOUNTS RECEIVABLE

Gross accounts receivable and the allowance for doubtful accounts as of June 30, 2022, consist of the following:

Federal grants	$ 844,170,521
Municipalities	88,670,559
Legislature appropriations and other	17,381,054
Pharmacy rebates program	116,286,250
Other receivables	7,079
Due from employers	130,752,206
	1,197,267,669
Allowance for doubtful accounts:	
Municipalities	(88,670,559)
Legislature appropriations and other	(744,520)
Employers	(130,586,817)
	(220,001,896)
Accounts receivable, net	$ 977,265,773

Accounts receivable consist of financial assistance from the federal Medicaid Program and the corresponding state contributions and legislature appropriations. In addition, the administration has receivables from its pharmacy rebates program, employers' contributions, and other contributions. Accounts receivables are stated net of an allowance for doubtful accounts. The Administration estimated the allowance based on its historical experience of the relationship between actual collection and billings.

7. DUE FROM MCO's

The Administration contracted the services of a public accounting firm to carry out an internal audit of the claims payment system under the previous TPA model. The sample selected for testing revealed that the Administration made duplicated payments and paid premiums for deceased members to the contracted health insurance entities under such model.

The overpayment amount was estimated first, matching the certified deceased records to the Administration active enrollment file. Then, for each matching record, the Administration computed the number of months after the date of death for which a premium was paid by the corresponding PMPM payment.

As a result of the audit, the Administration filed a claim to one of the health insurance entities representing 37% of the total overpayment. As of the date of this report various validation procedures have been satisfactorily performed over the underlying data, but other allegations brought by the counterparty challenging certain contractual aspects of the GHP contract remain unresolved. The Administration believes that it has conclusive evidence to overcome counterparty allegations and recover a part of the amount claimed. As of June 30, 2022, the allowance for doubtful accounts of the above-mentioned overpayment was established for approximately $10.6 million.

8. CAPITAL ASSETS

The activities of the capital assets accounts as of June 30, 2022, were as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Equipment, computer and software	$ 3,465,969	$ 187,484	$ -	$ 3,653,453
Leasehold improvements	179,829	-	-	179,829
Furniture and others	1,134,088	-	-	1,134,088
	4,779,886	187,484	-	4,967,370
Accumulated depreciation	(4,338,646)	(184,625)	-	(4,523,271)
Capital assets, net	$ 441,240	$ 2,859	$ -	$ 444,099

9. LEASE RIGHT-OF-USE ASSET

A lease is defined as a contractual agreement that conveys control of the right to use another entity's nonfinancial assets, for a minimum contractual period of greater than one year, in an exchange or exchange-like transaction. The Administration leases a building. The related obligation is presented in the amounts equal to the present value of lease payments, payable during the remaining lease term. The total amount of lease asset, and the related accumulated amortization on June 30, 2022, amounted to $3,227,556 and $403,445, respectively.

As of June 30, 2022, the Administration had minimum principal and interest payment requirements for its leasing activities, with a remaining term more than one year, as follows:

Fiscal year ending June 30:	Lease Payment	Interest Expense at 1.48%	Amortization of Lease Liability	Lease Liability
				$ 2,862,870
2023	$412,454	$42,370	$370,084	2,492,786
2024	412,454	36,893	375,561	2,117,225
2025	427,553	31,335	396,218	1,721,006
2026	427,553	25,471	402,082	1,318,924
2027	452,718	19,520	433,198	885,725
2028-2029	905,436	19,709	885,727	446,116
Totals	$3,038,168	$175,300	$2,862,868	$ 0

10. DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

Pursuant to GASB No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB No. 65, Items Previously Reported as Assets and Liabilities, the Administration may recognize deferred outflows of resources in the Statement of Net Position.

These items are a consumption of net position by the Administration that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Administration has items that are reportable on the Statement of Net Position that are relates to outflows/inflows from changes in the Net Pension Liability (Note 11). As of June 30, 2022, the components of Deferred Outflows/Inflows of Resources reported in the basic financial statements were as follows:

Deferred Outflows of Resources:	
Pension related	$1,311,797
OPEB related	$ 12,000
Deferred Inflows of Resources:	
Pension related	$ 269,647

11. OBLIGATION PAYABLE GOVERNMENT DEVELOPMENT BANK

On March 14, 2011, the Administration entered into a Credit Agreement with the Government Development Bank for Puerto Rico in order to pay its obligations to healthcare insurers incurred prior to fiscal year 2009-2010. The aggregate principal amount of the non-revolving line of credit was $186,000,000, payable in nine payments of $20,666,667, and each due on March 14 of the years 2015 through 2023. Interest is accrued at a fluctuating annual rate equal to the greater of (i) 1.5% over prime rate, and (ii) 6%.

On July 20, 2016, the Governor of Puerto Rico signed the Law 74 which authorized the GDB to consolidate all financing agreements made to governmental entities which are payable with appropriations from the legislature. Article 4 of such law lists all the governmental entities with financial agreements and the outstanding principal balance and accrued interest as of December 31, 2015. The Administration was listed with an outstanding principal balance of $183,251,298 and accrued interest of $14,215,650 as of December 31, 2015.

As of June 30, 2022, the outstanding principal balance amounted to $182,195,259 and the accrued interest amounted to $82,796,411, respectively. The Administration will pay the principal and interest with appropriations to be received from the Legislature of Puerto Rico through the Puerto Rico Office of Management and Budget (OMB) pursuant to Act No. 173. Notwithstanding, during the fiscal year ended June 30, 2022, the OMB did not make principal and interest payments on behalf of the Administration. OMB did not appropriate any funds to pay the principal and interest of this Credit Agreement.

12. RETIREMENT SYSTEM

Plan description

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the ERS), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. The ERS is a pension trust fund of the Commonwealth. All regular employees of the Administration hired before January 1, 2000 and less than fifty-five (55) years of age at the date of employment became members of the ERS as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

The ERS administers different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, Defined Benefit Program, a Defined Contribution Program (System 2000 program) and a Contributory Hybrid Program. Benefit provisions vary depending on a member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations) are covered by the ERS. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth and the Commonwealth's public corporation at the date of employment. Membership is optional for the Governor of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

The benefits provided to members of the ERS are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Act No. 3 of April 4, 2013 (Act No. 3), in conjunction with other recent funding and design changes, provided for a comprehensive reform of the ERS. Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990.
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999.
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

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 as of June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

Each member has a nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semi-annually. The Commonwealth does not guarantee benefits at retirement age.

The assets of the Defined Benefit Program, the Defined Contribution Program and the Contributory Hybrid Program are pooled and invested by ERS. Future benefit payments will be paid from the same pool of assets. In addition, employers' contributions for members hired on or after January 1, 2000 will be used by ERS to reduce the unfunded status of the Defined Benefit Program.

12. RETIREMENT SYSTEM (CONTINUED)

On August 23, 2017 was enacted Act 106-2017 enacted the benefits provided to PRGERS members as follows:

- New employees hired July 1, 2017 or later will be participants in a separate defined contribution plan and will not be PRGERS members.
- Effective July 1, 2017, current PRGERS members will no longer make any contributions to PRGERS. Prospectively, active members will participate in a separate defined contribution plan.

In addition to the benefit changes, Act 106-2017 provides that PRGERS will be funded on a pay-as-you-go basis. The following contributions are eliminated by Act 106-2017:

- Act 116-2011 employer contributions — was 15.525% of payroll in 2016-2017 and was scheduled to increase by 1.25% of payroll per year to an ultimate rate of 20.525% of payroll in 2020-2021 and later
- Act 32-2013 Additional Uniform Contribution - was $776 million in 2016-2017 and projected as $685 million from 2017-2018 to 2032-2033, with annual recalculations (only of portion of the annual amounts were collected in prior years)

Act 3-2013 Supplemental Contributions — was $2,000 for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefiting as an Act 447 or Act 1 member while an active employee. The contribution paid for the Medical Insurance Plan Contribution (up to $1 ,200 per member), the Christmas Bonus ($200 per member), and Medication Bonus ($100 per member) payable to members who retired prior to July 1, 2013. The excess of these Supplemental Contributions remained in the System to pay down the unfunded actuarial accrued liability.

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

<u>Service retirement eligibility requirements</u>

a) Eligibility for Act No. 447 Members: Act No. 447 members who were eligible to retire as of June 30, 2013 would 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, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk:

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in 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.

12. RETIREMENT SYSTEM (CONTINUED)

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.

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

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

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

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

<u>Service Retirement Annuity Benefits:</u>

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity.

1) *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.

12. RETIREMENT SYSTEM (CONTINUED)

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 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin 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 in excess of 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 a 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 in excess of 20 years. Non-Mayoral credited service includes service earned as a mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a mayor.

2) *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.

12. RETIREMENT SYSTEM (CONTINUED)

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 in excess of 10 years. Maximum benefit is 90% of highest compensation as a mayor.

<u>Compulsory Retirement</u>

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

<u>Contributions</u>

Act 106-2017 closed participation in PRGERS to new members effective July 1, 2017 and moved prospective accruals for all current active members to a separate defined contribution plan outside of PRGERS. The following contributions were eliminated July 1, 2017 by Act 106-2017:

- Act 116-2011 Employer Contribution
- Act 32-2013 Additional Uniform Contribution
- Act 3-2013 Supplemental Contributions
- Member Contributions

The Act 211-2015 early retirement incentive was reflected in this valuation as the electing members are now known.

On October 30, 2016, the Fiscal Oversight Board for Puerto Rico designated the Government of Puerto Rico, the ERS for Government Employees, the Judicial ERS, and the Teacher ERS (together the "ERSs"), the University of Puerto Rico and 21 other public corporations of Puerto Rico as covered entities, subject to fiscal supervision in accordance with the federal legislation Puerto Rico Oversight, Management, and Economic Stability Act, better known as PROMESA.

Due to the lack of projected liquidity of the ERS, the Government of Puerto Rico will protect payments to pensioners. Effective July 1, 2017, the Government of Puerto Rico adopted the "PayGo" system. Under this new system, the Government will be responsible for paying the deficiency of the ERSs to provide retirement benefits for the pensioners.

12. RETIREMENT SYSTEM (CONTINUED)

Also, as of July 1, 2017, employer contributions, contributions under special laws and the Uniform Additional Contribution (Law no. 32-2013) were eliminated and replaced with the "PayGo". Currently, the Government of Puerto Rico is working on reforming the ERSs from its current form to a New Defined Contribution Plan managed by a private entity.

Actuarial Valuation

The actuarial valuation of the Basic System Benefits and System Administered Benefits as of June 30, 2021, reflects a total pension liability of $27,184,320,381. As of June 30, 2022, the total pension liability of the Administration amounts to $6,480,549 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,352	$193,069
Changes of assumptions	663,400	76,578
Changes in proportion	325,713	-
Benefit payments made after measurement date	312,332	-
	$1,311,797	$269,647

The amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Proportional Share
2023	$258,666
2024	$258,666
2025	$212,486
	$729,818

For the year ended June 30, 2022, the Administration recognized pension expense of $422,940.

Actuarial Methods and Assumptions

The plan's actuarial cost method is the entry age normal method. Under this method, a projected benefit is determined at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that, if it were calculated as a level percentage of his compensation each year, it would accumulate at the valuation interest rate over his total prior and future years of service to his assumed retirement date into an amount sufficient to fund his projected benefit. The plan's accrued liability is the sum of (a) the accumulation of each active participant's normal costs attributable to all prior years of service plus (b) the present value of each inactive participant's future benefits.

12. RETIREMENT SYSTEM (CONTINUED)

As per ERS Actuarial Valuation Report as of June 30, 2021, future actuarial measurement may differ significantly from the current measurements used in the report mentioned above due to factors such as the following: plan experience differing from actuarial assumption; future changes in the actuarial assumptions; Increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as potential additional contribution requirements due to changes on the plan funded status); and changes in the plan provisions or accounting standards.

The significant actuarial assumptions used to determine the standardized measure of the pension benefits obligation as of June 30, 2021, are as follows:

- Municipal Bond Rate: 2.16% per annum (Bond Buyer General Obligation 20-Bond Municipal Bond Index)

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

- Post-retirement Disabled 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 80% for males and 100% for females. The base rates are projected, projected using MP-2021 on a generational basis.

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

- Actuarial Cost Method: The plan's actuarial cost method is the entry age normal method.

- Salary Increases: 3% per year. No compensation increases are assumed until July 1, 2021, as a result of the Act 3-2017 four-year extension of the Act 66-2014 salary freeze and the current general economy.

Discount Rate

The tax-free municipal bond index of 2.16% as of June 30, 2021, was used as the discount rate in the determination of the Total Pension Liability as of June 30, 2021. The discount rate as of June 30, 2021, was as follows:

12. RETIREMENT SYSTEM (CONTINUED)

Discount Rate	2.16%
Municipal bond rate *	2.16%

** Bond Buyer General Obligation 20-Bond Municipal Bond Index*

Sensitivity of the proportionate share of the net pension asset to changes in the discount rate

The following presents the Administration proportionate share of the net pension asset calculated using the discount rate of 2.16 percentage, as well as what the Administration's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage lower (1.16 percent) or one percentage point higher (3.16 percent) than the current rate:

	At 1 percent decrease (1.16%)	At current discount rate (2.16%)	At 1 percent increase (3.16%)
Total Pension Liability	$31,059,178,789	$27,184,320,381	$24,044,393,651
Proportional Share	$7,404,288	$6,480,549	$5,732,013

Pay-As-You-Go Funding

Operating a retirement system on a "pay-go" charge basis may be conceptually simple but can be very difficult in practice when the plan sponsor's current funds and ability to rely on reserves are limited or non-existent. While the valuation of ERS liabilities for financial reporting purposes is conducted on an annual basis in arrears, benefit payments vary continuously and respond instantaneously to emerging events. There are also administrative expenses incurred continuously.

Disbursements will experience natural variation due to emerging demographic experience and could also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction. A major issue that needs to be addressed is determining what the process of budgeting for "pay-go" funding will be. While expected "pay-go" amount can be set at the time of budgeting for an upcoming fiscal year, disbursements can vary from expectations during the fiscal year under the following circumstances:

- If the budget is set based on expected contributions and disbursements, in the event of adverse experience during the fiscal year, should provide for additional funds from the sponsoring employers.

- If the ERS be permitted to develop a budget request of a "pay-go" amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes.

- And how would the impacts of specific management decisions be handled.

There are certainly many more operational details to be considered. "Pay-go" operation is a complex issue that requires careful though and planning, constant monitoring, and the ability to respond to emerging events quickly. Additional information on the ERS is provided in its stand-alone basic financial statements, a copy of which can be obtained from the ERS Administration, PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

13. ACCRUED TERMINATION BENEFITS

On July 2, 2010, the Commonwealth Enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Administration. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined.

In this early retirement benefit program, the Administration will pay the employer contributions to the Retirement System and the corresponding pension until the employee complies with the age requirements and 30 years of creditable services applicable to the Retirement System. Economic incentives are available to eligible employees that qualify for retirement benefits. Economic incentives consist of a payment ranging from one to six months of salary.

Additionally, eligible employees that choose to participate in this program, other than those qualifying for retirement benefits, are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth of Puerto Rico.

At June 30, 2022, unpaid long-term benefits granted on this program were discounted 3%. Total accrued terminations benefit as of June 30, 2022, amounted to $2,475,601.

14. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 11, The Administration participates in the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the Plan). It is an unfunded, multi-employer 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 the Postemployment Benefits Other Than Pensions (GASB Statement No. 75).

The plan provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

Christmas Bonus Benefits

The Christmas Bonus was $200 per retiree pursuant to Act No. 3-2013. This benefit is recorded as expenditures when paid in the General Fund of the Commonwealth of Puerto Rico.

Healthcare Benefits

The Plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment.

14. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

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

Actuarial Assumptions

Discount rate

The discount rate for June 30, 2021 was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation 20-Bond Municipal Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation Date is July 1, 2020. This is the date as of which the actuarial valuation is performed. The Measurement Date is June 30, 2021. This is the date as of which the Total OPEB Liability is determined. The Reporting Date is the employer’s fiscal year ending date. This report is for measurement year July 1, 2020 to June 30, 2021 for reporting period ending June 30, 2022.

Deferred Inflows and Outflows

Because all participants are inactive, there are no deferred 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.

Mortality

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

- Post-retirement Healthy 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 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.

14. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

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

OPEB liability and expense

The OPEB Liability and expense amounted to $145,610 and $4,949, respectively.

Sensitivity of proportionate share of the OPEB Liability to changes in the discount rate

The following presents the Administration proportionate share of the OPEB Liability calculated using the discount rate of 2.16 percentage, as well as what the Administration's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage lower (1.16 percent) or one percentage point higher (3.16 percent) than the current rate:

	At 1 percent decrease (1.16%)	At current discount rate (2.16%)	At 1 percent increase (3.16%)
OPEB Liability	$876,074,118	$798,117,828	$731,734,711
Proportional Share	$159,832	$145,610	$133,499

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

Please see Note 11 above regarding the condition that the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (PRERS) has not issued audited financial statements as of and for the Measurement Year ended June 30, 2022.

15. CONTINGENCIES

Pending Litigations

The Administration is defendant and/or co-defendant in legal proceedings pertaining to matters incidental to the performance of its operations. With respect to the pending and threatened litigations, the Administration, in consultation with legal counsel, has advised that at this stage of the proceedings they cannot offer an opinion as to the probable outcome. Accordingly, management does not consider it necessary to make any provision in its books for these cases and intends to contest them vigorously.

14. CONTINGENCIES (CONTINUED)

Federal grants

The Administration receives as a sub-grantee financial assistance from the federal government corresponding to the Medicaid Program passed through the Puerto Rico Department of Health, the grantee. Federal grants are subject to financial and compliance audits by grantor agencies to determine the Administration's compliance with the regulations and conditions of such grants. It is management's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to be performed.

16. SUBSEQUENT EVENTS

The Administration has evaluated all subsequent events through May 5, 2023, which is the date the financial statements were available to be issued. The Administration is not aware of any subsequent event that could significantly impact on the financial statements.

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION

Puerto Rico Health Insurance Administration
(A Component Unit of the Commonwealth of Puerto Rico)
Required Supplementary Information
Schedule of Proportionate Share of the Total Pension Liability
For the Fiscal Year ended June 30, 2022

	2022	*2021*	*2020*	*2019*	*2018*
Proportion of the Central Government Collective Total Pension Liability	0.02384%	0.02358%	0.02291%	0.02266%	0.02109%
Proportionate Share of the Central Government Collective Total Pension Liability	$6,480,549	$6,619,097	$5,692,973	$5,549,379	$5,949,408

Notes:

1. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived from valuation and actuarial reports. The full reports are available by the Employees' Retirement System. Such preparation requires management of ERS 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.

2. The total pension liability as of June 30, 2022, was measured as of June 30, 2021, and was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2020, that was updated to roll forward the total pension liability to June 30, 2021 and assuming no gains or losses.

3. The information presented relates solely to the Corporation and not to the Employee’s Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

4. This information is intended to help users assess the Corporation’s pension plan’s status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

5. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

6. There are no assets accumulated in a trust that meets the criteria in GASBS No. 73 to pay related benefits.

See accompanying notes to required supplementary information and independent auditors' report.

Puerto Rico Health Insurance Administration
(A Component Unit of the Commonwealth of Puerto Rico)
Required Supplementary Information
Schedule of Proportionate Share of the Other Postemployment Benefit Liability
For the Fiscal Year ended June 30, 2022

	2022	*2021*	*2020*	*2019*	*2018*
Proportion of the Central Government Collective OPEB Liability	0.01824%	0.01745%	0.01637%	0.01619%	0.01470%
Proportionate Share of the Central Government Collective OPEB Liability	$145,610	$152,661	$136,227	$136,363	$135,337

Notes:

1. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived from valuation and actuarial reports. The full reports are available by the Employees' Retirement System. Such preparation requires management of ERS 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.

2. The OPEB liability as of June 30, 2022, was measured as of June 30, 2021, and was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2020 that was updated to roll forward the total pension liability to June 30, 2021 and assuming no gains or losses.

3. The information presented relates solely to the Corporation and not to the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

4. This information is intended to help users assess the Corporation's OPEB plan's status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

5. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

6. There are no assets accumulated in a trust that meets the criteria in GASBS No. 75 to pay related benefits.

See accompanying notes to required supplementary information and independent auditors' report.

Puerto Rico Health Insurance Administration
(A Component Unit of the Commonwealth of Puerto Rico)
Schedule of Expenditures of Federal Awards
For the Fiscal Year ended June 30, 2022

Federal Grantor/Pass-through/ Program or Cluster Title	Assistance Listing Number	Expenditures
U.S. Department of Health and Human Services		
Major Programs:		
Passed-through the Puerto Rico Department of Health		
Medical Assistance Program	93.778	$3,148,308,276
Medical Assistance Program - COVID	93.778	109,622,002
Subtotal Medical Assistance Program Cluster		3,257,930,278
Children's Health Insurance Program	93.767	131,861,366
Children's Health Insurance Program - COVID	93.767	2,896,609
Subtotal Children's Health Insurance Program		134,757,975
Total Expenditures of Federal Awards		$3,392,688,253

The accompanying notes are an integral part of this schedule.

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Puerto Rico Health Insurance Administration under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Puerto Rico Health Insurance Administration (the Administration), it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Administration.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, 2 CFR Part 200, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. PASS-THOUGH ENTITY IDENTIFYING NUMBER

State or Local government redistribution of federal awards to the Administration, known as "pass-through awards", should be treated by the Administration as though they were received directly from the federal government. Uniform Guidance requires the schedule to include the name of the pass-through entity for the federal awards received.

4. INDIRECT COST RATE

The Puerto Rico Health Insurance Administration has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Jerry De Córdova, CPA, ESQ
Eduardo González-Green, CPA, CFF, CFE, FCPA
Maritza Rivera Serrano, CPA

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

To the Board of Directors of
Puerto Rico Health Insurance Administration
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of *Puerto Rico Health Insurance Administration* (the Administration), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements and have issued our report thereon dated May 5, 2023.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

P.O. Box 70262, San Juan, Puerto Rico 00936-8262 • Cecilia's Place Suite C-1, #7 Rosa Street
Isla Verde, P.R. 00979 • Phone (787) 253-9595 • Fax (787) 253-9511

Purpose of this Report

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

Carolina, Puerto Rico
May 5, 2023

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

Stamp number E525746
of Puerto Rico CPA Society
has been affixed to the
original report

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

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

Jerry De Córdova, CPA, ESQ
Eduardo González-Green, CPA, CFF, CFE, FCPA
Maritza Rivera Serrano, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE; AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Puerto Rico Health Insurance Administration
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the *Puerto Rico Health Insurance Administration's (the Administration)* compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of the Administration's major federal programs for the year ended June 30, 2022. The Administration's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Qualify Opinion on Medical Assistance Program

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the Administration complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Medical Assistance Program for the year ended June 30, 2022.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Administration complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2022.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Administration and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit.

P.O. Box 70262, San Juan, Puerto Rico 00936-8262 • Cecilia's Place Suite C-1, #7 Rosa Street
Isla Verde, P.R. 00979 • Phone (787) 253-9595 • Fax (787) 253-9511

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of the Administration's compliance with the compliance requirements referred to above.*Matter Giving Rise to Qualified Opinion on Medical Assistance Program*

As described in the accompanying schedule of findings and questions costs, the Administration did not comply with requirements regarding Assistance Listing 93.778 Medical Assistance Program as described in finding number 2022-001 for Special Test and Provisions. Compliance with such requirement is necessary, in our opinion, for the Administration to comply with requirements applicable to those programs.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Administration's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Administration's compliance based on our audit. 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, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Administration's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, 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 Administration's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Administration's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Administration's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2022-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Administration's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Administration's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-002 to be significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Administration's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Administration's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Puerto Rico Health Insurance Administration as of and for the year ended June 30, 2022, and have issued our report thereon dated May 5, 2023, which contained a unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Carolina, Puerto Rico
May 5, 2023

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

Stamp number E525747
of Puerto Rico CPA Society
has been affixed to the
original report

Section I- Summary of Auditor's Results

A. Summary of audit results:

Part I-**Financial Statements**

1. Type of auditor's report issued:	☑ Unmodified opinion ☐ Adverse opinion	☐ Qualified opinion ☐ Disclaimer of opinion
Internal control over financial reporting:		
2. Significant deficiencies identified?	☐ Yes	☑ No
3. Material weakness (es) identified?	☐ Yes	☑ No
4. Noncompliance material to financial statements noted?	☐ Yes	☑ No

Part II- **Federal Awards**

Internal control over major programs:		
1. Significant deficiencies identified?	☑ Yes	☐ No
2. Material weakness(es) identified?	☑ Yes	☐ None reported
3. Type of auditor's reported on compliance for major programs:	☐ Unmodified opinion ☐ Adverse opinion	☑ Qualified opinion ☐ Disclaimer opinion
4. Audit findings disclosed that are required to be reported in accordance with the Uniform Guidance	☑ Yes	☐ No

5. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.778	Medical Assistance Program
93.778	Medical Assistance Program-COVID
93.767	Children's Health Insurance Program (CHIP)
93.767	Children's Health Insurance Program (CHIP)- COVID

6. Dollar threshold used to distinguish between Type A and Type B programs:	$10,178,065	
7. Auditee qualified as low-risk?	☐ Yes	☑ No

Section II – Financial Statements Findings

The audit of the financial statements of the Administration as of and for the year ended June 30, 2022, disclosed no matters involving internal control over financial reporting and its operations.

Section III – Federal Award Findings

Finding Number:	2022-001
Federal Program:	Medical Assistance Program
Assistance Listing:	93.778
Federal Grantor:	U.S. Department of Health and Human Services
Compliance Requirement:	Special Test and Provisions-ADP Risk Analysis and System Security Review
Category:	Material Weakness and Noncompliance

Criteria

SMAs must establish and maintain a program for conducting periodic risk analyses to ensure appropriate and cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. SMAs shall review ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The SMA shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR section 95.621).

Condition

The security plan for ADP (Automatic Data Processing) system, including policies and procedures to address contingency plans in the event of unforeseen interruptions has not been implemented and tested.

Cause

This situation was primarily caused by the lack of effective internal control over ADP Risk Analysis and System Security Review.

Effect

Critical business functions may not be resumed on time in case an emergency or disaster causes the ADP system resources to become unable to meet critical processing needs in the event of a short or long-term interruption of service.

Questioned Costs

None

Perspective information

N/A

Prior Year Audit Finding
2021-001

Recommendation

The Data Collection Form and Single Audit package shall be submitted within the required due dates

Management's Response:

Refer to Grantee's Corrective Action Plan

Finding Number:	2022-002
Agency:	U.S. Department of Health and Human Services
Federal Program:	Medical Assistance Program, Children's Health Insurance Program (CHIP)
CFDA:	93.778, 93.767
Compliance Requirement:	Reporting
Category:	Significant Deficiency and Noncompliance

Criteria

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal, Part 200.512, Report Submission, (a) General, (1) states that the audit must be completed, and the data collection form and reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

Condition

The Data Collection Form and Single Audit reporting package were not submitted within nine (9) months after the end of the audit period.

Cause

The Administration experienced the aftermath of the Coronavirus Pandemic as it relates to maintaining up to date its accounting records.

Effect

Data collection form and single audit reports were not submitted in a timely manner as required by the Uniform Guidance.

Prior Year Audit Finding

N/A

Recommendation

Data collection form and single audit package shall be submitted within the required due dates.

Questioned Costs

None

Management's Response

Refer to Grantee's Corrective Action Plan

Finding Reference Number	Finding Description	Questioned Cost	Finding Current Status
2021-001	ADP Risk Analysis and System Security Review	None	Situation still prevails
2021-002	Manage Care Financial Audit	None	Corrected

ASES
Autorizado por la Comisión Estatal de Elecciones CEE-SA-19-166

Puerto Rico Health Insurance Administration
Management Comments / Corrective Action Plan
Single Audit for the Year Ended June 30, 2022

Finding Number, Federal Agency Reference:	Recommendations / Total questioned costs:	Management Comments / Corrective Action Plan:	Anticipated Completion Date	Responsible for Implementation:
2022-001 U.S. Department of Health and Human Services	The Administration should establish and maintain a program for conducting periodic risk analysis to ensure appropriate, cost-effective safeguards are incorporated into new and existing systems.	ASES contracted a Cybersecurity expert to review the Disaster Recovery Plan draft, including the security policies and standards of information systems. The work plan includes the following: 1. Preparation of the Business Impact Analysis: a) Separate meetings with all managers to identify departments' data retention, RTO, BAT and RPO needs. b) This document will provide a better guide for the IT department of the needs of the departments and thus implement or acquire the necessary solutions for the protection, and DRP of the departments and the agency. 2. Perform an internal Risk Assessment which will help identify and remedy the vulnerabilities in the agency. 3. Establish responsibility to the directors of the agency's departments for their processes and the data they handle.	05/15/2023	Mrs. Winda J. Lorenzo González, Acting Chief Information Technology Officer (787) 474-3327 Email: wlorenzo@asespr.org
2022-001 U.S. Department of Health and Human Services (Continued)		4. Update the DRP based on departmental needs and the current capabilities of the agency's information systems. The IT department is in advanced discussions with PRITS for the purchase of the licensing of Azure Site Recovery and Azure Backup to meet the needs of the agency and mitigate the possible loss of data and applications in case of an incident such as ransomware attacks and events such as hurricanes or events related to hardware failures (servers, computers, etc.). This is a high priority for the Executive Director. In the coming months ASES will start the use of OneDrive tools for users to save their documents in this application and SharePoint for departmental files and documents. This implementation will help mitigate the risk that users lose their information due to security incidents or hardware failures. The Backup, Disaster Recovery and Security posture is expected to improve in the next 6 months if the above solutions are implemented.		

Finding Number, Federal Agency Reference:	Recommendations / Total questioned costs:	Management Comments / Corrective Action Plan:	Anticipated Completion Date	Responsible for Implementation:
2022-002 U.S. Department of Health and Human Services	Data collection form and single audit package shall be submitted within the required due dates.	The PRHIA was proactive to ensure compliance in submitting the 2022 Single Audit Report by due date, maximizing the human resources available, in collaboration with auditors. However, we were unable to comply with the due date, mainly, because of the employees turnover as part of the aftermath of the Coronavirus Pandemic as it relates to maintaining up to date its accounting records.	3/29/2024	Mr. Samuel Nales Finance Director (787) 474-3300 ext.1001 Email: snales@asespr.org

1549 CII Alda, San Juan, 00926, Puerto Rico

Puerto Rico Health Insurance Administration
(A Component Unit of the Commonwealth of Puerto Rico)
Financial Statements and Compliance Audit of Federal Financial Assistance for the Fiscal Year Ended June 30, 2020

TABLE OF CONTENTS

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

Jorge Aquino Barreto, CPA, CVA
Jerry De Córdova, CPA, ESQ
Eduardo González-Green, CPA, CFF, CFE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Puerto Rico Health Insurance Administration
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the *Puerto Rico Health Insurance Administration* (the Administration), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

P.O. Box 70262, San Juan, Puerto Rico 00936-8262 • Cecilia's Place Suite C-1, #7 Rosa Street
Isla Verde, P.R. 00979 • Phone (787) 253-9595 • Fax (787) 253-9511

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *the Puerto Rico Health Insurance Administration* as of June 30, 2020, and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and required supplementary information by GASB statements No. 73 and 75 on pages 43 and 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated March 30, 2022 on our consideration of the Administration's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Carolina, Puerto Rico

March 30, 2022

Aquino, De Cordova, Alfaro & Co. LLP

Stamp number E480791
of Puerto Rico CPA Society
has been affixed to the
original report

This section of the financial statements is classified by the Governmental Accounting Standards Board (GASB) as required supplementary information. Management of the Puerto Rico Health Insurance Administration (the Administration or PRHIA) provides this Management Discussion and Analysis for the benefit of readers of the Administration's financial statements. Along with the financial statements and related notes, management's discussion and analysis should provide the most relevant information regarding the financial condition of the Administration for the fiscal year ended June 30, 2020.

Overview of the Financial Statements

This report includes the management's discussion and analysis, the independent auditor's report, and the basic financial statements and related Notes to the Financial Statements. The management's discussion and analysis focus on major components of the financial statements. The financial statements are designed to provide users with a broad overview of the Administration's finance with the intention to help answer the question whether the Administration is better off or worse off financially as a result of this year's activities. These financial statements are prepared under the accrual basis of accounting.

The Statements of Net Position present information of the Administration's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. Over time, increases or decreases in net position, along with other financial information, serve as a useful indicator of the Administration's financial position and whether it is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position present information showing how the Administration's net position changed during the fiscal year ended June 30, 2020. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Therefore, revenues and expenses are reported in this statement for certain items that will result in cash flows in future fiscal periods.

The Statements of Cash Flows shows how the Administration's cash and cash equivalents increased or decreased during the fiscal years reported. It also shows how cash and cash equivalents were provided by and used in the Administration's operating, non-operating and financing, and investing activities. The net increase or decrease in the Administration's cash and cash equivalents is added to the balance at the beginning of year to arrive at cash and cash equivalents balance at end of year. This statement is presented on a cash basis and only presents cash receipts and cash disbursement information. The Administration uses the direct method of presenting cash flows, which includes a reconciliation of operating income to net cash provided by operating activities.

The notes to the financial statements provide additional information that is essential for a thorough understanding of the financial data presented in the financial statements.

These statements and information represent the actual financial condition of the Administration. Following, you will find a condensed discussion of these statements and notes.

Financial Highlights

For the fiscal year ended June 30, 2020, the Administration reported a net position of approximately $390 million, from $202 million in prior year. The increase in net position was primarily driven by the contributions from the Commonwealth and the municipalities. The condensed Statements of Net Position of the Administration as of June 30, 2020 and 2019 was:

	June 30, 2020	June 30, 2019	Change In dollars	Change Percentage
Current assets	$ 965,048,441	$ 706,185,595	$ 258,862,846	37%
Non-current assets	43,051,557	14,492,398	28,559,159	197%
Deferred outflows related to pension plan	821,396	724,754	96,642	0%
Total assets and deferred outflows of resources	$ 1,008,921,394	$ 721,402,747	$ 287,518,647	40%
Current liabilities	$ 487,076,521	$ 378,133,898	$ 108,942,623	29%
Non-current liabilities	131,642,777	140,949,694	(9,306,917)	-7%
Deferred inflows related to pension plan	340,187	349,818	(9,631)	0%
Total liabilities and deferred inflows of resources	$ 619,059,485	$ 519,433,410	$ 99,626,075	19%
Net position:				
Net investment in capital assets	$ 545,861	$ 1,369,791	$ (823,930)	-60%
Net position	389,316,048	200,599,546	188,716,502	94%
Total net position	$ 389,861,909	$ 201,969,337	$ 187,892,572	93%
Total liabilities, deferred inflows of resources and net position	$ 1,008,921,394	$ 721,402,747	$ 287,518,647	40%

As of June 30, 2020, the Administration reported total assets and deferred outflows of resources of approximately $1,009 million, an increase of $287.5 million or 40% from prior year. Increase in total assets was mainly due to an increase in federal grants receivable and unexpended cash of approximately $202.4 million and $49.5 million, respectively. For the same period, total liabilities and deferred inflows of resources were $619.1 million, an increase of $99.6 million from prior year. Increase in total liabilities was primarily due to increase in premiums and claims payable.

The Administration's net investment in capital assets as of June 30, 2020 to $545,861, net of accumulated depreciation. Capital assets include equipment, furniture, leasehold improvements, and vehicles. During the fiscal years ended June 30, 2020 the Administration invested approximately $101,000 in capital assets. Depreciation and amortization expense for the year ended June 30, 2020 amounted to $925,070.

The condensed Statements of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2020 and 2019 are summarized as follows:

	June 30, 2020	June 30, 2019	Change In dollars	Percentage
Operating revenues:				
Contributions from:				
Federal grants	$ 2,469,776,590	$ 2,547,711,428	$ (77,934,838)	-3%
Commonwealth of Puerto Rico	360,500,000	14,886,000	345,614,000	2322%
Municipalities	119,690,525	-	119,690,525	-
Employers	17,572,204	29,188,217	(11,616,013)	-40%
Pharmacy rebate program-net	229,691,916	253,607,607	(23,915,691)	-9%
Fines	30,000	-	30,000	-
Bad debts expense	(92,765,897)	(3,490,677)	(89,275,220)	2558%
	3,104,495,338	2,841,902,575	262,592,763	9%
Operating expenses:				
Medical premiums and claims	2,887,428,097	2,796,145,815	91,282,282	3%
General and administrative	42,590,172	38,119,246	4,470,926	12%
Depreciation and amortization	925,070	1,022,764	(97,694)	-10%
Total operating expenses	2,930,943,339	2,835,287,825	95,655,514	3%
Non-operating revenues and expenses - net	14,340,573	(6,807,720)	21,148,293	-311%
Change in net position	187,892,572	(192,970)	188,085,542	-97469%
Net position at beginning of year	201,969,337	202,162,307	(192,970)	0%
Net position, end of year	$ 389,861,909	$ 201,969,337	$ 187,892,572	93%

For the year ended June 30, 2020, the Administration reported operating revenues of approximately $3.1 billion, an increase of approximately $262.6 million or 9% from prior year. The increase was mainly due to increases in contributions from the Commonwealth and the municipalities of approximately $345.6 million and $119.6 million, respectively. Operating expenses were approximately $2.9 billion, an increase of approximately $95.7 million or 3%. The increase in operating expenses was mainly as a result of an increase of medical premiums and claims expense. Net non-operating revenues and expenses increased by approximately $21.1 million primarily due to an increase of approximately $21.7 million in non-operating revenues from legislative appropriations.

Administration Overview

The Puerto Rico Health Insurance Administration is a public corporation of the Commonwealth of Puerto Rico, created by Act No. 72 on September 7, 1993, as amended. The Administration began operations on February 1, 1994 and is responsible for implementing, administering, and negotiating a health insurance program, through contracts with health insurers, mental behavioral health organizations, pharmacy benefit managers, third party administrators and Medicare Advantage organizations, among others. The purpose of the Administration is to provide access to quality medical and hospital care to eligible Puerto Rico residents.

The Administration is the sub-grantee of federal funds provided by the Medicaid Program under Title XIX of the Social Security Act and Title XXI of the State Children's Health Insurance Program (CHIP). The Single State Medicaid Agency is the Puerto Rico Department of Health (the Department of Health).

The Medicaid Program is responsible for administering to the Government Health Insurance Program of federal (those federally eligible for Medicaid) and Commonwealth beneficiaries (those non-eligible for federal Medicaid but who fall within the criteria set forth by Government of Puerto Rico for inclusion within the Government Health Insurance Program).

The Administration and the Medicaid Program have a Memorandum of Understanding in which Medicaid Program delegates full responsibility to the Administration for implementing and administering the Government Health Insurance Program. Among the responsibilities, the Administration is responsible for establishing health coverage for qualified Puerto Rico residents in accordance with the Puerto Rico Medicaid State Plan and negotiating with health insurance organizations for the provision of such covered services, among other.

The executive offices of the Administration are located at 1571 Alda Street, Urb. Caribe, Rio Piedras, Puerto Rico 00926-2712. The Administration's telephone number is (787) 474-3300. Mr. Jorge Galva, Esq. is the Executive Director of the Administration.

Background of Past and Current Healthcare Models

On October 1, 2010, the Commonwealth implemented "Mi Salud" plan, which replaced the "Health Reform" program.

On October 14, 2014, the Board of Directors of the PRHIA awarded new contracts for the GHP, which replaced the former "Mi Salud" plan, to five private insurance providers pursuant to a bidding process. The new contracts became effective on April 1, 2015. Under the new contracts, the Commonwealth public health insurance model changed from a Third-Party Administrator (TPA) model, in which the Commonwealth was ultimately responsible for the cost of the health services provided, to a managed care organization (MCO) model, in which the Administration will pay the MCOs a fixed Per Member Per Month (PMPM) premium for each insured beneficiary and the insurers will be responsible for the cost of such services.

Bipartisan Budget Act of 2018

On January 3, 2018, the United States Congress enacted the Bipartisan Budget Act of 2018 and its Act's Division – Supplemental Appropriations, Tax Relief, and Medicaid Changes Relating to Certain Disasters and Further Extension of Continuing Appropriations, (collectively, the "Act"), that was signed into law by President Donald Trump on February 9, 2018. The passage of the Act, through its Titles III, section 20301, Hurricane Maria Relief for Puerto Rico, and the Virgin Islands Medicaid Programs, has resulted in health care expanded funding by providing increased caps for the period beginning January 1, 2018, and ending September 30, 2019. The amount of the increase for Puerto Rico was $3.6 billion.

The Act also included a further increase of $1.2 billion if the Secretary certifies that Puerto Rico has taken reasonable appropriate steps during such period, in accordance with a timeline established by the U.S. Secretary of Health (Secretary) to implement methods, satisfactory to the Secretary, for the collection and reporting of reliable data to the Transformed Medicaid Statistical Information System (or a successor system); and demonstrate progress in establishing a State Medicaid Fraud Control Unit (MFCU) as described in section 1903(q).

The changes by the Act established that notwithstanding any other provision of title XIX, during the period in which the additional funds provided are available for Puerto Rico, with respect to payments from such additional funds for amounts expended by Puerto Rico, the Federal Medicaid Assistance Program reimbursable share was increased to 100 percent.

Further Consolidated Appropriations Act, 2020

On December 20, 2019, the United States Congress enacted the H.R. 1865, National Law Enforcement Museum Commemorative Coin Act [Further Consolidated Appropriations Act, 2020] including additional Medicaid funding for Puerto Rico. This Act included a temporary treatment by increasing the cap under Section 1108 of the Social Security Act to $2,623,188,000 and $2,719,072,000 for federal fiscal years 2020 and 2021.

The Act also included a further increase of $200 million for each year, if the Secretary certifies that Puerto Rico establishes a reimbursement floor, implemented through a directed payment arrangement plan, for physician services covered under Medicare Part B at a rate not less than 70%.

The changes by the Act established that notwithstanding any other provision of title XIX, during the period in which the additional funds provided are available for Puerto Rico, with respect to payments from such additional funds for amounts expended by Puerto Rico, the Federal Medicaid Assistance Program reimbursable share was increased to 76 percent.

Families First Coronavirus Response Act

On March 18, 2020, the President signed into law H.R. 6021, the Families First Coronavirus Response Act (FFCRA) (Pub. L. 116-127). Section 6008 of the FFCRA provides a temporary 6.2 percentage point increase to each qualifying state and territory's Federal Medical Assistance Percentage (FMAP) under section 1905(b) of the Social Security Act (the Act) effective beginning January 1, 2020 and extending through the last day of the calendar quarter in which the public health emergency declared by the Secretary of Health and Human Services for COVID-192, including any extensions, terminates.

Long-Term Debt

The Administration entered into a Credit Agreement with the Government Development Bank for Puerto Rico on March 14, 2011 in order to pay its obligations to healthcare insurers incurred prior to fiscal year 2009-2010. The aggregate principal amount of the non-revolving line of credit was $186,000,000 and is payable in nine payments of $20,666,667 from 2015 through 2023. Interests are accrued at a fluctuating annual rate of interest equal to the greater of (i) 1.5% over prime rate, and (ii) 6%.

As of June 30, 2019, and 2018, the accrued interest amounted to $63,693,500 and $52,698,420, respectively. The Administration will pay the principal and interest with appropriations to be received from the Legislature of Puerto Rico through the Puerto Rico Office of Management and Budget (OMB) pursuant to Act No. 173 of 2010. Notwithstanding during the fiscal years ended June 30, 2016 through 2020, the OMB has failed to make principal and interest payments on behalf of the Administration.

Currently Known Facts

Financial Deterioration of the Commonwealth of Puerto Rico

As disclosed in Note 1, the Administration relies significantly on appropriations from the Commonwealth as well as recurring and non-recurring federal funding. Although the financial condition and liquidity of the Commonwealth has deteriorated, the Administration's has reflected a deficit reduction and surplus due to management cost reductions implementations and improvements on payment eligibility process. Because of the MCO Model Plan, the Administration must focus on the efficiency of the payment eligibility process, for example, adjustments to avoid double payments and deceased members. Furthermore, the Administration works with Cost of Benefit (COB) concept to improve reporting collecting data and reconciliation providing a better future Per Member Per Month (PMPM) payments negotiations.

Contacting the Administration Financial Management

This financial report is designed to provide our customers and creditors with a general overview of the Administration's finances and to demonstrate the Administration's accountability for the federal and commonwealth, among others, funds it receives. If you have questions about this report or need additional information, contact the Puerto Rico Health Insurance Administration, PO Box 195661, San Juan, PR 00926-2706.

* * * * *

ASSETS

Current assets:	
Cash and cash equivalents	$ 332,977,762
Accounts receivable:	
Federal grants	549,797,534
Pharmacy rebates program	82,079,432
Advance premium	193,713
Total current assets	965,048,441
Non-current assets:	
Accounts receivable	
Municipalities - net of allowance for doubtful accounts of $172,156,412	36,549,671
Legislature appropriations and other - net of allowance for doubtful accounts of $744,520	5,055,895
Due from employers - net of allowance for doubtful accounts of $117,206,569	157,245
Other receivables	6,889
Capital assets – net	545,861
Due from MCO's - net of allowance for doubtful accounts of $10,585,358	735,996
Total non-current assets	43,051,557
Total assets	1,008,099,998
Deferred outflows of resources:	
Deferred outflows related to pension plan	821,396
Total assets and deferred outflows of resources	$ 1,008,921,394

See accompanying notes to financial statements.

LIABILITIES AND NET POSITION

Current liabilities:	
Premiums and claims payable	$ 263,977,409
TPA administration fees payable	81,708,408
Obligation payable Governmental Development Bank	124,000,002
Accounts payable and accrued expenses	16,379,469
Accrued compensated absences	271,890
Accrued termination benefits	437,801
Total pension liability	290,186
Other postemployment benefits liability	11,356
Total current liabilities	487,076,521
Non-current liabilities:	
Obligation payable Governmental Development Bank	59,251,296
Interest payable	63,693,500
Accrued compensated absences	380,193
Accrued termination benefits	2,790,130
Total pension liability	5,402,787
Other postemployment benefits liability	124,871
Total non-current liabilities	131,642,777
Total liabilities	618,719,298
Deferred inflows of resources:	
Deferred inflows related to pension plan	340,187
Total liabilities and deferred inflows of resources	619,059,485
Net position:	
Net investment in capital assets	545,861
Unrestricted	389,316,048
Total net position	389,861,909
Total liabilities, deferred inflows of resources and net position	$ 1,008,921,394

See accompanying notes to financial statements.

Operating revenues:	
Contributions from:	
Puerto Rico Department of Health	$ 2,469,776,590
Commonwealth of Puerto Rico	360,500,000
Municipalities	119,690,525
Employers	17,572,204
Pharmacy rebate program – net	229,691,916
Fines	30,000
Bad debts expense	(92,765,897)
Total operating revenues	3,104,495,338
Operating expenses:	
Medical premiums and claims	2,887,428,097
General and administrative	42,590,172
Depreciation	925,070
Total operating expenses	2,930,943,339
Operating income	173,551,999
Non-operating revenues and expenses:	
Legislative appropriations from the Commonwealth of Puerto Rico	21,660,000
Interest expense	(11,021,894)
Interest income	3,702,467
Total non-operating revenues and expenses	14,340,573
Increase in net position	187,892,572
Net position at beginning of year	201,969,337
Net position at end of year	$ 389,861,909

See accompanying notes to financial statements.

Cash flows from operating activities:	
Cash receipts from contributions	$ 2,642,801,320
Cash receipts from pharmacy rebate program	222,874,726
Cash payments of premiums, health care organizations and third party administrators	(2,798,796,847)
Cash payments to vendors and employees	(42,455,742)
Net cash provided by operating activities	24,423,457
Cash flows from non-operating and financing activities:	
Legislative appropriations from the Commonwealth of Puerto Rico	21,660,000
Interest paid	(26,814)
Net cash provied by non-operating and financing activities	21,633,186
Cash flows from investing activities:	
Purchase of capital assets	(101,140)
Interest collected	3,702,467
Decrease (increase) in advanced premiums	(119,692)
Net cash provided by investing activities	3,481,635
Net increase in cash and cash equivalents	49,538,278
Cash and cash equivalents, at beginning of year	283,439,484
Cash and cash equivalents, at end of year	$ 332,977,762

Supplemental Disclosure of Non-Cash Transactions:

During the year ended June 30, 2020 the Administration retired fully depreciated capital assets with a value of $17,389. Such transaction did not represent spending of cash.

See accompanying notes to financial statements.

Reconciliation of operating income to net cash provided by (used in) operating activities:

Operating income	$ 173,551,999
Adjustments to reconcile operating income to net cash provided by operting activities:	
Depreciation and amortization	925,070
Provision for bad debts	92,765,897
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Accounts receivable:	
Puerto Rico Department of Health	(295,153,583)
Municipalities	(36,549,671)
Legislative appropriations and other	6,750,512
Pharmacy rebates program	(6,817,190)
Other receivables	408,031
Employers	91,789
Due from MCO's	(83,750)
Deferred outflows of resources	(96,642)
Increase (decrease) in:	
TPA administration fees payable	966,408
Premiums and claims payable	87,664,842
Accounts payable and accrued expenses	396,490
Accrued termination benefits	(395,046)
Accrued compensated absences	(271,889)
Other postemployment benefits	136,227
Total pension liability	143,594
Deferred inflows	(9,631)
Net cash provided by operating activities	$ 24,423,457

See accompanying notes to financial statements.

1. REPORTING ENTITY

The ***Puerto Rico Health Insurance Administration*** (the Administration or PRHIA) is a governmental entity and a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created on September 7, 1993 by Act No. 72 (the Act), as amended. The Administration commenced operations on February 1, 1994 and is considered a public corporation with full autonomy.

The Administration is responsible for implementing, administering, and negotiating a health insurance system, through contracts with health insurers, mental health organizations, pharmacy benefit managers, third party administrators and Medicare Advantage organizations, among others. The Administration thrives to provide all qualifying Puerto Rico residents access to quality healthcare services, including mental health, through a Managed Care Organization (MCO) model.

The Administration relies significantly on appropriations from the Commonwealth as well recurring and non-recurring federal funding. The Administration is the sub-grantee of federal funds provided by the Medicaid Program under Title XIX of the Social Security Act and Title XXI of the State Children's Health Insurance Program (CHIP). The Puerto Rico Department of Health (Department of Health) is the single state agency, and it has a cooperative agreement with the PRHIA which is responsible for implementing and administering the island-wide government health insurance program. Within the Department of Health, the Puerto Rico Medicaid Program (Medicaid Program) is the primary grantee of federal funds and is responsible for administering the eligibility to the government health insurance program of federal and Commonwealth beneficiaries.

A regionalization system was implemented to establish a network of participating providers throughout Puerto Rico and ensure the closest possible service to beneficiaries. The Administration pays a monthly premium to such insurance underwriters based on a contracted premium and the number of members subscribed in the health plan. Funds to pay for such premiums are requested from the Commonwealth net of funds available for such purposes from all other sources.

Under the provisions of Act No. 105 of July 19, 2002, which amended Act No. 72 of 1993, the Administration was authorized to negotiate directly with health providers under a pilot program. The Administration has, since then, entered into different direct contracts to cover the insured population of different regions and municipalities. Since November 1, 2006 through September 1, 2010, the Administration directly contracted providers that served approximately 190,000 lives from the metro-north region. Since June 30, 2011, the Administration has direct contracting projects with the Municipalities of Vieques and Guaynabo.

Effective October 1, 2010, a new integrated health care model named "Mi Salud" was developed with the following changes:

1) Set up a standard premium per region as established by the Administration.

2) Eliminate the referrals when the beneficiary needs the service of a specialist.

3) Better access to prescribed medicines without the authorization of the primary health care provider.

4) Extended hours for health care providers of basic services

5) Tele-emergency services available 24 hours.

1. REPORTING ENTITY (CONTINUED)

6) Integration of the physical and mental health care in one place.

7) The risk of the primary health provider in relation to medicines, emergency and preventive health care test was decreased and was transferred to the health care insurance companies.

8) Increase the coverage to include the middle-class working force.

9) Set up a ceiling in relation to administrative expenses and gains of the health care insurance companies.

On October 14, 2014, the Board of Directors of the PRHIA awarded new contracts for the Government Public Health Insurance Plan (the "GHP"), which replaced the former "Mi Salud" plan, to five private insurance providers pursuant to a bidding process. The new contracts became effective on April 1, 2015. Under the new contracts, the Commonwealth of Puerto Rico's public health insurance model changed from a Third-Party Administrator (TPA) model, in which the Commonwealth was ultimately responsible for the cost of the health services provided, to a MCO model, in which the Administration will pay the insurers a fixed premium for each insured beneficiary and the insurers will be responsible for the cost of such services.

On July 3, 2018, the Board of Directors of the Administration awarded new contracts for the new Government Healthcare Program to five private managed care organizations pursuant to a bidding process. Under the new model, beneficiaries will have the option to select the MCO and the network of providers of their choice. In addition, it will offer an enhanced care model for patients with certain chronic and high-cost, high-need (HCHN) conditions such as cancer, diabetes, end-stage renal disease, chronic obstructive pulmonary disease with asthma, hypertension, severe cardiac insufficiency, serious mental illness, and serious emotional disorder. Furthermore, the new model will strengthen oversight and the audit process with the creation of the Medicaid Fraud Control Unit and will also comply with the measures and cost-control objectives established in the Commonwealth's fiscal plan.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The accompanying financial statements have been presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned, regardless of when received, and expenses when incurred, regardless of when paid.

b. Basis of presentation

These financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB No. 34), Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB No. 34, as amended, establishes standards for external financial reporting for all state and local governmental entities, which includes a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Cash and cash equivalents

The Administration considers all highly liquid investments with maturities of three months or less to be cash equivalents.

d. Allowance for doubtful accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable and prior credit loss experience.

e. Capital assets

Capital assets are stated at cost. Donated property is reported at their estimated fair value at the date received. When assets are retired or otherwise disposed of, the cost and accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recorded for the period. Expenditures for repairs and maintenance that doo does not extend the useful lives of the assets are charged to operations in the year incurred.

f. Impairment of Capital Assets

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 circumstance is outside the normal life cycle of the capital asset. The Administration reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. No impairment charges were recorded during the year ended June 30, 2020.

g. Depreciation and amortization

Depreciation is provided over the estimated useful life of each class of depreciable asset which range from four to ten years and is computed using the straight-line method.

h. Compensated absences

The employees of the Administration earn thirty (30) days of vacation and eighteen (18) days of sick leave annually. Since May 2017, the employees accumulate 1.25 days per month of vacation, which is equivalent to 15 days of vacation annually. Vacation time accumulated is fully vested to the employees from the first day of work but cannot be used during the first three months of work. In the event of resignation, an employee is reimbursed for accumulated vacation days up to sixty (60) days. Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation except that, in the event of retirement, an employee is reimbursed for accumulated sick leave days up to the maximum allowed of ninety (90) days after 10 years of services.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditure) until then. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date. Changes in proportional share of contributions, differences between the expected and actual experience and changes in actuarial assumptions, are capitalized and recognized over a period of time equal to the expected remaining working lifetime of active and inactive participants.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as inflows of resources (revenues) until that time.

Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date. Changes in proportional share of contributions, differences between the expected and actual experience and changes in actuarial assumptions, are deferred and recognized over a period of time equal to the expected remaining working lifetime of active and inactive participants.

j. Accounting for pension cost

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 PayGo 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. The Administration accounts for pension costs under the provisions of 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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined benefit pension plan of its primary government, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). The employer allocation percentage is based on the ratio of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date.

The Administration's funding policy is to contribute the amount required to fully fund the plan's current liability or the amount necessary to meet the applicable regulations. On June 27, 2017, the Secretary of the Treasury of the Commonwealth of Puerto Rico issued its Circular Letter 1300-46-17, implementing the PayGo System, which consists of a monthly charge as disclosed in Note 12 to the basic financial statements.

k. Other Postemployment Benefits

In accordance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, that replaces GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, changes similar to those implemented on GASB No. 67, Financial Reporting for Pension Plans, and No. 68, Accounting and Financial Reporting for Pensions should be made.

In addition to the pension benefits described above, the Corporation provides other retirement benefits, such as Christmas Bonus, and postemployment healthcare benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. There are no member or employer contributions on behalf of the MIPC. This benefit is financed on a pay-as-you-go basis from the General Fund of the Commonwealth.

l. Revenue recognition

The Administration distinguishes operating revenue from non-operating revenue. Revenue from sources from the Puerto Rico Department of Health, the Commonwealth of Puerto Rico, Municipalities, Employers and Pharmacy Rebate Program are recorded as operating revenue. Revenue from legislative appropriations and interest are recorded as non-operating revenue.

m. Contributions from the Commonwealth of Puerto Rico

Contributions received from the Commonwealth represent appropriations to cover the local share to meet federal funds matching requirements and funds for the payment of health insurance premiums and administrative expenses.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Contributions from the Puerto Rico Department of Health

Contributions received from the Department of Health represent payments to the Administration by the Medicaid Program which consist of a determined monthly amount of the funds allocated to Puerto Rico under Titles XIX and XXI of the Social Security Act and State Plan.

To comply with the federal funds matching requirements, the Administration is assigned funds from the Commonwealth. The Medicaid Program is the recipient of CHIPS and Prescription Drugs funds which are in whole transferred to the Administration for health care services for the eligible population.

o. Contribution from Municipalities

Contribution from Municipalities represent the budgetary appropriations of the municipal governments for direct health services in areas covered by the government health plan. The charges made by the Administration are based on established percentages applied to the corresponding Municipalities' operational budget for the lesser of current fiscal year or fiscal year 2004-2005 as set forth in Act No. 72 of September 7, 1993, as amended. These contributions are withheld by the Center for Municipal Revenue Collection from money assigned to the municipalities and remitted to the Administration on a monthly basis. During fiscal year 2020 no contributions were required to be made due to the passing of law.

p. Pharmacy rebate program

The Administration established a governmental pharmacy rebate program which consists of agreements negotiated for obtaining pharmaceutical rebates and discounts with regards to the utilization of prescription branded drugs dispensed to beneficiaries. The Administration has continued engaging service organization for the pharmacy rebate program implementation and administration. The Administration retains 100 percent of the income derived from this program.

q. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily related to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from those estimates.

The employees have the right to accumulate the excess of sixty (60) days in vacation and ninety (90) days in sick leave until December 31 of each year. The excess should be used by the employee before the end of the following natural calendar year. The excess not used is forfeited.

Compensated absences are accrued when incurred using the pay or salary rates in effect at the date of the statement of net position.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r. Risk management

The Administration is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters, and other losses. Commercial insurance coverage is obtained for potential claims arising from such matters.

The commercial insurance coverage is negotiated by the Department of Treasury of the Commonwealth of Puerto Rico and the cost is billed to the Administration.

s. Accounting Pronouncements issued but not yet effective

GASB Statement No. 84, Fiduciary Activities

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 87, Leases

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

GASB Statement No. 88, Certain Disclosures Related to Debt

The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 92, Omnibus 2020

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Earlier application is encouraged and is permitted by topic.

GASB Statement No. 93, Replacement of Interbank Offered Rates (IBOR)

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020.

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance

The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations
- Statement No. 84, Fiduciary Activities
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- Statement No. 90, Majority Equity Interests
- Statement No. 91, Conduit Debt Obligations
- Statement No. 92, Omnibus 2020
- Statement No. 93, Replacement of Interbank Offered Rates
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, Fiduciary Activities.
- The effective dates of the following pronouncements are postponed by 18 months:
- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases.

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 96, Subscription-Based Information Technology Arrangements

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32

The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performed the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with *GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance*. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

The Administration is evaluating the impact of these pronouncements.

3. CASH AND CASH EQUIVALENTS

The Administration's cash and cash equivalents as of June 30, 2020 consisted of the following:

	2020
Cash deposited in commercial banks	$ 332,975,180
Deposit account with the Government Development Bank for Puerto Rico	2,582
Total Cash and Cash Equivalents	$ 332,977,762

4. CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that, in an event of a bank failure, the Administration deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance coverage. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth.

As of June 30, 2020 and 2019, the custodial risk of the Administration amounted to approximately $350.6 million and $284 million, respectively, which is the bank balance of cash and cash equivalents deposited in a financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000.

5. ACCOUNTS RECEIVABLE

Gross accounts receivable and the allowance for doubtful accounts as of June 30, 2020 consist of the following:

	2020
Puerto Rico Department of Health	$ 549,797,534
Municipalities	208,706,084
Legislature appropriations and other	5,800,415
Pharmacy rebates program	82,079,432
Other receivables	6,889
Due from employers	117,363,814
	963,754,168
Allowance for doubtful accounts:	
Municipalities	(172,156,413)
Legislature appropriations and other	(744,520)
Employers	(117,206,569)
	(290,107,502)
Accounts receivable, net	$ 673,646,666

5. ACCOUNTS RECEIVABLE (CONTINUED)

Accounts receivable consist of financial assistance from the federal Medicaid Program and the corresponding state contributions and legislature appropriations. In addition, the administration has receivables from its pharmacy rebates program, employers' contributions, and other contributions. Accounts receivable are stated net of an allowance for doubtful accounts. The Administration estimated the allowance based on its historical experience of the relationship between actual collection and billings.

6. DUE FROM MCO's

The Administration contracted the services of a public accounting firm to carry out an internal audit of the claims payment system under the previous TPA model. The sample selected for testing revealed that the Administration made duplicated payments and paid premiums for deceased members to the contracted health insurance entities under such model.

The overpayment amount was estimated by first, matching the certified deceased records to the Administration active enrollment file. Then, for each matching record, the Administration computed the number of months after the date of death for which a premium was paid by the corresponding PMPM payment.

As a result of the audit, the Administration filed a claim to one of the health insurance entities representing 37% of the total overpayment. As of the date of this report various validation procedures have been satisfactorily performed over the underlying data, but other allegations brought by the counterparty challenging certain contractual aspects of the GHP contract remain unresolved. The Administration believes that it has conclusive evidence to overcome counterparty allegations and recover a part of the amount claimed. As of June 30, 2020 and 2019, the allowance for doubtful accounts of the above-mentioned overpayment was established for approximately $10.6 million.

7. CAPITAL ASSETS

The activities of the capital assets accounts as of June 30, 2020 were as follows:

	June 30, 2020			
	Beginning Balance	Additions	Retirements	Ending Balance
Equipment, computer and software	$ 3,068,935	$ 99,785	$ -	$ 3,168,720
Leasehold improvements	179,829	-	-	179,829
Furniture and others	1,150,122	-	(16,034)	1,134,088
	4,398,886	99,785	(16,034)	4,482,637
Accumulated depreciation	(3,029,095)	(925,070)	17,389	(3,936,776)
Capital assets, net	$ 1,369,791	$ (825,285)	$ 1,355	$ 545,861

8. DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

Pursuant to GASB No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB No. 65, Items Previously Reported as Assets and Liabilities, the Administration may recognize deferred outflows of resources in the Statement of Net Position.

These items are a consumption of net position by the Administration that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Administration has items that are reportable on the Statement of Net Position that are relates to outflows/inflows from changes in the Net Pension Liability (Note 11). As of June 30, 2020 the components of Deferred Outflows/Inflows of Resources reported in the basic financial statements were as follows:

Deferred Outflows of Resources:	
Contributions to Employees' Retirement System	$821,396
Deferred Inflows of Resources:	
Unamortized Investment in Employees' Retirement System	$340,187

9. OBLIGATION PAYABLE GOVERNMENT DEVELOPMENT BANK

On March 14, 2011, the Administration entered into a Credit Agreement with the Government Development Bank for Puerto Rico in order to pay its obligations to healthcare insurers incurred prior to fiscal year 2009-2010. The aggregate principal amount of the non-revolving line of credit was $186,000,000, payable in nine payments of $20,666,667, and each due on March 14 of the years 2015 through 2023. Interest is accrued at a fluctuating annual rate equal to the greater of (i) 1.5% over prime rate, and (ii) 6%.

On July 20, 2016, the Governor of Puerto Rico signed the Law 74 which authorized the GDB to consolidate all financing agreements made to governmental entities which are payable with appropriations from the legislature. Article 4 of such law lists all the governmental entities with financial agreements and the outstanding principal balance and accrued interest as of December 31, 2015. The Administration is listed with an outstanding principal balance of $183,251,298 and accrued interest of $14,215,650 as of December 31, 2015.

As of June 30, 2020 and 2019, the outstanding principal balance amounted to $183,251,298 and the accrued interest amounted to $63,693,500 and $52,698,420, respectively. The Administration will pay the principal and interest with appropriations to be received from the Legislature of Puerto Rico through the Puerto Rico Office of Management and Budget (OMB) pursuant to Act No. 173. Notwithstanding, during the fiscal years ended June 30, 2020 and 2019, the OMB failed to make principal and interest payments on behalf of the Administration. OMB did not appropriate any funds to pay the principal and interest of this Credit Agreement.

10. COMPENSATED ABSENCES

Total vested pay benefits accrued for compensated absences at June 30, 2020 amount to $652,083, which activity during such fiscal year is summarized as follows:

Beginning Balance	Increase	Decrease	Ending Balance	Due Within One (1) Year	Due After One (1) Year
$923,972	$429,968	($701,857)	$652,083	$271,890	$380,193

11. ACCRUED TERMINATION BENEFITS

On July 2, 2010, the Commonwealth Enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Administration. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined.

In this early retirement benefit program, the Administration will pay the employer contributions to the Retirement System and the corresponding pension until the employee complies with the age requirements and 30 years of creditable services applicable to the Retirement System. Economic incentives are available to eligible employees that qualify for retirement benefits. Economic incentives consist of a payment ranging from one to six months of salary.

Additionally, eligible employees that choose to participate in this program, other than those qualifying for retirement benefits, are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth of Puerto Rico.

At June 30, 2020 and 2019, unpaid long-term benefits granted on this program were discounted 3%. Total accrued terminations benefit as of June 30, 2020 and 2019 amounted to $3,227,931 and $3,622,977, respectively.

12. RETIREMENT SYSTEM

Plan description

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the ERS), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. The ERS is a pension trust fund of the Commonwealth. All regular employees of the Administration hired before January 1, 2000 and less than fifty-five (55) years of age at the date of employment became members of the ERS as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

12. RETIREMENT SYSTEM (CONTINUED)

The ERS administers different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, Defined Benefit Program, a Defined Contribution Program (System 2000 program) and a Contributory Hybrid Program. Benefit provisions vary depending on a member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations) are covered by the ERS. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth and the Commonwealth's public corporation at the date of employment. Membership is optional for the Governor of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

The benefits provided to members of the ERS are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Act No. 3 of April 4, 2013 (Act No. 3), in conjunction with other recent funding and design changes, provided for a comprehensive reform of the ERS. Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990.
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999.
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

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 as of June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

Each member has a nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semi-annually. The Commonwealth does not guarantee benefits at retirement age.

The assets of the Defined Benefit Program, the Defined Contribution Program and the Contributory Hybrid Program are pooled and invested by ERS. Future benefit payments will be paid from the same pool of assets. In addition, employers' contributions for members hired on or after January 1, 2000 will be used by ERS to reduce the unfunded status of the Defined Benefit Program.

On August 23, 2017 was enacted Act 106-2017 which impacted the benefits provided to PRGERS members as follows:

- New employees hired July 1, 2017 or later will be participants in a separate defined contribution plan and will not be PRGERS members.
- Effective July 1, 2017, current PRGERS members will no longer make any contributions to PRGERS. Prospectively, active members will participate in a separate defined contribution plan.

12. RETIREMENT SYSTEM (CONTINUED)

In addition to the benefit changes, Act 106-2017 provides that PRGERS will be funded on a pay-as-you-go basis. The following contributions are eliminated by Act 106-2017:

- Act 116-2011 employer contributions — was 15.525% of payroll in 2016-2017 and was scheduled to increase by 1.25% of payroll per year to an ultimate rate of 20.525% of payroll in 2020-2021 and later
- Act 32-2013 Additional Uniform Contribution - was $776 million in 2016-2017 and projected as $685 million from 2017-2018 to 2032-2033, with annual recalculations (only of portion of the annual amounts were collected in prior years)
- Act 3-2013 Supplemental Contributions — was $2,000 for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act 447 or Act 1 member while an active employee. The contribution paid for the Medical Insurance Plan Contribution (up to $1 ,200 per member), the Christmas Bonus ($200 per member), and Medication Bonus ($100 per member) payable to members who retired prior to July 1, 2013. The excess of these Supplemental Contributions remained in the System to pay down the unfunded actuarial accrued liability.

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

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 would 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, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in 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.

12. RETIREMENT SYSTEM (CONTINUED)

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.

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

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

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

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

Service Retirement Annuity Benefits:

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity.

1) *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.

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 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

12. RETIREMENT SYSTEM (CONTINUED)

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin 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 in excess of 20 years.

Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation 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 a 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 in excess of 20 years. Non-Mayoral credited service includes service earned as a mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a mayor.

2) *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.

12. RETIREMENT SYSTEM (CONTINUED)

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 in excess of 10 years. Maximum benefit is 90% of highest compensation as a mayor.

Compulsory Retirement

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

Contributions

Act 106-2017 closed participation in PRGERS to new members effective July 1, 2017 and moved prospective accruals for all current active members to a separate defined contribution plan outside of PRGERS. The following contributions were eliminated July 1, 2017 by Act 106-2017:

- Act 116-2011 Employer Contribution
- Act 32-2013 Additional Uniform Contribution
- Act 3-2013 Supplemental Contributions
- Member Contributions

The Act 211-2015 early retirement incentive was reflected in this valuation as the electing members are now known.

On October 30, 2016, the Fiscal Oversight Board for Puerto Rico designated the Government of Puerto Rico, the ERS for Government Employees, the Judicial ERS, and the Teacher ERS (together the "ERSs"), the University of Puerto Rico and 21 other public corporations of Puerto Rico as covered entities, subject to fiscal supervision in accordance with the federal legislation Puerto Rico Oversight, Management, and Economic Stability Act, better known as PROMESA.

Due to the lack of projected liquidity of the ERS, the Government of Puerto Rico will protect payments to pensioners. Effective July 1, 2017, the Government of Puerto Rico adopted the "PayGo" system. Under this new system, the Government will be responsible for paying the deficiency of the ERSs to provide retirement benefits for the pensioners.

Also, as of July 1, 2017, employer contributions, contributions under special laws and the Uniform Additional Contribution (Law no. 32-2013) were eliminated and replaced with the “PayGo”. Currently, the Government of Puerto Rico is working on reforming the ERSs from its current form to a New Defined Contribution Plan managed by a private entity.

12. RETIREMENT SYSTEM (CONTINUED)

Actuarial Valuation

The actuarial valuation of the Basic System Benefits and System Administered Benefits as of June 30, 2019 reflects a total pension liability of $28,026,444,581. For the year ended June 30, 2019 the Administration recognized pension expense of $274,623 and as of that date reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 193,008
Changes of assumptions	184,865	$ 147,179
Changes in proportion	346,345	-
Benefit payments made after measurement date	290,186	-
	$821,396	$340,187

The amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Collective Data	Proportional Share
2020	$199,979,970	$116,218
2021	196,002,490	113,907
2022	194,802,772	113,209
2023	194,637,182	113,113
2024	21,604,140	12,555
Thereafter	21,004,347	12,207
	$828,030,901	$481,209

Actuarial Methods and Assumptions

The plan's actuarial cost method is the entry age normal method. Under this method, a projected benefit is determined at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that, if it were calculated as a level percentage of his compensation each year, it would accumulate at the valuation interest rate over his total prior and future years of service to his assumed retirement date into an amount sufficient to fund his projected benefit. The plan's accrued liability is the sum of (a) the accumulation of each active participant's normal costs attributable to all prior years of service plus (b) the present value of each inactive participant's future benefits.

12. RETIREMENT SYSTEM (CONTINUED)

As per ERS Actuarial Valuation Report as of June 30, 2019, future actuarial measurement may differ significantly from the current measurements used in the report mentioned above due to factors such as the following: plan experience differing from actuarial assumption; future changes in the actuarial assumptions; Increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as potential additional contribution requirements due to changes on the plan funded status); and changes in the plan provisions or accounting standards. The significant actuarial assumptions used to determine the standardized measure of the pension benefits obligation as of June 30, 2019 are as follows:

- Municipal Bond Rate: 3.50% per annum (Bond Buyer General Obligation 20-Bond Municipal Bond Index)

- Compensation Increases: 3% per year. No compensation increases are assumed until July 1, 2021 as a result of the Act 3-2017 four-year extension of the Act 66-2014 salary freeze and the current general economy. Based on professional judgement and System input.

- Defined Contribution Hybrid Contribution Account: No member contributions will be made to the Defined Contribution Hybrid Contribution Account after June 30, 2017. Based on the liquidation of Systems assets and move to pay-as-you-go funding under Act 106-2017, no future interest credits are assumed after June 30, 2019.

- Basis for demographic assumptions: The post-retirement health and disabled mortality assumptions used were based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. Most other demographic assumptions used were based on a 2009 experience study using data as of June 30, 2003, June 30, 2005, and June 30, 2007. Certain demographic assumptions (e.g. termination and retirement) were impacted by the Act 3 pension reforms and were revised based on the new retirement eligibility and expected future experience.

- Termination: Withdrawal rates vary by employment category, age, and service.

- Retirement: Rates of retirement vary by employment category, Act, age, and years of Creditable Service, and whether the member was eligible to retire as of June 30, 2013 for Act 447, Act 1, and System 2000 members.

- Disability: Rates are based on the six-month elimination period rates in the 1987 Commissioners Group Disability Table, as adjusted. 100% of disabilities occurring while in active service are assumed to be occupational for members covered under Act 127.

- Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2017 on 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 only for members covered under Act No. 127.

12. RETIREMENT SYSTEM (CONTINUED)

- Post-retirement Health Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. These base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis, which 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 plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the CIP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. These base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Marriage: 100% of current active members covered under Act 127 who die in service or become disabled are assumed to have qualifying beneficiaries receiving the maximum benefits possible, which are approximated by a spouse with males 4 years older than females.

- Actuarial Cost Method: The plan's actuarial cost method is the entry age normal method.

The total pension liability was determined by an actuarial valuation as of July 1, 2018, calculated based on the discount rate and actuarial assumptions as shown above and was then projected forward to June 30, 2019. There have been no significant changes between the valuation date of July 1, 2017 and the fiscal year end. Any significant changes during this period must be reflected as prescribed by GASB 73. Covered Payroll is as of July 1, 2019.

Total Pension Liability	Amount	Proportional Share
Total Pension Liability	$28,026,444,581	$5,692,973
Covered Employee Payroll	$ 2,881,265,970	$ 585,268
Total Pension Liability as a % of Covered Employee Payroll	972.71%	972.71%

Discount Rate

The tax-free municipal bond index of 3.50% as of June 30, 2019, was used as the discount rate in the determination of the Total Pension Liability as of June 30, 2019. The discount rate as of June 30, 2019 and 2018, was as follow:

	June 30, 2019	June 30, 2018
Discount Rate	3.50%	3.87%
Municipal bond rate *	3.50%	3.87%

* *Bond Buyer General Obligation 20-Bond Municipal Bond Index*

12. RETIREMENT SYSTEM (CONTINUED)

The Total Pension Liability of $5,692,973 was determined as follows:

Change in Total Pension Liability	Total Pension Liability	Proportional Share
Beginning Balance	$27,607,417,757	$5,607,857
Change for the year:		
Service Cost	71,195,464	14,462
Interest on Total Pension Liability	1,042,438,893	211,749
Effect of Economic/Demographic (Gains) of Loses	(332,236,425)	(67,487)
Effect of Assumptions Changes or Inputs	1,136,269,697	230,809
Benefit Payments	(1,498,640,805)	(304,417)
Ending Balance	$28,026,444,581	$5,692,973

Sensitivity of the proportionate share of the net pension asset to changes in the discount rate

The following presents the Administration proportionate share of the net pension asset calculated using the discount rate of 3.50 percentage, as well as what the Administration's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage lower (2.50 percent) or one percentage point higher (4.50percent) than the current rate:

	At 1 percent Decrease (2.50%)	At current Discount Rate (3.50%)	At 1 percent Increase (4.50%)
Proportional Share of Total Pension Liability	$6,473,495	$5,692,973	$5,059,0263

Fiscal Plan for Puerto Rico

The 2020 Fiscal Plan for Puerto Rico was submitted on May 3, 2020 to the Financial Oversight and Management Board ("FOMB"), a body created by the enactment of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"). The liabilities presented in this valuation are based on existing law only.

Pay-As-You-Go Funding

Operating a retirement system on a "pay-go" charge basis may be conceptually simple but can be very difficult in practice when the plan sponsor's current funds and ability to rely on reserves are limited or non-existent. While the valuation of ERS liabilities for financial reporting purposes is conducted on an annual basis in arrears, benefit payments vary continuously and respond instantaneously to emerging events. There are also administrative expenses incurred continuously.

12. RETIREMENT SYSTEM (CONTINUED)

Disbursements will experience natural variation due to emerging demographic experience and could also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction. A major issue that needs to be addressed is determining what the process of budgeting for "pay-go" funding will be. While expected "pay-go" amount can be set at the time of budgeting for an upcoming fiscal year, disbursements can vary from expectations during the fiscal year under the following circumstances:

- If the budget is set based on expected contributions and disbursements, in the event of adverse experience during the fiscal year, should provide for additional funds from the sponsoring employers.
- If the ERS be permitted to develop a budget request of a "pay-go" amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes.
- And how would the impacts of specific management decisions be handled.

There are certainly many more operational details to be considered. "Pay-go" operation is a complex issue that requires careful though and planning, constant monitoring, and the ability to respond to emerging events quickly. Additional information on the ERS is provided in its stand-alone basic financial statements, a copy of which can be obtained from the ERS Administration, PO Box 42003, San Juan, PR 00949.

13. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 11, The Administration participates in the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the Plan). It is an unfunded, multi-employer 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 the Postemployment Benefits Other Than Pensions (GASB Statement No. 75).

The plan provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

Christmas Bonus Benefits

The Christmas Bonus was $200 per retiree pursuant to Act No. 3-2013. This benefit is recorded as expenditures when paid in the General Fund of the Commonwealth of Puerto Rico.

Healthcare Benefits

The Plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no

13. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

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

Actuarial Assumptions

Discount rate

The discount rate for June 30, 2019 and 2018 was 3.50% and 3.87%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation 20-Bond Municipal Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation Date is July 1, 2018. This is the date as of which the actuarial valuation is performed. The Measurement Date is June 30, 2019. This is the date as of which the Total OPEB Liability is determined. The Reporting Date is the employer's fiscal year ending date. This report is for measurement year July 1, 2018 to June 30, 2019 for reporting periods ending June 30, 2019 through June 30, 2020.

Significant Changes

There have been no significant changes between the valuation date and measurement year end. Participant Data as of July 1, 2018 was 97,708 retirees.

Deferred Inflows and Outflows

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

Mortality

Pre-retirement Mortality

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

13. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Post-retirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2019 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 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

OPEB Liability

The OPEB Liability of $136,227 was determined as follows:

Change in OPEB Liability	Total OPEB Liability	Proportional Share
Beginning Balance	$975,443,632	$137,883
Changes for the year:		
Interest on Total Pension Liability	36,209,828	5,118
Effect of Economic/Demographic Gains	6,081,663	860
Effect of Assumptions Changes or Inputs	26,337,201	3,723
Benefit Payments	(80,340,921)	(11,356)
Ending Balance	$963,731,403	$136,227

<u>Sensitivity of proportionate share of the OPEB Liability to changes in the discount rate</u>

The following presents the Administration proportionate share of the OPEB Liability calculated using the discount rate of 3.50 percentage, as well as what the Administration's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage lower (2.50 percent) or one percentage point higher (4.50 percent) than the current rate:

13. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

	At 1 percent decrease (2.50%)	At current discount rate (3.50%)	At 1 percent increase (4.50%)
OPEB Liability	$1,056,200,779	$963,731,403	$885,084,203
Proportional Share	$149,298	$136,227	$125,110

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

14. COMMITMENT AND CONTINGENCIES

Commitments

On July 1, 2014, the Administration signed a lease agreement for five years commencing on July 1, 2014 through June 30, 2019 with an automatic extension for another five years from July 1, 2019 through June 30, 2024. The lease agreement has a cancellation penalty of $950,000 if the lease is not renewed at the end of the five-year term. Rent expense for the fiscal years ended June 30, 2020 and 2019 was approximately $400,000 and $389,000, respectively. Total future minimum lease payments on this operating lease as of June 30, 2020, are as follows:

Year ending June 30,	Amount
2021	$ 400,375
2022	412,454
2023	412,454
2024	412,454
	$ 1,637,737

Contingencies

The Administration is defendant and/or co-defendant in legal proceedings pertaining to matters incidental to the performance of its operations. With respect to the pending and threatened litigations, the Administration, in consultation with legal counsel, has advised that at this stage of the proceedings they cannot offer an opinion as to the probable outcome. Accordingly, management does not consider necessary making any provision in its books for these cases and intends to contest them vigorously.

14. COMMITMENT AND CONTINGENCIES (CONTINUED)

Federal grants

The Administration receives as a sub-grantee financial assistance from the federal government corresponding to Medicaid Program passed through the Puerto Rico Department of Health, the grantee. Federal grants are subject to financial and compliance audits by grantor agencies to determine the Administration's compliance with the regulations and conditions of such grants. It is management's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to be performed.

15. SUBSEQUENT EVENTS

The Administration has evaluated all subsequent events through March 30, 2022, which is the date the financial statements were available to be issued.

Worldwide Pandemic of Coronavirus (COVID-19)

This event that has impact the Administration is the Coronavirus Pandemic, known as COVID-19, which forced a worldwide outbreak causing, in this case, a government and business disruption through mandated and voluntary closings of multiple companies and governmental entities on the island. While the disruption is expected to be temporary, there is a considerable uncertainty around the duration of the closings. The Administration has considered the consequences of COVID-19 and has determined that it does not create an uncertainty on future performance.

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION

	2020	2019	2018	2017	2016	2015
Proportion of the Collective Total Pension Liability	0.02031%	0.02010%	0.01853%	0.06711%	0.06666%	0.06234%
Proportionate Share of the Collective Total Pension Liability	$5,692,973	$5,549,379	$5,949,408	$24,448,503	$21,777,578	$18,839,927
Covered Employee Payroll	$ 585,268	$ 630,373	$ 619,631	$2,244,268	$2,212,664	$2,175,227
Share of the Collective Total Pension Liability as a Percentage of its Covered Payroll	972.71%	880.33%	960.15%	1089.38%	984.22%	866.11%

Notes:

1. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived from valuation and actuarial reports. The full reports are available by the Employees' Retirement System. Such preparation requires management of ERS 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.

2. The total pension liability as of June 30, 2020 was measured as of June 30, 2019 and was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2018 that was updated to roll forward the total pension liability to June 30, 2019 and assuming no gains or losses.

3. The information presented relates solely to the Corporation and not to the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

4. This information is intended to help users assess the Corporation's pension plan's status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

5. This schedule is required to illustrate 10-years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying notes to required supplementary information and independent auditors' report.

	2020	*2019*	*2018*
Proportion of the Collective Total OPEB Liability	0.01414%	0.02010%	0.01853%
Proportionate Share of the Collective Total OPEB Liability	\$136,227	\$136,363	\$135,337
Covered Employee Payroll	N/A	N/A	N/A
Share of the Collective Total OPEB Liability as a Percentage of its Covered Payroll	N/A	N/A	N/A

Notes:

1. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived from valuation and actuarial reports. The full reports are available by the Employees' Retirement System. Such preparation requires management of ERS 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.

2. The OPEB liability as of June 30, 2020 was measured as of June 30, 2019 and was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2018 that was updated to roll forward the total pension liability to June 30, 2019 and assuming no gains or losses.

3. The information presented relates solely to the Corporation and not to the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

4. This information is intended to help users assess the Corporation's OPEB plan's status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

5. This schedule is required to illustrate 10-years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying notes to required supplementary information and independent auditors' report.

Federal Grantor/Pass-through/ Program or Cluster Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Major Programs:		
Passed-through the Puerto Rico Department of Health		
Medical Assistance Program	93.778	$ 2,284,111,369
ARRA-Medical Assistance Program (HIT Incentive Payments)	93.778	51,000
Total Medical Assistance Program Cluster		2,284,162,369
Children's Health Insurance Program	93.767	101,701,915
Total Expenditures of Federal Awards		$ 2,385,864,284

The accompanying notes are an integral part of this schedule.

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Puerto Rico Health Insurance Administration under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Puerto Rico Health Insurance Administration (the Administration), it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Administration.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, 2 CFR Part 200, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. PASS-THOUGH ENTITY IDENTIFYING NUMBER

State or Local government redistribution of federal awards to the Administration, known as "pass-through awards", should be treated by the Administration as though they were received directly from the federal government. Uniform Guidance requires the schedule to include the name of the pass-through entity for the federal awards received.

4. INDIRECT COST RATE

The Puerto Rico Health Insurance Administration has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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

Jorge Aquino Barreto, CPA, CVA
Jerry De Córdova, CPA, ESQ
Eduardo González-Green, CPA, CFF, CFE
Maritza Rivera Serrano, CPA

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

To the Board of Directors of
Puerto Rico Health Insurance Administration
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of *Puerto Rico Health Insurance Administration* (the Administration), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements and have issued our report thereon dated March 30, 2022.

Internal Control Over Financial Reporting

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

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

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

P.O. Box 70262, San Juan, Puerto Rico 00936-8262 • Cecilia's Place Suite C-1, #7 Rosa Street
Isla Verde, P.R. 00979 • Phone (787) 253-9595 • Fax (787) 253-9511

Compliance and Other Matters

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

Purpose of this Report

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

Carolina, Puerto Rico
March 30, 2022

Aquino, De Cordova, Alfaro & Co. LLP

Stamp number E480792
of Puerto Rico CPA Society
has been affixed to the
original report

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

Jorge Aquino Barreto, CPA, CVA
Jerry De Córdova, CPA, ESQ
Eduardo González-Green, CPA, CFF, CFE
Maritza Rivera Serrano, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE; AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Puerto Rico Health Insurance Administration
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the *Puerto Rico Health Insurance Administration's (the Administration)* compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Administration's major federal programs for the year ended June 30, 2020. The Administration's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs

Auditor's Responsibility

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

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

P.O. Box 70262, San Juan, Puerto Rico 00936-8262 • Cecilia's Place Suite C-1, #7 Rosa Street
Isla Verde, P.R. 00979 • Phone (787) 253-9595 • Fax (787) 253-9511

Basis for Qualified Opinion on Medical Assistance Program

As described in the accompanying schedule of findings and questions costs, the Administration did not comply with requirements regarding CFDA 93.778 Medical Assistance Program as described in findings number 2020-001 and 2020-002 for Special Test and Provisions and 2020-003 for Reporting requirement. Compliance with such requirements is necessary, in our opinion, for the Administration to comply with requirements applicable to that program.

Qualified Opinion on Medical Assistance Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Administration complied, in all material respects, with the types of compliance requirement referred to above that could have a direct and material effect on Medical Assistance Program for the year ended June 30, 2020.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Administration complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2020.

Other Matter

The Administration's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Administration's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2020-001, 2020-002 and 2020-003 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Administration's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Administration's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Puerto Rico Health Insurance Administration as of and for the year ended June 30, 2020 and have issued our report thereon dated March 30, 2022, which contained a unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Carolina, Puerto Rico
March 30, 2022

Aquino, De Córdova, Alfaro & Co. LLP

Stamp number E480793
of Puerto Rico CPA Society has been affixed to the original report

Section I- Summary of Auditor's Results

A. Summary of audit results:

Part I-**Financial Statements**

1. Type of auditor's report issued:	☑ Unmodified opinion ☐ Adverse opinion	☐ Qualified opinion ☐ Disclaimer of opinion
Internal control over financial reporting:		
2. Significant deficiencies identified?	☐ Yes	☑ No
3. Material weakness (es) identified?	☐ Yes	☑ No
4. Noncompliance material to financial statements noted?	☐ Yes	☑ No

Part II- **Federal Awards**

Internal control over major programs:		
1. Significant deficiencies identified?	☐ Yes	☑ No
2. Material weakness(es) identified?	☑ Yes	☐ None reported
3. Type of auditor's reported on compliance for major programs:	☐ Unmodified opinion ☐ Adverse opinion	☑ Qualified opinion ☐ Disclaimer opinion
4. Audit findings disclosed that are required to be reported in accordance with the Uniform Guidance	☑ Yes	☐ No

5. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.778	Medical Assistance Program
93.778	ARRA-HIT Incentive Payments
93.767	Children's Health Insurance Program (CHIP)

6. Dollar threshold used to distinguish between Type A and Type B programs: $7,157,593

7. Auditee qualified as low-risk? ☐ Yes ☑ No

Section II – Financial Statements Findings

Our audit disclosed no findings that are required to be reported herein under the Government Audit Standards.

Section III – Federal Award Findings

Finding Number:	2020-001
Federal Program:	Medical Assistance Program
CFDA:	93.778
Federal Grantor:	U.S. Department of Health and Human Services
Compliance Requirement:	Special Test and Provisions-ADP Risk Analysis and System Security Review
Category:	Material Weakness and Noncompliance

Criteria

States are required to establish a security plan for ADP systems that include policies and procedures to address: (1) physical security of ADP resources; (2) equipment security to protect equipment from theft and unauthorized use; (3) software and data security; (4) telecommunications security; (5) personnel security; (6) contingency plans to meet critical processing needs in the event of short- or long-term interruption of service; (7) emergency preparedness; and (8) designation of an agency ADP security manager.

State agencies must establish and maintain a program for conducting periodic risk analyses to ensure appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. On a biennial basis, State agencies shall review the ADP system security of installations involved in the administration of HHS programs. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices.

At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR section 95.621).

Condition

The security plan for ADP (Automatic Data Processing) system, including policies and procedures to address contingency plans in the event of unforeseen interruptions has not been implemented and tested.

Effect

Critical business functions may not be resumed on time in case an emergency or disaster causes the ADP system resources to become unable to meet critical processing needs in the event of a short or long-term interruption of service.

Cause

This situation was a primarily caused by the lack of effective internal control over ADP Risk Analysis and System Security Review

Prior Year Audit Finding
2019-001

Recommendation

The Administration should establish and maintain a program for conducting periodic risk analysis to ensure appropriate, cost effective safeguards are incorporated into new and existing systems.

Questioned Costs

None

Management's Response:

Refer to Grantee's Corrective Action Plan

Finding Number:	2020-002
Federal Program:	Medical Assistance Program
CFDA:	93.778
Federal Grantor:	U.S. Department of Health and Human Services
Compliance Requirement:	Special Test and Provisions
Category:	Material Weakness and Noncompliance

Criteria

The State Plan must provide methods and procedures to safeguard against unnecessary utilization of care and services. In addition, the State must have (1) methods of determining criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials (42 CFR Parts 455, 456, and 1002).

The SMA must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services. The agency must have procedures for the ongoing post payment review, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The SMA may conduct this review directly or may contract with an independent entity (42 CFR sections 456.5, 456.22, and 456.23).

The SMA must ensure that each managed care organization with which it contracts is evaluated annually on quality, timeliness, and access to the health care services by an external quality review organization (EQRO). The state must ensure that the EQRO conduction such reviews is competent and independent (42 CFR 438, Subpart E).

Condition

There are no insurer reviews by external quality review organization (EQRO) for the fiscal year ended June 30, 2020.

Effect

State Medicaid Agency (SMA) not ensure that each managed care organization with which it contracts is evaluate on quality, timeliness, and access to the health care services.

Cause

This situation was a primarily caused because external quality review organization (EQRO) have not been hired to carry out the review by the State Medicaid Agency (SMA).

Prior Year Audit Finding

N/A

Recommendation

The State Medical Agency (SMA) should contract external quality review organization (EQRO) and assure that carry out annually review on quality, timeliness and access to the health care service of each manage care organization with which it contracts.

Questioned Costs

None

Management's Response:

Refer to Grantee's Corrective Action Plan

Finding Number:	2020-003
Agency:	All Federal Agencies in the SEFA
Federal Program:	All Federal Agencies in the SEFA
CFDA:	All Federal Agencies in the SEFA
Federal Grantor:	U.S. Department of Health and Human Services
Compliance Requirement:	Reporting
Category:	Material Weakness and Noncompliance

Criteria

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal, Part 200.512, Report Submission, (a) General, (1) states that the audit must be completed and the data collection form and reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

Condition

Puerto Rico Health Insurance Administration did not comply with the required due date for the submission of the Single Audit Report.

Effect

Puerto Rico Health Insurance Administration (PRHIA) could be sanctioned by the Federal Government for the noncompliance of this requirement.

Cause

During March 2020, due the Coronavirus pandemic the government declared a lock down. This event caused the interruption of services and business activities which resulted in economic hardship. This event affected the operations of the Administration and the services provided.

Prior Year Audit Finding

N/A

Recommendation

The PRHIA should designate work teams among all departments which serve as liaisons with the auditors and be responsible for the delivery of information and documentation to ensure compliance with due dates. In addition, shall establish controls and procedures to enable compliance with completion and submitting of the Single Audit Report of PRHIA to the Federal Clearinghouse before the 9 months deadline.

Questioned Costs
None

Management's Response

Refer to Grantee's Corrective Action Plan

Finding Reference Number	Finding Description	Questioned Cost	Finding Current Status
2019-001	ADP Risk Analysis and System Security Review	None	Uncorrected

ADMINISTRACION DE SEGUROS DE SALUD DE PUERTO RICO

Puerto Rico Health Insurance Administration
Management Comments / Corrective Action Plan
Single Audit for the period ended June 30, 2020

Finding Number, Federal Agency Reference:	Recommendations / Total questioned costs:	Management Comments / Corrective Action Plan:	Anticipated Completion Date	Responsible for Implementation:
2020-001 U.S. Department of Health and Human Services	The Administration should establish and maintain a program for conducting periodic risk analysis to ensure appropriate, cost effective safeguards are incorporated into new and existing systems.	ASES is running a Proof of Concept (POC) with Truenorth Corporation for the Disaster Recovery Site (DRS). We are replicating the production environment to this system. After the completion of the POC, ASES will ask several vendors for a complete solution that Meets ASES requirements for a DRS base on the recommendation of the Puerto Rico Innovation and Technology Service.	7/1/2022	Mr. Rafael L Vazquez Paniagua, Oficial Principal de Informatica (OPI) (787) 474-3327 Email:rlvazquez@asespr.org

Finding Number, Federal Agency Reference:	Recommendations / Total questioned costs:	Management Comments / Corrective Action Plan:	Anticipated Completion Date	Responsible for Implementation:
2020-002 U.S. Department of Health and Human Services	The State Medical Agency (SMA) should contract external quality review organization (EQRO) and assure that carry out annually review on quality, timeliness and access to the health care service of each manage care organization with which it contracts.	On December 16, 2021 the State Medical Agency (SMA) issued the Request for Proposals (RFP) 2021-PRMP-RFP-002 to contract external quality review organization (EQRO). The contract signature is expected to be made on 5/13/2022.	5/13/2022	Elizabeth Otero Email:elizabeth.otero@salud.pr.gov

Finding Number, Federal Agency Reference:	Recommendations / Total questioned costs:	Management Comments / Corrective Action Plan:	Anticipated Completion Date	Responsible for Implementation:
2020-003 U.S. Department of Health and Human Services	The PRHIA should designate work teams among all departments which serve as liaisons with the auditors and be responsible for the delivery of information and documentation to ensure compliance with due dates. In addition, shall establish controls and procedures to enable compliance with completion and submitting of the Single Audit Report of PRHIA to the Federal Clearinghouse before the 9 months deadline.	The delay in the issuance of the Single Audit Report package was because the financial information related to the pension and OPEB liabilities were not available in a timely manner. Such information is provided by another State Agency of the Government of Puerto Rico. The Central Government of the Commonwealth of Puerto Rico requested to hold the financial statements until such audited financial information was available. Additionally, the COVID-19 pandemic delayed the completion of the audit and the preparation of the financial statements. To correct this condition, PRHIA decided that for the next financial statements (and the Single Audit Report package) PRHIA will issued the reports even if the pension financial information is not delivered on time to be included in our financial statements.	Completed	Mr. Carlos Negrón (787) 474-3300 ext.1001 Cel (787) 579-6554 Email: cnegron@asespr.org