Deloitte.

Deloitte & Touche LLP
Torre Chardón
350 Chardón Avenue - Suite 700
San Juan, PR 00918-2140
USA

Tel: +1 787 759 7171
Fax: +1 787 756 6340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
State Insurance Fund Corporation

We have audited the accompanying statement of net assets of State Insurance Fund Corporation (the "Corporation"), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit revealed that the accounting records and internal control procedures in use to record premiums assessed and to be collected, and to account for the adjustments concerning premiums not processed by the Corporation's electronic data processing system, are not adequate to ascertain that such transactions are properly recorded on a timely basis. Because of these deficiencies, premiums receivable, unearned premiums, accrual for reimbursement of premiums, premiums earned, reimbursement of insurance premiums and the provision for uncollectible premiums might be materially different from those reported as of June 30, 2009 and for the year then ended.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary because of the deficiencies in the accounting records and internal control procedures as discussed in the preceding paragraph, such financial statements present fairly, in all material respects, the financial position of the Corporation as of June 30, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Corporation's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The required supplementary information comprising the Ten–Year Claims Development Information and the Schedule of Funding Progress for Postemployment Benefits Other Than Pensions on pages 53 and 54, respectively, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Corporation's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information, and we do not express an opinion on it.

Deloitte & Touche LLP.

October 14, 2010

Stamp No. 2574549
affixed to the original

INTRODUCTION

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

This section presents a narrative overview and analysis of the financial performance of Corporation as of and for the year ended June 30, 2009. The information presented here should be read in conjuction with the basic financial statements, including the notes thereto.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

The basic financial statements include the following: (1) Statement of Net Assets, (2) Statement of Revenues, Expenses, and Changes in Net Assets, (3) Statement of Cash Flows, and (4) Notes to the Basic Financial Statements. The Corporation also includes additional information to supplement the basic financial statements.

The statement of net assets provides information on the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The statement of revenues, expenses and changes in net assets presents information on how the Corporation's net assets changed during the reporting period. Changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statement of cash flows shows changes in cash and cash equivalents, resulting from operating, non–capital and capital financing and investing activities, which include cash receipts and cash disbursements information, without consideration of the depreciation of capital assets.

The notes provide additional information that is essential for a full understanding of the data provided in the basic financial statements.

The required supplementary information consists of two schedules concerning the following: (1) the ten–year claims development information required by the Governmental Accounting Standards Board ("GASB") Statement No. 10, ***Accounting and Financial Reporting for Risk Financing and Related Insurance Issues***, as amended, and (2) the supplementary information of the Corporation's Postemployment Benefits Other Than Pensions Program as required by the GASB Statement No. 45, ***Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions***.

RESTATEMENT OF 2007 and 2008 BASIC FINANCIAL STATEMENTS

Subsequent to the issuance of the Corporation's 2008 basic financial statements, management of the Corporation identified several errors in such previously issued financial statements, as follows:

- On November 17, 2006, the Governor of Puerto Rico enacted Law No. 249, which among other things, (1) created the Special Health Fund to cover a deficiency of resources experienced by the "Administración de Servicios de Salud" (ASES) in the implementation of the Puerto Rico Health Reform and other needs of the "Administración de Servicios Médicos de Puerto Rico" (ASEM), (2) authorized the Government Development Bank for Puerto Rico ("GDB") to extend a loan of $253 million to the Special Health Fund, and (3) obligated the Corporation to repay the loan in full through periodic payments of principal and interest over a six–year period. In addition, Law No. 249 provides that the legislature may make annual appropriations in the Commonwealth's budget for the reimbursement to the Corporation of the payments of principal and interest made by the Corporation to GDB. During fiscal 2007, GDB disbursed $253.0 million under the loan; however, the Corporation failed to recognize the full liability and the related interest that Law No. 249 imposed upon the Corporation in its 2007 and 2008 basic financial statements and recognized only the obligation for the first installment under the loan and the related interest imposed upon the Corporation in its 2008 basic financial statements. The cumulative effect of the correction of this error was to reduce the Corporation's fiscal 2008 beginning of year net assets by $255.8 million, to increase note payable to GDB by $253.0 million and to decrease accrued liabilities by $17.2 million at June 30, 2008 and to increase interest expense (non–operating expenses) by $12.0 million and to decrease transfers to other governmental agencies by $32.0 million for the year ended June 30, 2008.

- On July 1, 2007, the Corporation adopted prospectively the provisions of GASB Statement No. 45, ***Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions***. At June 30, 2008 and 2007, the Corporation had a liability for postemployment benefits of $34.7 million and $29.2 million, respectively, based on an internally developed estimate. During fiscal 2009, the Corporation retained the services of an independent actuary to determine the actuarial liability for postemployment benefits resulting from the adoption of GASB Statement No. 45. As a result of the external actuarial valuation, management determined that the liability for postemployment benefits at June 30, 2008 was overstated by $27.4 million. In addition, the Corporation set at zero the liability for postemployment benefits at July 1, 2007 and recognized a cumulative impact of change in accounting for postemployment benefits of $29.2 million in the 2008 beginning of year net asset, as required by GASB Statement No. 45. The cumulative effect of the correction of these errors was to increase the Corporation's fiscal 2008 beginning of year net assets by a cumulative impact of change in accounting of $29.2 million, to decrease liabilities at June 30, 2008 by $27.4 million and to increase compensation and medical benefits and general and administrative expenses by approximately $894,000 and $859,000, respectively, for the year ended June 30, 2008.

- As a result of an oversight, the accounts payable at June 30, 2008 did not include certain unclaimed amounts. The cumulative effect of the correction of this error was to increase the compensation and medical benefits expenses for the year ended June 30, 2008 by $10.5 million and to increase the accounts payable at June 30, 2008 by an equal amount.

- Pursuant to its accounting policies, the Corporation's cash and cash equivalents are comprised of cash on hand and in deposit and highly liquid instruments with original maturities of three months or less. As a result of an oversight, the Corporation's beginning of year cash and cash equivalents, as presented in the statement of cash flows, was incorrectly reported because it failed to consider substantially all of the Corporation's cash equivalents, which were incorrectly presented as investments. As a result, the Corporation's fiscal 2009 beginning of year cash and cash equivalents has been restated to include $409.8 million of cash equivalents misclassified as investments.

- The current liabilities at June 30, 2008 were decreased by $29.4 million to properly present the non-current portion of the accrual for reimbursement of premiums.

The following table set forth the previously reported and restated amount of selected items within the statement of net assets as of June 30, 2008 and the statement of revenues, expenses, and changes in net assets for the year ended June 30, 2008:

Condensed statement of net assets (in thousands):	June 30, 2008 As previously reported	June 30, 2008 As restated
Cash and cash equivalents	$ 5,294	$ 415,095
Current liabilities	636,708	716,479
Non-current liabilities	612,020	751,146
Total liabilities	1,248,728	1,467,625
Net assets at end of year	746,082	527,185

Condensed statement of revenues, expenses, and changes in net assets (in thousands):	For the year ended June 30, 2008 As previously reported	For the year ended June 30, 2008 As restated
Operating expenses:		
Compensation and medical benefits	$ 498,700	$ 510,107
General and administrative	168,528	169,387
Total operating expenses	667,228	679,494
Operating loss	(1,446)	(13,712)
Non-operating expenses, net	(13,249)	(25,252)
Transfers to other governmental agencies	(69,446)	(37,499)
Changes in net assets	(84,141)	(76,463)
Cumulative impact of change in accounting for postemployment benefits other than pensions	-	29,180
Prior period adjustments	-	(255,755)
Net assets – beginning of year	830,223	603,648
Net assets – end of year	746,082	527,185

Refer to Note 22 to the 2009 basic financial statements for additional information regarding the effect of the restatement on the beginning of year balances.

Jer

FINANCIAL HIGHLIGHTS

The following is the condensed financial position of the Corporation as of June 30, 2009 and 2008:

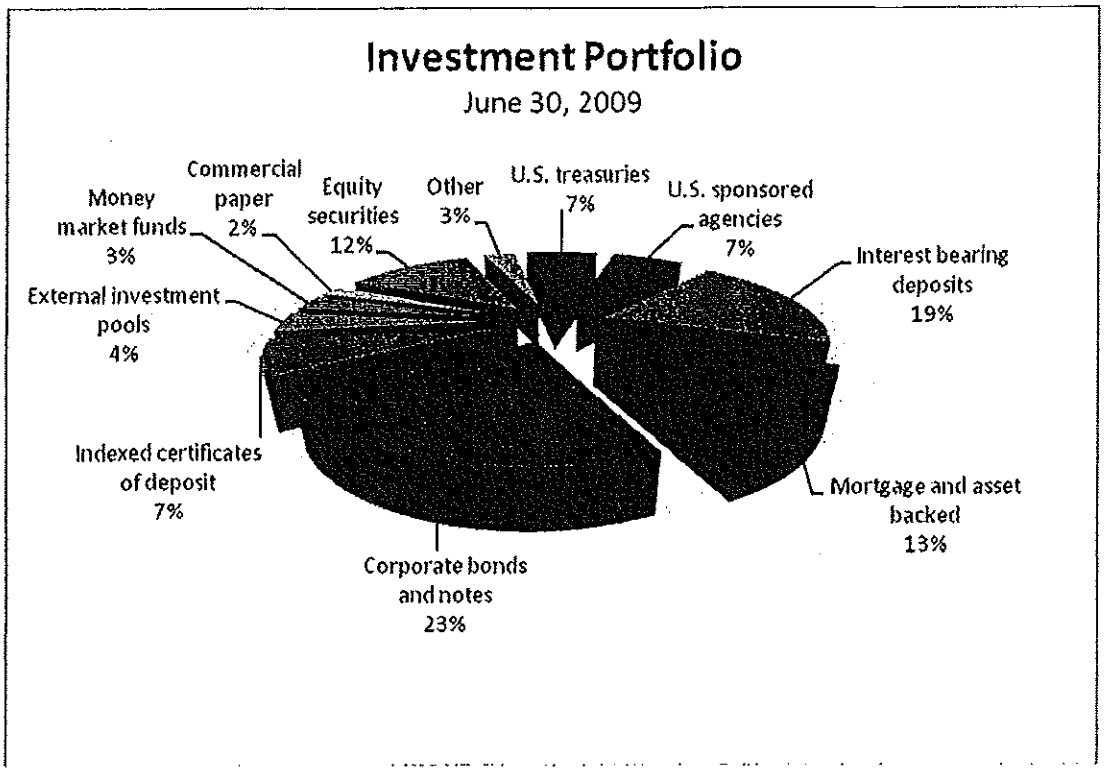
Condensed statement of net assets (in thousands):	2009	As restated 2008	Variance
Assets:			
Current assets	$ 899,642	$ 1,135,779	$ (236,137)
Non-current assets:			
Capital assets – net	96,326	100,246	(3,920)
Other noncapital assets	903,398	758,785	144,613
Total assets	$ 1,899,366	$ 1,994,810	$ (95,444)
Liabilities:			
Current liabilities	$ 677,420	$ 716,479	$ (39,059)
Non-current liabilities	865,186	751,146	114,040
Total liabilities	1,542,606	1,467,625	74,981
Net assets:			
Invested in capital assets – net of related debt	17,468	18,344	(876)
Unrestricted	339,292	508,841	(169,549)
Total net assets	356,760	527,185	(170,425)
Total liabilities and net assets	$ 1,899,366	$ 1,994,810	$ (95,444)

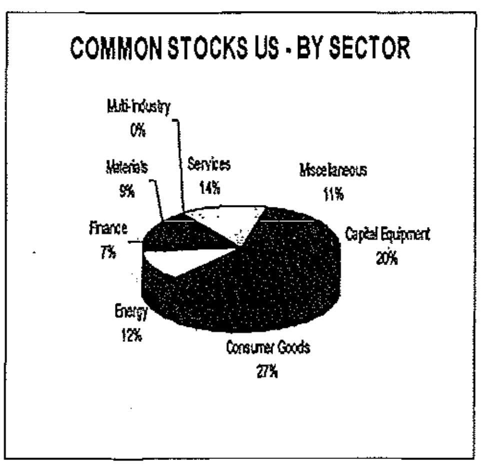
- **The Corporation's total assets decreased by $95.4 million in 2009 (or 5%)**

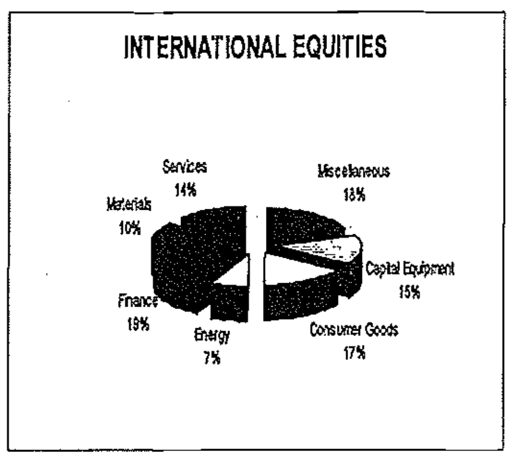
The Corporation's total assets decrease was substantially driven by decreases of investments and accounts receivable.

Investments, including those reported as cash equivalents, decreased by $40.6 million or 2%, from $1.72 billion at June 30, 2008, to $1.68 billion at June 30, 2009. The investments in debt and equity securities were affected by the global market decline due to the setbacks in the global financial markets, which resulted in a net decrease in fair value of $86.7 million that was partially offset by the interest and dividend income, net of cost of securities lending transactions, of $53.8 million for the year ended June 30, 2009. For the year ended June 30, 2009, the return on investments, including those reported as cash equivalents, was negative 2.32%. The investment's performance was impacted by the continued recessionary economic environment in the United States of America that was severely hit by the housing–market and credit crises.

The following graphs present the distribution of the investment portfolio as of June 30, 2009:







Accounts receivable – net decreased by $49.1 million or 30%, from $163.2 million at June 30, 2008, to $114.2 million at June 30, 2009. The decrease in accounts receivable – net was mainly due to the provision for uncollectible accounts, which amounted to $48.8 million for the year ended June 30, 2009. The Corporation's accounts receivable are with employers and other entities in Puerto Rico. The Puerto Rico's economy is currently in a recession that began officially in the fourth quarter of fiscal year 2006. This current economic environment has negatively affected the realization of the Corporation's accounts receivable.

- **The Corporation's total liabilities increased by $75.0 million in 2009 (or 5%)**

Total liabilities include a reserve for both reported and unreported insured events (compensation and medical benefits), which includes an estimation of future payments and related adjustment expenses. This liability is developed by an independent actuary from historical benefit expenses and/or payments gathered by the Corporation. The liability for compensation and medical benefits is based on historical claims experience data, assumptions, and projections of future events, including the frequency, severity and persistency of the claims, as well as the inflationary trends. The accrual for reimbursement of premiums represents an estimate actuarially determined as a result of the settlement of premiums under the policies. The assumptions used in estimating and establishing these liabilities are reviewed annually based on current circumstances and trends.

The liability for incurred but unpaid compensation and medical benefits, including benefit adjustment expenses, increased by $36.1 million or 5% from $702.4 million at June 30, 2008, to $738.5 million at June 30, 2009. For the year ended June 30, 2009, incurred compensation and medical benefits amounted to $533.8 million; meanwhile, compensation and medical benefits payments amounted to $497.7 million for the year ended June 30, 2009. The result in the reserves are reflections of the actual trend in the Corporation reported cases of workers' injuries and claims for the last years, as determined by the independent actuary.

The accrual for reimbursements of premiums amounted to $137.5 million as of June 30, 2009, an increase of $44.4 million or 48% when compared to the prior year balance. The increase in the accrual for reimbursements of premiums resulted from the upward trend in the return of premiums as a result of the reduction of employers' payrolls.

Accounts payable and accrued liabilities increased by $5.3 million or 3% from $196.1 million at June 30, 2008, to $201.4 million at June 30, 2009 mainly as a result of the increase of $7.0 million in general accounts payable and securities purchased but not yet received.

Long–term debts decreased by $13.0 million or 4% from $334.9 million at June 30, 2008, to $321.9 million at June 30, 2009 as a result of payments made in fiscal year 2009.

- **The Corporation's net assets decreased by $170.4 million in 2009 (or 32%)**

As of June 30, 2009, the Corporation had $339.3 million in net assets categorized as unrestricted assets and $17.5 invested in capital assets – net of related debt. Changes in net assets amounted to a decrease of $170.4 million for the year ended June 30, 2009, due to an operating loss of $84.3 million, net non–operating expenses of $52.0 million and net transfers to other governmental agencies of $34.1 million.

The following summarizes the condensed changes in net assets of the Corporation for the years ended June 30, 2009 and 2008:

Condensed statement of revenues, expenses and changes in net assets (in thousands):	2009	As restated 2008	Variance
Operating revenues	$ 602,984	$ 665,782	$ (62,798)
Operating expenses:			
Compensation and medical benefits	533,819	510,107	23,712
General and administrative	153,495	169,387	(15,892)
Total operating expenses	687,314	679,494	7,820
Operating loss	(84,330)	(13,712)	(70,618)
Non-operating expenses – net	(52,023)	(25,252)	(26,771)
Transfers to other governmental agencies – net	(34,072)	(37,499)	3,427
Changes in net assets	(170,425)	(76,463)	(93,962)
Net assets – beginning of the year, as previously reported	746,082	830,223	(84,141)
Cumulative impact of change in accounting for postemployment benefits other than pensions		29,180	(29,180)
Prior period adjustments	(218,897)	(255,755)	36,858
Net assets – beginning of the year, as restated	527,185	603,648	(76,463)
Net assets – end of year	$ 356,760	$ 527,185	$ (170,425)

The Corporation recognizes as income the subscribed premiums, which represents the preliminary premiums assessed at the beginning of the fiscal year plus additional premiums imposed or expected to be imposed as a result of the final settlement of premiums under the insurance policy or reduced by any unearned or reimbursable portion or provision for uncollectible accounts, as determined. Premiums are based on individual employers' reported payroll ledgers using predetermined insurance rates based on the employer's risk classifications. Policy costs consist mainly of salaries and certain underwriting expenses. Benefits are recorded on an accrual basis, which includes benefit paid and a liability to cover estimated incurred but unpaid benefits and benefit adjustments expenses based on the ultimate settling cost, as determined by the independent actuary.

- **Operating revenues decreased by $62.8 million in 2009 (or 9%)**

Operating revenues decreased by $62.8 million or 9% during the year ended June 30, 2009. The decline in revenues was primarily due to the increase of $30.2 million in the reimbursement of insurance premiums, mostly from the upward trend in the returned premiums because of the reduction in the employers' payrolls, and the increase of $36.4 million in the provision for uncollectible insurance premiums, as a result of the current recessionary economic environment in Puerto Rico, which has negatively affected the realization of the Corporation's accounts receivable.

- **Compensation and medical benefits increased by $23.7 million in 2009 (or 5%)**

Compensation and medical benefits increased by $23.7 million or 5% during the year ended June 30, 2009. Compensation benefits for the year ended June 30, 2009 amounted to $158.0 million, an increase of $5.0 million or 3%, when compared to $153.0 million for the prior year. The increase is related to Law No. 263 of September 8, 2004, which amends Law 45 of 1935, raising the compensation payment to injured workers for partial permanent disability, total permanent disability and death. Medical benefits for the year ended June 30, 2009 amounted to $354.0 million, an increase of $21.9 million or 7%, when compared to $332.1 million for the prior year. The increase is mainly related to increases in medical salaries and fringe benefits and others medical expenses as a result of the redistributions of certain units within the medical and administrative programs of the Corporation.

The provision for compensation and medical benefits and benefit adjustment expense for the year ended June 30, 2009 amounted to $21.8 million, a decrease of $3.2 million or 13%, when compared to a provision of $25.0 million in 2008. The decrease is mainly due to the increase in the discounting factor of these liabilities from 2% in 2008 to 3.25% in 2009.

- **General and administrative expenses decreased by $15.9 million in 2009 (or 9%)**

General and administrative expenses decreased by $15.9 million or 9% during the year ended June 30, 2009 mainly as a result of the decreases in administrative salaries and fringe benefits because of the redistributions of certain units within the medical and administrative programs of the Corporation.

The Act provides that the Corporation's administrative expenses shall not exceed 22% of the total insurance premiums collected during the previous fiscal year. The Corporation did not comply with this requirement of the Act for the year ended June 30, 2009. The Corporation is taking those steps necessary to address this situation, including the implementation of strict cost control measures and the performance of a new study regarding those costs classified as administrative that correspond to indirect medical costs.

- **Non–operating expenses – net increased by $26.8 million in 2009 (or 106 %)**

Net non–operating expenses represent principally interest and dividend income, net change in fair value of investments and derivative instruments and interest expense. Government accounting policies requires that investments be carried at fair value; thus realized gains and losses from the sale of securities and unrealized changes in the fair value of outstanding securities are recorded through operations. Net decrease in fair value of investments and derivative instruments amounted to $92.8 million in 2009, a decrease of $22.3 million or 32% when compared to $70.5 million in 2008, as a result of the global collapse of the financial markets. Interest and investment income, net of cost of securities lending transactions amounted to $53.8 million in 2009, a decrease of $10.2 million or 16%, when compared to $64.0 million in 2008. Interest expense amounted to $13.0 million in 2009, a decrease of $5.7 million or 31%, when compared to $18.7 million in 2008.

- **Transfers to other governmental agencies – net decreased by $3.4 million in 2009 (or 9%)**

Net transfers to other governmental agencies decreased by $3.4 million or 9% during the year ended June 30, 2009.

In 2007, the Corporation recorded a one–time contribution of $253.0 million to the Special Health Fund. Pursuant to Law No. 249 of November 17, 2006, GDB granted a loan to the Special Health Fund. Law No. 249 imposed an obligation upon the Corporation to comply with the related debt service of this loan and also provided for recovery of such payments from appropriations of the Central Government's General Fund. Such recoveries are recorded as a transfer from other governmental agencies. Recoveries from the Central Government's General Fund pursuant to Law No. 249 increased by $4.4 million from $5.6 million in 2008 to $10.0 million in 2009.

Also, the Corporation is required by legislation to transfer to other governmental agencies funds for programs related to injured employees and their families. During the year ended June 30, 2009, the Corporation transferred funds to the Industrial Commission of Puerto Rico, the Department of Labor and Human Resources, the Department of the Family, Puerto Rico Housing Finance Authority and the Labor Affairs Office amounting to $44.1 million compared to $43.1 million in 2008.

CAPITAL ASSETS AND LONG–TERM DEBTS

- **Capital assets – net, decreased by $3.9 million in 2009 (or 4%)**

Capital assets are comprised of buildings used to render services to workers, medical and offices equipment, motor vehicles and assets under capital lease. During the year ended June 30, 2009 capital assets, net of depreciation and amortization, decreased by $3.9 million or 4% due to depreciation and amortization expense of $6.0 million, which was partially offset by the acquisitions of medical and office equipments and the improvement to buildings of $2.1 million. Refer to Note 6 to the basic financial statements for further information regarding the Corporation's net capital assets.

- **Long–term debts decreased by $13.0 million (or 4%)**

Long–term debts amounted to $321.9 million at June 30, 2009, a decrease of $13.0 million or 4% when compared to $334.9 million at June 30, 2008. Long–term debts at June 30, 2009 and 2008 consisted of the following:

(In thousands)	2009	2008	Variance
Debts related to capital assets:			
Notes payable	$ 46,730	$ 49,358	$ (2,628)
Obligation under capital lease	32,129	32,545	(416)
Total debts related to capital assets	78,859	81,903	(3,044)
Other – note payable to GDB	243,000	253,000	(10,000)
Total long–term debts	$ 321,859	$ 334,903	$ (13,044)

In 2007, the Corporation recorded a one–time contribution of $253.0 million to the Special Health Fund. Pursuant to Law No. 249 of November 17, 2006, GDB granted a loan to the Special Health Fund. Law No. 249 imposed an obligation upon the Corporation to comply with the related debt service of this loan and also provided for recovery of such payments from appropriations of the Central Government's General Fund. The note payable to GDB requires the Corporation to comply with certain restrictive covenants, which, in the event of non–compliance, provide GDB the right to declare the outstanding debt as due and payable in cancellation of the loan agreement. As of June 30, 2009, the Corporation is not in compliance with the scheduled payments. On October 14, 2010, GDB waived this non–compliance event.

Refer to Notes 11, 12 and 13 to the basic financial statements for further information regarding the Corporation's long–term debts.

ECONOMIC FACTORS AND NEXT YEAR'S REVENUES

The Corporation's activities are conducted in Puerto Rico. Its operating results are mainly a function of the excess of the premiums earned over compensation and medical benefits incurred and administrative expenses. Premiums are based on individual employers' reported payroll ledgers using predetermined insurance rates based on the employer's risk classifications.

Puerto Rico uses the U.S. currency and forms part of the U.S. financial system. Factors affecting the U.S. economy usually have a significant impact on the performance of the Puerto Rico economy. These include exports, direct investment, the amount of federal transfer payments, the level of interest rates, the level of oil prices, the rate of inflation, and tourist expenditures, among others. During the Commonwealth's fiscal year ended June 30, 2009, approximately 75% of Puerto Rico's exports went to the U.S, which was also the source of approximately 50% of Puerto Rico's imports. In the past, the economy of Puerto Rico has generally followed economic trends in the overall U.S. economy. The U.S. economy, which was severely hit by the housing–market and credit crises, entered into a recession in late 2007.

The Puerto Rico economy is currently in a recession that began officially in the fourth quarter of fiscal year 2006, a fiscal year in which the real gross national product grew by only 0.5%. After almost four years of negative economic growth, the pattern of weakening in economic activity of Puerto Rico suggests that the economy of Puerto Rico will continue to face serious difficulties in 2010. The main drivers contributing to the recessionary cycle include an overall contraction in all sectors of Puerto Rico's economy, principally within the manufacturing and construction sectors, coupled with significant declines in tourism and retail sales, increases in personal and commercial bankruptcies, budget shortfalls, diminished consumer buying power driven by increases in utility costs, gasoline prices, highway toll charges, the implementation of sales taxes and periodic impasses between the Executive and the Legislative branches of the Puerto Rico government. Historical declines have occurred in the local manufacturing sector. Three important indicators for the manufacturing sector (jobs, hours worked, and payroll) pointed toward the continued weakening of local manufacturing activity. At December 31, 2009, the manufacturing sector lost approximately 22,000 jobs in comparison with figures reported at December 31, 2008, a decrease of 17.5%, although many multinational corporations continue to have substantial operations in Puerto Rico. As in the past years, the construction sector, a historical backbone of Puerto Rico's economy, continued to be relatively weak during 2009, as the combination of the current Commonwealth's fiscal situation and a decrease in the public investment in construction projects has dramatically affected the sector.

In addition to the Puerto Rico's economic contraction, Puerto Rico is also experiencing a fiscal crisis as a result of the structural imbalance between government revenues and expenses. The structural imbalance has been exacerbated during fiscal years 2008 and 2009, with recurring government expenses significantly higher than recurring revenues, which have declined as a result of the aforementioned recessionary conditions. The current government administration has developed and commenced implementing a multi–year plan designed to achieve fiscal balance and restore economic growth. The fiscal stabilization plan seeks to achieve budgetary balance on or before fiscal year 2013, while addressing expected fiscal deficits in the intervening years through the implementation of a number of initiatives, including: (i) a $2 billion expense–reduction plan during fiscal year 2010, through government reorganization and reduction of operating expenses, including payroll which is the main component of government expenditures; (ii) a combination of temporary and permanent tax increase, coupled with additional tax enforcement measures; and (iii) a bond issuance program through Puerto Rico Sales Tax Financing Corporation. When the fiscal situation and the short term measures are combined with a private sector that is also facing difficulties in keeping jobs, the result is a challenging 2010 for Puerto Rico.

Other economic indicators for 2009 showed additional signs of weakness. With the exception of the total civilian population, all the indicators of job–market performance reflect a downturn. The total labor force, number of jobs, participation rate, and number and percentage of unemployed all continue to show signs of deterioration. Puerto Rico unemployment rate, which has been historically higher than the average U.S. unemployment rate, was 15.0% at December 31, 2009, the highest since 1999. According to the Puerto Rico Labor Department, at December 31, 2009 the Island Labor Force stands at 1.3 million people, of which 1.1 million people were employed at December 31, 2009, which represents a decrease of approximately 40,000 people and 82,000 jobs, respectively, when compared to December 31, 2008. The rate of participation in the labor force fell from 44.8% in 2008 to 43.2% in 2009.

A continuation of the actual economic environment, particularly if economic conditions worsen more than expected, could significantly reduce the employers' payrolls and therefore reduce the Corporation's operating income and significantly reduce the investments return, which could have an adverse effect on the Corporation's financial position or changes in its net assets.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

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

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

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2009

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 442,842,298
Accounts receivable — net	114,160,319
Inventories	7,961,285
Prepaid expenses	574,315
Investments in debt and equity securities	334,103,351
Total current assets	899,641,568
NON–CURRENT ASSETS:	
Investments in debt securities	903,397,928
Capital assets — net:	
Land	13,010,166
Depreciable assets	83,316,427
Total non–current assets	999,724,521
TOTAL ASSETS	$1,899,366,089

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Liability for incurred but unpaid benefits and benefit adjustment expenses	$ 186,925,000
Accounts payable	81,047,319
Accrued liabilities	96,810,714
Unearned premiums	29,727,945
Accrual for reimbursement of premiums	60,068,000
Securities lending obligations	113,573,331
Current portion of:	
Note payable to Government Development Bank for Puerto Rico	105,800,000
Other notes payable	3,007,645
Obligation under capital lease	459,992
Total current liabilities	677,419,946

(Continued)

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

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2009

NON–CURRENT LIABILITIES:	
Liability for incurred but unpaid benefits and benefit adjustment expenses	$ 551,550,000
Accrued liabilities	23,565,302
Accrual for reimbursement of premiums	77,480,000
Note payable to Government Development Bank of Puerto Rico	137,200,000
Other notes payable	43,721,894
Obligation under capital lease	31,669,359
Total non–current liabilities	865,186,555
Total liabilities	1,542,606,501
COMMITMENTS AND CONTINGENCIES (Notes 19 and 20)	
NET ASSETS:	
Invested in capital assets — net of related debt	17,467,703
Unrestricted	339,291,885
Total net assets	356,759,588
TOTAL LIABILITIES AND NET ASSETS	$1,899,366,089

See accompanying notes to basic financial statements. (Concluded)

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

OPERATING REVENUES:	
Insurance premiums earned	$ 746,085,327
Miscellaneous income — net	3,361,070
Less:	
Reimbursement of insurance premiums	(108,202,797)
Provision for uncollectible insurance premiums	(38,259,192)
Total operating revenues	602,984,408
OPERATING EXPENSES:	
Compensation benefits	157,966,028
Medical benefits and legal fees	354,006,842
Provision for compensation benefits, medical benefits, and benefit adjustment expenses	21,846,638
Administrative expenses	147,532,119
Depreciation and amortization	5,962,755
Total operating expenses	687,314,382
OPERATING LOSS	(84,329,974)
NON–OPERATING REVENUES (EXPENSES):	
Interest and dividend income — net	54,891,267
Net decrease in fair value of investments	(86,675,172)
Cost of securities lending transactions	(1,080,365)
Net loss on derivative instruments	(6,152,942)
Interest on notes payable and obligation under capital lease	(13,005,718)
Total non–operating expenses — net	(52,022,930)
LOSS BEFORE TRANSFERS TO OTHER GOVERNMENTAL AGENCIES — Net	(136,352,904)
TRANSFERS TO OTHER GOVERNMENTAL AGENCIES — Net	(34,072,281)
CHANGES IN NET ASSETS	(170,425,185)
NET ASSETS — Beginning of year, as previously reported	746,082,040
PRIOR PERIOD ADJUSTMENTS (Note 22)	(218,897,267)
NET ASSETS — Beginning of year, as restated	527,184,773
NET ASSETS — End of year	$ 356,759,588

See accompanying notes to basic financial statements.

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Excess of collections over reimbursements of insurance premiums	$ 686,269,321
Payments of compensation benefits	(147,361,770)
Payments of medical benefits and legal fees	(350,337,738)
Payments of administrative expenses	(151,562,506)
Net cash provided by operating activities	37,007,307
CASH FLOWS FROM NON–CAPITAL FINANCING ACTIVITIES:	
Transfers to governmental agencies	(43,072,281)
Increase in securities lending obligations	17,306,059
Payments of securities lending transaction costs	(1,080,365)
Net cash used in non–capital financing activities	(26,846,587)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(2,042,873)
Payments of notes payable — net of imputed interest	(2,628,321)
Payments of obligation under capital lease	(415,452)
Payments of interest on notes payable and obligation under capital lease	(6,548,769)
Net cash used in capital and related financing activities	(11,635,415)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and redemptions of debt and equity securities	849,165,583
Purchases of debt and equity securities	(868,588,951)
Collections of interest and dividend income	54,642,718
Cash paid on derivative transactions	(6,152,941)
Net collections from employees loans	155,697
Net cash provided by investing activities	29,222,106
NET INCREASE IN CASH AND CASH EQUIVALENTS	27,747,411
CASH AND CASH EQUIVALENTS — Beginning of year, as previously reported	5,293,736
PRIOR PERIOD ADJUSTMENT (Note 22)	409,801,151
CASH AND CASH EQUIVALENTS — Beginning of year, as restated	415,094,887
CASH AND CASH EQUIVALENTS — End of year	$ 442,842,298

(Continued)

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	$ (84,329,974)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	5,962,755
Provision for uncollectible accounts	48,776,551
Changes in assets and liabilities:	
Increase (decrease) in operating assets:	
Accounts receivable	5,551,103
Inventories	1,683,958
Prepaid expenses	(64,802)
Increase (decrease) in operating liabilities:	
Liability for incurred but unpaid benefits and benefit adjustment expenses	36,120,000
Accounts payable	2,140,151
Accrued liabilities	(8,105,334)
Unearned premiums	(15,134,101)
Accrual for reimbursement of premiums	44,407,000
Net cash provided by operating activities	$ 37,007,307
SUMMARY OF NON-CASH TRANSACTIONS:	
Securities purchased but not yet received	$ 9,524,424
Securities sold but not yet delivered	$ 8,615,115
Payment of note payable to Government Development Bank for Puerto Rico by the Commonwealth of Puerto Rico	$ 10,000,000
Transfer from the Commonwealth of Puerto Rico	$ 10,000,000
Transfers payable to other governmental agencies	$ 7,600,000
Retirement of capital assets:	
Cost	$ 7,651,760
Accumulated depreciation	$ 7,651,760

See accompanying notes to basic financial statements. (Concluded)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — State Insurance Fund Corporation (the "Corporation") is a discretely presented component unit of the Commonwealth of Puerto Rico (the "Commonwealth") created by Law No. 45 of April 18, 1935, as amended, known as the Workmen Compensation Insurance Act (the "Act"). The objectives of the law are to:

- protect workers against the effects of employment related accidents and illness;
- establish employer's responsibility to insure its employees;
- establish the type of insurance coverage; and
- regulate the insurance coverage to make it mandatory for employers.

This insurance covers workers against injuries, disability or death because of work or employment related accidents, or because of illness suffered as a consequence of their employment. On October 29, 1992, the Act was amended by Law No. 83 to convert the agency into a governmental corporation and to establish the functions and responsibilities of the Corporation's Board of Directors and Administrator, and the Industrial Medical Advisory Board.

The Act provides that the Corporation's administrative expenses shall not exceed 22% of the total insurance premiums collected during the previous fiscal year. The Corporation did not comply with this requirement of the Act for the year ended June 30, 2009.

Summary of Significant Accounting Policies — The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Corporation follows Governmental Accounting Standards Board ("GASB") Statement No. 55, "*The Hierarchy of Generally Accepted Principles for State and Local Governments*", in the preparation of its financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Following is a description of the most significant accounting policies:

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

Basis of Presentation — The Corporation's financial statements are presented as an enterprise fund and conform to the provisions of GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis —for State and Local Governments*. GASB Statement No. 34, as amended, establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses, and changes in net assets and a statement of cash flows.

The statement of net assets and the statement of revenues, expenses, and changes in net assets report information on all activities of the Corporation. The statement of net assets presents the Corporation's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

- Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on use that are imposed by management, but such constraints may be removed or modified.

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

The statement of cash flows shows changes in cash and cash equivalents, resulting from operating, non-capital and capital financing and investing activities, which include cash receipts and cash disbursements information, without consideration of the depreciation of capital assets.

As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*, the Corporation has elected to apply all Financial Accounting Standards Board authoritative guidance issued after November 30, 1989 that does not conflict with those issued by GASB.

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

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

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

Current and non–current portions of the liability for reimbursement of premiums are based on projected actuarially determined payments.

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

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

Incurred but Unpaid Benefits and Benefit Adjustment Expenses — Benefit expenses are recorded as incurred. The Corporation establishes liabilities for estimated incurred but unpaid benefits and benefit adjustment expenses based on the ultimate estimated cost of settling the benefits.

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

The liabilities for incurred but unpaid benefits and benefit adjustment expenses were discounted to reflect the present value of future benefit payments using a discount factor of 3.25% at June 30, 2009. Management believes that discounting such liability results in a better matching of costs and revenues since compensation benefits have a long payment cycle.

Management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined at June 30, 2009, is a reasonable estimate of the ultimate net cost of settling benefits and benefit expenses incurred. Because actual benefit costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other social and economic factors, the process used in computing the ultimate cost of settling benefits and expenses for administering benefits is necessarily based on estimates. The amount ultimately paid may be above or below such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur.

Current and non–current portions of the liability for estimated incurred but unpaid benefits and benefit adjustment expenses are based on projected actuarially determined payments.

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

Investments — Investments in equity securities with readily determinable fair values and all investments in debt securities are carried at fair value. Money market investments with a remaining maturity at time of purchase of one year or less are carried at cost and investment positions in 2a–7 like external investment pools are carried at the pools' share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. The Corporation has private equity investments, such as the Guayacan funds, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers.

Securities transactions are accounted for on the trade date. Realized gains and losses from the sale of securities and unrealized changes in the fair value of outstanding securities are included in net increase (decrease) in fair value of investments. Realized gains and losses are computed as the difference between the proceeds of the sale and the original cost of the investment sold. Gains and losses on the sale of securities are determined based on the specific identification method.

Securities Lending Transactions — The Corporation accounts for and reports its security lending transactions in accordance with the provisions of GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* as amended. This statement establishes standards of accounting and financial reporting for securities lending transactions in which governmental entities (lenders) transfer their securities to broker–dealers and other entities (borrowers) for collateral and simultaneously agree to return the collateral for the same securities in the future.

Derivative Financial Instruments — The Corporation accounts for derivative instruments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. SFAS No. 133 requires that all derivative instruments be reported on the balance sheet at fair value and establishes criteria for designation and effectiveness of transactions entered into for hedging purposes. The derivative instruments are not held for trading purposes. A derivative security or instrument is defined as a contract, the value of which is derived from the value of an underlying asset, currency, interest rate, and index or basket security. Broadly, these contracts include, but are not limited to futures, forwards and options.

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

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

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

Description	**Useful Life**
Building and improvements	3–50 years
Medical and office equipment	3–10 years
Motor vehicles	5 years
Assets under capital leases	Lease–term

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

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

Compensated Absences — Compensated absences, such as unpaid vacation and sick leave pay, are accrued when incurred using the pay or salary rates in effect at the statement of net assets' date. The employees of the Corporation are granted 30 days of vacation and 18 days of sick leave annually. An additional amount is accrued for certain salary related benefits associated with the payment of compensated absences.

Pensions — The Corporation accounts for pension costs under the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*. This statement establishes standards for the measurement, recognition and display of pension expense and related liabilities in financial statements of state and local governmental employers.

Postemployment Benefits Other Than Pensions — The Corporation accounts for postemployment benefits other than pensions ("OPEB") under the provisions of the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires a systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. GASB No. 45 allows employers to amortize the portion of the cost attributed to past service over a period not to exceed thirty (30) years.

Income Taxes — The Corporation, as a governmental corporation of the Commonwealth, is exempt from the payment of income taxes.

Statement of Cash Flows — The accompanying statement of cash flows is presented in accordance with the provisions of GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*. The provisions of GASB No. 34 require that the direct method be used to present the funds inflows and outflows of the Corporation. For purposes of the statement of cash flows, the Corporation considers all highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents.

Recent Accounting Developments — In March 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Contained in the AICPA Statements on Auditing Standards*, which was effective upon issuance. The objective of GASB Statement No. 56 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. GASB Statement No. 56 addresses three issues not included in the authoritative literature that establishes accounting principles — related party transactions, going concern considerations, and subsequent events. The adoption of this statement had no material effect on the Corporation's financial statements.

The GASB has issued the following accounting pronouncements that have effectives date after June 30, 2009:

a. GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for financial statements for periods beginning after June 15, 2009.

b. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for financial statements for periods beginning after June 15, 2009.

c. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for financial statements for periods beginning after June 15, 2010.

d. GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple–Employer Plans,* which is effective for financial statements for periods beginning after June 15, 2011.

e. GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which is effective for financial statements for periods beginning after June 15, 2009.

f. GASB Statement No. 59, *Financial Instruments Omnibus,* which is effective for financial statements for periods beginning after June 15, 2010.

The impact of these pronouncements in the Corporation's basic financial statements has not yet been determined.

2. CASH AND CASH EQUIVALENTS

The Corporation's cash and cash equivalents as of June 30, 2009 are comprised of the following:

Description	Amount
Cash on hand	$ 2,814,592
Due from Puerto Rico commercial banks	2,212,904
Total cash and due from banks	5,027,496
Cash equivalents (see Note 3)	437,814,802
Total	$442,842,298

Custodial credit risk related to deposits is the risk that in the event of a financial institution failure, the Corporation's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance ($250,000 at June 30, 2009). At June 30, 2009, all securities pledged by depository institutions as collateral are held by a trustee of the Treasury Department of the Commonwealth. As of June 30, 2009, the Corporation only had approximately $2,313,000 in depository balance with a financial institution, which was insured and collateralized.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of a deposit. Cash in foreign currency amounted to $267,833 at June 30, 2009. Cash in foreign currency present minimal foreign currency risk at June 30, 2009.

See Note 3 for credit risk, foreign currency risk and custodial credit risk on cash equivalents.

3. INVESTMENTS

The Board of Directors ("BOD") of the Corporation has enacted the Statement of Investment Policy, Guidelines and Objectives (the "SIPGO") with the objective of providing general and specific guidance for the maximization of resources available for the payment of benefits to injured workers as the pervasive goal of the workers' compensation coverage of its insurance program. SIPGO sets as the primary objective for the available funds, to maximize the yield of invested assets, while having the adequate liquidity to pay obligations as they become due. The strategic objective is accomplished through a proper mix of adequate time horizon, risk tolerance and return expectation, and is achieved through strategic assets allocation. SIPGO provides guidance for the strategic assets allocation including the internally managed short term funds, securities selection and related restrictions; sets the responsibilities of the BOD, the Corporation's management, investment consultants, portfolio managers, custodians, establishes standards for review and communication of compliance with the prevailing policies and procedures, and provides for annual updates to the SIPGO. The SIPGO also provides that the Finance Committee of the BOD (the "Finance Committee") is responsible for implementing and monitoring the investment program of the Corporation. The Finance Committee meets on a quarterly basis.

The SIPGO allows management to purchase or enter into the following investment instruments:

- United States Government and agencies obligations

- Obligations of the Commonwealth, its agencies, municipalities, public corporations and instrumentalities

- Government National Mortgage Association (GNMA)

- Mortgage pass–through guaranteed by United States Government agencies other than GNMA, such as Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA), among others

- Mortgage and asset–backed securities

- Common and preferred stocks

- Corporate bonds and notes (convertible or non–convertible)

- Money market funds and bank–sponsored short–term investment fund

- Resell agreements

- Commercial paper

- Options, futures and interest–rate swap agreements for hedging and risk control purpose, as well as for the creation of synthetic products, which qualify under any of the foregoing investment categories

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

- Puerto Rico Government Investment Trust Fund (PRGITF)

- Securities lending transactions

The SIPGO establishes limitations and other guidelines on amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policy provides guidelines on the institutions with which investment transactions can be entered into. The BOD of the Corporation will determine, from time to time, other transactions that the Corporation may enter into. Certain investment transactions that are generally considered to carry a greater than normal risk require the prior approval of Government Development Bank for Puerto Rico ("GDB"), a component unit of the Commonwealth, before being entered into.

The following table summarizes the fair value of investments held by the Corporation at June 30, 2009 by type and maturity. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. No investment in any one issuer other than the U.S. government and its agencies and the Commonwealth and its agencies and instrumentalities, represented 5% or more of total investments at June 30, 2009.

Investment Type	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
U.S. Treasury notes and bonds	$ -	$ 69,993,195	$ 30,059,855	$ 19,466,418	$ 119,519,468
U.S. sponsored agencies bonds and notes:					
Federal Home Loan Bank (FHLB)	6,300,537	3,006,825	1,064,060	-	10,371,422
Federal Home Loan Mortgage Corporation (FHLMC)	22,990,409	25,737,077	6,749,625	2,471,310	57,948,421
Federal National Mortgage Association (FNMA)	-	11,586,843	10,835,168	1,750,486	24,172,497
Federal Farm Credit Bank (FFCB)	-	16,750,809	-	-	16,750,809
Other	-	2,029,234	-	-	2,029,234
Mortgage–backed securities:					
Government National Mortgage Association (GNMA)	-	54,267	-	15,833,941	15,888,208
FNMA	365,214	1,920,806	5,140,850	45,148,082	52,574,952
FHLMC	-	6,460	177,810	40,796,096	40,980,366
Collateralized mortgage obligations (CMO's) issued and/or guaranteed by:					
GNMA	-	-	-	13,999,675	13,999,675
FNMA	-	-	1,575,142	1,555,536	3,130,678
FHLMC	-	-	-	5,054,904	5,054,904
Commercial mortgage	-	-	-	30,455,131	30,455,131
Other	-	-	-	7,655,184	7,655,184
Asset–backed securities	1,562,589	31,736,308	141,086	3,939,394	37,379,377
Corporate bonds and notes	20,698,070	185,918,929	114,803,006	37,205,862	358,625,867
Foreign government bonds and notes	-	17,439,105	-	-	17,439,105
U.S. municipal notes	-	-	-	1,599,120	1,599,120
Commonwealth agency bonds	-	3,214,661	3,147,177	17,220,918	23,582,756
Money market funds	51,796,289	-	-	-	51,796,289
Interest bearing deposits with GDB	282,420,299	-	-	-	282,420,299
Indexed certificates of deposit	-	116,157,573	-	-	116,157,573
External investment pools — fixed–income securities	37,464,480	-	-	-	37,464,480
Investments held under securities loans:					
Interest bearing deposits	42,856,336	-	-	-	42,856,336
Resell agreements	25,261,252	-	-	-	25,261,252
Commercial paper	39,480,626	-	-	-	39,480,626
Corporate bonds and notes	5,975,117	-	-	-	5,975,117
Total debt securities and fixed–income external investment pools	$537,171,218	$485,552,092	$173,693,779	$244,152,057	1,440,569,146
Equity securities					199,355,635
External investment pools — equity securities:					
Russell 1000 Growth Index Fund					2,207,414
Invesco Structured Small Cap Equity Fund					26,950,516
Guayacan Fund of Funds III, L.P.					2,875,341
Guayacan Private Equity Fund L.P. II					2,840,358
Other					517,671
Total					$1,675,316,081

As of June 30, 2009, investments were classified as current and non–current in the accompanying statement of net assets as follows:

Description	Amount
Current assets:	
Cash equivalents	$ 437,814,802
Investments in debt and equity securities	334,103,351
Total current assets	771,918,153
Non–current assets	903,397,928
Total	$1,675,316,081

The Corporation's investments presented as cash equivalents as of June 30, 2009 are comprised of the following:

Description	Amount
Interest bearing deposits with GDB:	
Due on demand	$ 191,440,063
Certificates of deposit, due within two months	90,980,236
	282,420,299
Interest bearing deposits held under securities loans:	
Certificates of deposit with other banks, due within two months	18,000,172
Foreign certificates of deposit with other banks, due within two months	24,856,164
	42,856,336
Investments in debt securities held under securities loans:	
Commercial paper, due within two months	35,480,626
Resell agreements, due overnight	25,261,252
	60,741,878
Investments in money market funds	51,796,289
Total	$437,814,802

Investments in fixed–income external investment pools had an average maturity of less than 60 days; accordingly, they were presented as investments with maturity of less than one year. These investments include $8,455,973 invested with the Puerto Rico Government Investment Trust Fund (the "PRGITF"), a government–sponsored pool, which is administered by GDB. The PRGITF may purchase only high quality securities denominated in U.S. dollars that the investment advisors believe present minimal credit risk. The Corporation was exposed to custodial credit risk. This pool is subject to regulatory oversight by the Commissioner of Financial Institutions of Puerto Rico. The fair value of the pool is the same as the fair value of the pool shares.

The fair value of investments in limited partnerships as of June 30, 2009, amounted to approximately $5.7 million. The allocations of net gain and net loss to limited partners are based on certain percentages, as established in the limited partnership agreements. The investments in limited partnerships were as follows:

- During fiscal year 2009, an additional investment of approximately $1,214,000 was made in the Guayacan Private Equity Fund L.P. II, a Delaware limited partnership created by Grupo Guayacan, Inc., as General Partner, bringing the total investment at June 30, 2009 to $2,875,341. The Corporation has a total commitment of $10.0 million. This fund seeks to provide investors with a superior investment return and extensive diversification by investing in nineteen (19) private equity investment partnerships in the United States and Europe. This fund also invests a portion of its assets in a Puerto Rico based private equity investment entity.

- During fiscal year 2009, an additional investment of approximately $1,778,000 was made in the Guayacan Fund of Funds III, L.P., a limited partnership organized in April 2007, pursuant to the laws of the State of Delaware, bringing the total investment at June 30, 2009 to $2,840,358. The Corporation has a total commitment of $40.0 million. This partnership intends to seek out, invest in, and add value to companies, which will be based or operating in Puerto Rico or in companies whose products or services are targeted at the U.S. Hispanic market, with specific interest in those companies where Advent–Morro's Equity Partners, Inc. Puerto Rico contact, know–how and track record can be leveraged to enhance investment selection and post–investment value–add. Guayacan Private Fund of Funds III, L.P. will strive to have a balanced mix of portfolio investments primarily focusing on later stage opportunities such as: expansion financing, leveraged buyouts, management buyouts, and recapitalizations. This partnership may invest in de–novo companies that are being set up to enter established industries via market consolidation opportunities and/or internal growth.

At June 30, 2009, the Corporation has variable rate interest investments which reset as follows at 100% of an interest rate index plus a spread, as follows:

Investment Type	**Reset**	**Total**
Mortgage–backed securities:		
FNMA	Monthly	$ 6,826,898
FHLMC	Monthly	5,768,899
CMO's issued and/or guaranteed by:		
GNMA	Monthly	4,192,753
Commercial mortgage	Monthly	12,890,977
Other	Monthly	6,351,673
Asset–backed securities	Monthly	240,032
Corporate bonds and notes	Quarterly	12,565,710
Corporate bonds and notes	Semiannually	5,859,872
Commonwealth agency bonds	Quarterly	838,094
Investments held under securities loans:		
Interest bearing deposits	Quarterly	2,500,000
Commercial paper	Quarterly	4,000,000
Corporate bonds and notes	Daily	2,000,160
Corporate bonds and notes	Quarterly	3,974,957
Total		$68,010,025

The credit risk related to investments is the risk that debt securities in the Corporation's portfolio will decline in price or fail to make principal and interest payments when due because the issuer of the security experiences a decline in the financial condition. The Corporation limits its credit risk by investing principally in high quality investments (BBB or better, according to Standard and Poor's or other equivalent rating agencies when maturities are longer than a year). In addition, the Corporation restricts investment in certain securities to avoid concentration, increase duration, and or types of securities.

All of the Corporation's investments in U.S. Treasury securities and mortgage–backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government. The credit quality ratings for investments in debt securities, excluding U.S. Treasury securities and mortgage–backed securities guaranteed by GNMA, at June 30, 2009 are as follows:

Investment Type	Credit Risk Rating AAA to A-	BBB+	BBB	BBB-	BB+	BB	BB-	CCC	Not Rated	Total
U.S. sponsored agencies bonds and notes:										
FHLB	$ 10,371,422	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,371,422
FHLMC	57,948,421	-	-	-	-	-	-	-	-	57,948,421
FNMA	24,172,497	-	-	-	-	-	-	-	-	24,172,497
FFCB	16,750,809	-	-	-	-	-	-	-	-	16,750,809
Other	2,029,234	-	-	-	-	-	-	-	-	2,029,234
Mortgage–backed securities:										
FNMA	52,574,952	-	-	-	-	-	-	-	-	52,574,952
FHLMC	40,980,366	-	-	-	-	-	-	-	-	40,980,366
CMO's issued and/or guaranteed by:										
FNMA	3,130,678	-	-	-	-	-	-	-	-	3,130,678
FHLMC	5,054,904	-	-	-	-	-	-	-	-	5,054,904
Commercial mortgage	30,455,131	-	-	-	-	-	-	-	-	30,455,131
Other	4,805,398	782,683	583,947	-	-	-	558,374	924,782	-	7,655,184
Asset–backed securities	37,379,377	-	-	-	-	-	-	-	-	37,379,377
Corporate bonds and notes	266,927,871	44,840,808	35,076,791	9,084,306	1,765,280	-	194,639	-	736,172	358,625,867
Foreign government bonds and notes	17,439,105	-	-	-	-	-	-	-	-	17,439,105
U.S. municipal notes	1,599,120	-	-	-	-	-	-	-	-	1,599,120
Commonwealth agency bonds	6,854,516	838,094	3,733,706	12,156,440	-	-	-	-	-	23,582,756
Money market funds	51,796,289	-	-	-	-	-	-	-	-	51,796,289
Interest bearing deposits with GDB	282,420,299	-	-	-	-	-	-	-	-	282,420,299
Indexed certificates of deposit	-	-	-	-	37,177,774	36,987,974	-	-	41,991,825	116,157,573
External investment pools — fixed–income securities	37,464,480	-	-	-	-	-	-	-	-	37,464,480
Investments held under securities loans:										
Interest bearing deposits	42,856,336	-	-	-	-	-	-	-	-	42,856,336
Resell agreements	25,261,252	-	-	-	-	-	-	-	-	25,261,252
Commercial paper	39,480,626	-	-	-	-	-	-	-	-	39,480,626
Corporate bonds and notes	5,975,117	-	-	-	-	-	-	-	-	5,975,117
Total	$1,063,728,200	$46,461,585	$39,394,444	$21,240,746	$38,943,054	$36,987,974	$753,013	$924,782	$42,727,997	$1,291,161,795

Interest bearing deposits with GDB and with other banks held under securities lending transactions (see Note 10) are uninsured and uncollateralized. These deposits are exposed to custodial credit risk.

Negotiable indexed certificates of deposit were entered with Puerto Rico commercial banks and are insured and collateralized with securities pledged by the banks and held by a trustee of the Treasury Department of the Commonwealth. The term of these indexed certificates of deposit is five years and the return on each instrument is linked to an underlying basket of the following five indexes: S&P Index Fund, S&P Small Cap 600 Index, S&P Mid Cap 400 Index, MSCI EAFE Index Fund and MSCI Emerging Markets Index Fund.

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

As of June 30, 2009, investment maturities as a percentage of total debt securities and fixed–income external investment pools are as follows:

Maturity	Maximum Maturity
Within one year	37 %
After one to five years	34
After five years to ten years	12
After ten years	17

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

As of June 30, 2009, the Corporation had the following investments denominated in foreign currency:

Description	Currency	Fair value
Money market funds	Euro	$ 3,923
	Hong Kong Dollar	23,165
	Singapore Dollar	60,050
Total money market funds		87,138
Interest bearing deposits held under securities loans	Euro	24,856,164
Common stock	Australian Dollar	1,277,887
	British Pound	8,363,725
	Canadian Dollar	1,443,687
	Euro	15,266,115
	Hong Kong Dollar	2,267,011
	Japanese Yen	12,252,037
	Norwegian Krone	490,740
	Swedish Krona	771,485
	Swiss Franc	3,638,061
Total common stock		45,770,748
Total		$70,714,050

Custodial credit risk related to investments is the risk that, in the event of failure of the counterparty to a transaction, the Corporation may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2009, all securities held in portfolio were registered in the name of the Corporation and were held in the possession of the Corporation's custodian banks, JP Morgan Chase Bank, N.A. and the Bank of New York Mellon, except for securities lent (see Note 10). At June 30, 2009, money market funds with a carrying value of $9,289,000 were held by counterparties of derivative instrument transactions (see Note 15).

Interest and dividend income for the year ended June 30, 2009, consist of the following:

Description	Amount
Interest income on interest bearing deposits with GDB	$ 8,011,200
Interest income on investments	43,349,110
Dividend income on investments	4,498,649
Dividend income on investment in PRGITF	169,235
Interest income on investments in cash and non–cash collateral received on securities lending transactions	1,739,108
Other interest income	334,206
	58,101,508
Less investment managers fees	(3,210,241)
Total interest and dividend income — net	$ 54,891,267

Net decrease in the fair value of investments for the year ended June 30, 2009, consists of the following:

Description	Amount
Gross realized gains	$ 22,808,939
Gross realized losses	(92,683,740)
Net decrease in fair value	(16,800,371)
Total	$ (86,675,172)

4. ACCOUNTS RECEIVABLE — NET

Accounts receivable as of June 30, 2009, consist of:

Description	Amount
Insurance premiums receivable, includes estimated additional premium — net of allowance for uncollectible insurance premiums of $252,726,216	$ 84,631,338
Interest and dividends receivable	9,613,809
Securities sold but not yet delivered	8,615,115
Employee accounts receivable, collateralized with motor vehicles — net of allowance for uncollectible accounts of $449,614	8,222,057
Other accounts receivable — net of allowance for uncollectible accounts of $136,554,838	3,078,000
Total	$ 114,160,319

Insurance premiums receivable include an estimate for additional premiums of $59,559,000. The Corporation follows a policy of not charging–off uncollectible insurance premiums against the related allowance for uncollectible accounts. Other accounts receivable mainly include the portion of insurance premiums of previously uninsured employers considered to be collectible.

5. INVENTORIES

Inventories as of June 30, 2009, consist of:

Description	Amount
Medicines and medical supplies	$7,286,883
Office materials and supplies	674,402
Total	$7,961,285

6. CAPITAL ASSETS — NET

The activity of capital assets for the year ended June 30, 2009, is as follows:

Description	Balance June 30, 2008	Increase	Decrease	Balance June 30, 2009
Capital assets not subject to depreciation and amortization:				
Land	$ 5,860,166	$ -	$ -	$ 5,860,166
Land–under capital lease	7,150,000	-	-	7,150,000
	13,010,166	-	-	13,010,166
Capital assets subject to depreciation and amortization:				
Buildings and improvements	96,168,564	665,346	-	96,833,910
Medical and office equipment	60,534,087	1,377,527	(7,634,193)	54,277,421
Motor vehicles	801,683	-	(17,567)	784,116
Assets under capital leases:				
Building and improvements	27,850,000	-	-	27,850,000
Office equipment	4,490,886	-	-	4,490,886
	189,845,220	2,042,873	(7,651,760)	184,236,333
Less accumulated depreciation and amortization:				
Buildings and improvements	(35,950,679)	(2,822,002)	-	(38,772,681)
Medical and office equipment	(54,161,121)	(2,071,221)	7,634,193	(48,598,149)
Motor vehicles	(579,558)	(141,199)	17,567	(703,190)
Assets under capital leases:				
Building and improvements	(7,426,667)	(928,333)	-	(8,355,000)
Office equipment	(4,490,886)	-	-	(4,490,886)
	(102,608,911)	(5,962,755)	7,651,760	(100,919,906)
Capital assets being depreciated and amortized — net	87,236,309	(3,919,882)	-	83,316,427
Capital assets — net	$ 100,246,475	$ (3,919,882)	$ -	$ 96,326,593

As of June 30, 2009, the net carrying value of assets under capital leases amounted to $26,645,000. Amortization of assets under capital leases amounted to $928,333 for the year ended June 30, 2009.

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

The liability for incurred but unpaid benefits and benefit adjustment expenses is based on historical claims experience data, assumptions, and projections as to future events, including claims frequency, severity, persistency and inflationary trends determined by an independent actuarial study. This liability has been discounted at 3.25% in 2009. The actuarial study considered the experience of the Corporation from fiscal years 1994–1995 to 2008–2009, and included estimates for cases reported that have not been adjudged and cases incurred but not reported. The assumptions used in estimating and establishing the liability is reviewed annually based on current circumstances and trends. Any resulting adjustments are considered to be a change in an accounting estimate and accounted for as an increase (decrease) to expenses of the Corporation during the current period. The increase in the discounting factor from 2% in 2008 to 3.25% in 2009 resulted in a decrease to the liability for incurred but unpaid benefits and benefit adjustment expenses of $62.8 million.

The Corporation has established a liability for both, reported and unreported insured events, which include estimates of future payment of benefits and related benefit adjustment expenses. The liability for incurred but unpaid benefits and benefit adjustment expenses as of June 30, 2009, consists of:

Description	Amount
Compensation benefits:	
Cases adjudged:	
Long–term partial disability	$ 21,166,038
Long–term total disability	188,445,777
Death	34,430,991
	244,042,806
Cases reported not adjudged and cases incurred but not reported:	
Short-term disability (per diem)	103,691,000
Long–term partial disability	158,696,962
Long–term total disability	65,903,223
Death	1,511,009
	329,802,194
Total compensation benefits	573,845,000
Medical benefits	109,928,000
Loss adjustment expense, including legal fees	54,702,000
Total	$738,475,000

As of June 30, 2009, the liabilities for incurred but unpaid benefits and for benefit adjustment expenses have been included in the accompanying statement of net assets as follows:

Description	Amount
Current liabilities	$ 186,925,000
Non–current liabilities	551,550,000
Total	$ 738,475,000

The following provides a reconciliation of the beginning and ending balance for the liability for incurred but unpaid benefits and benefits adjustment expenses for the year ended June 30, 2009:

Description	Amount
Liability for incurred but unpaid benefits and benefit adjustment expenses — beginning of year	$ 702,355,000
Incurred benefits related to:	
Insured events of the current year	507,407,367
Insured events of the prior years	26,412,141
Total incurred benefits	533,819,508
Benefit payments related to:	
Insured events of the current year	(330,542,298)
Insured events of the prior years	(167,157,210)
Total benefit payments	(497,699,508)
Liability for incurred but unpaid benefits and benefit adjustment expenses — end of year	$ 738,475,000

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2009, consist of:

Description	Amount
Securities purchased but not yet received	$ 9,524,424
Accounts payable	71,522,895
Accruals for vacations, sick leave, Christmas bonus, salary increases, compensatory time and other fringe benefits	64,515,777
Early retirement plan and other retirement benefits	15,463,620
Postemployment benefits other than pensions (see Note 17)	15,662,847
Accruals for claims and contingencies (see Note 20)	9,147,594
Accrued interest payable to GDB	15,586,178
Total	$201,423,335

As of June 30, 2009, accounts payable and accrued liabilities were classified as current and non–current in the accompanying statement of net assets as follows:

Description	Amount
Current liabilities:	
Accounts payable	$ 81,047,319
Accrued liabilities	96,810,714
Non–current liabilities — accrued liabilities	23,565,302
Total	$201,423,335

9. ACCRUAL FOR REIMBURSEMENT OF PREMIUMS

As of June 30, 2009, the accrual for reimbursement of premiums was classified as current and non-current in the accompanying statement of net assets as follows:

Description	Amount
Current liabilities	$ 60,068,000
Non–current liabilities	77,480,000
Total	$137,548,000

The reimbursement of insurance premiums for the year ended June 30, 2009, amounted approximately to $108,203,000, which includes a current year charge of $44,407,000 to reflect changes in the accrual for reimbursement of premiums determined by an independent actuary.

10. SECURITIES LENDING OBLIGATIONS

The Commonwealth statutes and the Corporation's BOD policies permit the Corporation to use its investments to enter into securities lending transactions. The Corporation's securities custodian, as agent of the Corporation, manages the securities lending program and receives cash collateral, securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the Corporation unless the borrower defaults. The collateral requirement is equal to 102 percent for securities issued in the United States and 105 percent for securities issued outside of the United States, of the fair value of the security lent. Additional collateral has to be provided by the next business day if the collateral fair value falls below the fair value of the securities lent. At year–end, the Corporation has no credit risk exposure to borrowers because the amounts the Corporation owes the borrowers exceed the amounts the borrowers owe the Corporation. Contracts with the lending agents require them to indemnify the Corporation if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Corporation for income distributions by the securities' issuers while the securities are on loan.

All security loans can be terminated on demand by either the Corporation or the borrower. In lending securities, the term to maturity of the securities loans is matched with the term to maturity of the investment made with the cash collateral. Such matching existed at year–end.

Securities lent as of June 30, 2009 had a fair value of $175,386,414 and were secured with collateral received with a fair value of $178,994,859.

Securities lent for which cash was received as collateral as of June 30, 2009, consist of:

Description	**Amount**
U.S. Treasury notes and bonds	$ 32,694,580
U.S. sponsored agencies bonds and notes	24,672,490
Asset–backed securities	862,196
Corporate bonds and notes	23,024,007
Foreign government bonds and notes	2,807,476
Equity securities	25,585,846
External investment pools	1,649,110
Total	$111,295,705

Cash collateral received as of June 30, 2009 amounted to $113,573,331 (see Notes 2 and 3) and was invested as follows:

Description	**Amount**
Commercial paper	$ 39,480,626
Corporate bonds and notes	5,975,117
Resell agreements	25,261,252
Certificates of deposit with other banks	18,000,172
Foreign certificates of deposit with other banks	24,856,164
Total	$113,573,331

In addition, the Corporation had the following lending obligations as of June 30, 2009 for which securities were received as collateral:

	Fair Value	
Description	**Securities Lent**	**Collateral Received**
U.S. Treasury notes and bonds	$60,771,796	$62,036,222
U.S. sponsored agencies bonds and notes	1,642,817	1,675,684
Mortgage–backed securities — FHLMC	1,676,096	1,709,622
Total	$64,090,709	$65,421,528

Cost of securities lending transactions for the year ended June 30, 2009 consist of the following:

Description	**Amount**
Borrower rebates	$ 641,210
Agent fees	439,155
Total	$1,080,365

11. NOTE PAYABLE TO GDB

On November 17, 2006, the Governor of the Commonwealth enacted Law No. 249, which among other things, created the Special Health Fund to cover a deficiency of resources experienced by the "Administración de Servicios de Salud" (ASES) in the implementation of the Puerto Rico Health Reform and other needs of the "Administración de Servicios Médicos de Puerto Rico" (ASEM). Provisions of Law No. 249 authorized GDB to extend a loan of $253 million to the Special Health Fund. Law No. 249 also requires annual contributions from the Corporation for a period of six (6) years, to cover the payments of principal and interest on the loan.

As of June 30, 2009, outstanding loan balance is detailed as follows:

Due Date	Principal Payment
Past due	$ 59,400,000
September 15, 2009	46,400,000
September 15, 2010	46,400,000
September 15, 2011	46,400,000
September 15, 2012	44,400,000
	243,000,000
Less current portion	(105,800,000)
Non–current portion	$ 137,200,000

The activity of the note payable to GDB for the year ended June 30, 2009, is as follows:

Balance June 30, 2008	Advances	Payments	Balance June 30, 2009
$253,000,000	$ -	$10,000,000	$243,000,000

The loan bears interest at three–month LIBOR, plus 25 basis points (1.44% at June 30, 2009). Law No. 249 provides the Corporation to recover the contributions made as part of the debt services through annual appropriations under "Resolución Conjunta del Presupuesto General del Gobierno del Estado Libre Asociado de Puerto Rico" for each fiscal year. As a result of a legislative appropriation, on July 3, 2008, the Commonwealth made a payment of $10.0 million to GDB, which was applied to the loan principal. This recovery was recorded as a transfer from other governmental agencies (see Note 14).

This loan requires the Corporation to comply with certain restrictive covenants, which, in the event of non–compliance, provide GDB the right to declare the outstanding debt as due and payable in cancellation of the loan agreement. As of June 30, 2009, the Corporation was not in compliance with the scheduled payments, as reflected above. On October 14, 2010, GDB waived this non–compliance event. On July 1, 2009 and January 7, 2010, the Corporation made principal payments to GDB loan of $13,000,000 and $10,000,000, respectively, and interest payments of $15,586,178 and $789,436, respectively. The Corporation is currently renegotiating the terms of the note payable to GDB.

12. OTHER NOTES PAYABLE

During 1999, the Corporation acquired the facilities where four regional offices are located. In consideration for the facilities acquired, the Corporation entered into non–interest bearing financing agreements with the sellers, payable on an installment basis and collateralized with first mortgages over the underlying facilities. The original terms of these notes payable are as follows:

Note	Description	Original Balance
1	Non–interest bearing note, due in September 2018, payable in 40 semiannual installments	$ 35,001,060
2	Non–interest bearing note, due in September 2018, payable in 40 semiannual installments	21,419,834
3	Non–interest bearing note, due in October 2018, payable in 40 semiannual installments	16,619,468
4	Non–interest bearing note, due in March 2019, payable in 40 semiannual installments	53,285,454
	Total payments	126,325,816
	Less imputed interest at the inception of the notes	(54,957,702)
	Total original balance	$ 71,368,114

The activity of these notes payable for the year ended June 30, 2009, is as follows:

Description	Balance June 30, 2008	Advances	Payments	Balance June 30, 2009
Note payable (gross):				
Note 1	$ 20,068,334	$ -	$ (1,750,570)	$ 18,317,764
Note 2	10,696,712	-	(891,351)	9,805,361
Note 3	7,485,930	-	(599,496)	6,886,434
Note 4	31,845,671	-	(2,626,250)	29,219,421
Total	$ 70,096,647	$ -	$ (5,867,667)	$ 64,228,980
Portion representing interest:				
Note 1	$ (5,733,964)	$ -	$ 924,605	$ (4,809,359)
Note 2	(3,093,085)	-	491,063	(2,602,022)
Note 3	(2,123,902)	-	334,144	(1,789,758)
Note 4	(9,787,836)	-	1,489,534	(8,298,302)
Total	$ (20,738,787)	$ -	$ 3,239,346	$ (17,499,441)
Principal of note payable:				
Note 1	$ 14,334,370	$ -	$ (825,965)	$ 13,508,405
Note 2	7,603,627	-	(400,288)	7,203,339
Note 3	5,362,028	-	(265,352)	5,096,676
Note 4	22,057,835	-	(1,136,716)	20,921,119
Total	$ 49,357,860	$ -	$ (2,628,321)	$ 46,729,539

Maturities of these notes payable as of June 30, 2009, are as follows:

Fiscal Year Ending June 30,	Present Value Notes Payable	Unamortized Discount	Undiscounted Value Notes Payable
2010	$ 3,007,645	$ 3,058,489	$ 6,066,134
2011	3,418,609	2,851,944	6,270,553
2012	3,863,533	2,617,571	6,481,104
2013	4,344,908	2,353,075	6,697,983
2014	4,865,352	2,055,994	6,921,346
2015–2019	27,229,492	4,562,368	31,791,860
	46,729,539	17,499,441	64,228,980
Less current portion	(3,007,645)	(3,058,489)	(6,066,134)
Non–current portion	$43,721,894	$14,440,952	$58,162,846

13. OBLIGATION UNDER CAPITAL LEASE

In fiscal year 2000, the Corporation acquired under a capital lease agreement, the facility where a regional office is located. The agreement requires the Corporation to make payments of approximately $111.7 million over 30 years.

The activity of the obligation under capital lease for the year ended June 30, 2009, is as follows:

Description	Balance June 30, 2008	Advances	Payments	Balance June 30, 2009
Future payments on assets under capital lease	$ 81,947,251	$ -	$(3,724,875)	$ 78,222,376
Portion representing interest	(49,402,448)	-	3,309,423	(46,093,025)
Present value minimum lease payments	$ 32,544,803	$ -	$ (415,452)	$ 32,129,351

The schedule of future minimum lease payments under this lease agreement, together with the present value of such minimum lease payments for the year ended as of June 30, 2009, is as follows:

Fiscal Years Ending June 30,	Present Value Capital Lease	Imputed Interest	Undiscounted Value Capital Lease
2010	$ 459,992	$ 3,264,883	$ 3,724,875
2011	509,307	3,215,568	3,724,875
2012	563,909	3,160,966	3,724,875
2013	624,365	3,100,510	3,724,875
2014	691,302	3,033,573	3,724,875
2015–2019	4,740,465	13,883,910	18,624,375
2020–2024	7,888,030	10,736,345	18,624,375
2025–2029	13,125,510	5,498,865	18,624,375
2030	3,526,471	198,405	3,724,876
	32,129,351	46,093,025	78,222,376
Less current portion	(459,992)	(3,264,883)	(3,724,875)
Non–current portion	$31,669,359	$42,828,142	$74,497,501

14. TRANSFERS TO (FROM) OTHER GOVERNMENTAL AGENCIES

Transfers to (from) other governmental agencies during the year ended June 30, 2009, are as follows:

Description	Amount
Industrial Commission of Puerto Rico	$ 23,489,281
Department of Labor and Human Resources:	
Occupational Safety and Health Office	7,854,000
Labor Standards Offices	10,989,000
Department of the Family — Vocational Rehabilitation Program	600,000
Puerto Rico Housing Finance Authority Housing Sub–Program	1,000,000
Labor Affairs Office	140,000
Special Health Fund — Law No. 249 recovery from Commonwealth (see Note 11)	(10,000,000)
Total	$ 34,072,281

The expenses incurred by the Industrial Commission of Puerto Rico are covered by the Corporation under the provisions of Law No. 45. These expenses shall not exceed 4% of the total of insurance premiums collected during the previous fiscal year.

The transfers to the Department of Labor and Human Resources, Occupational Safety and Health and Labor Standards Offices, are in accordance with the applicable legislation as of June 20, 1990, which authorizes the Corporation to transfer certain amounts as prescribed by law to cover operational expenses of the above mentioned offices.

The transfer to the Department of the Family is made under the provisions of Law No. 243, of July 23, 1974, which requires the Corporation to transfer to the Vocational Rehabilitation Program an amount not to exceed $600,000 each year for the vocational rehabilitation of injured workers. As of June 30, 2009, the amount due under this Program amounted to $600,000.

The transfer to Puerto Rico Housing Finance Authority is made under the provision of law No. 59, of August 9, 1991, amended on July 23, 1998, which requires the Corporation to transfer to the Housing Sub–Program an amount of $1,000,000 each year for the workers of the Corporation and their dependents. As of June 30, 2009, the amount due under this Sub–Program amounted to $7,000,000.

15. DERIVATIVE INSTRUMENTS NOT DESIGNATED AS HEDGE TRANSACTIONS

The Corporation entered into derivative instruments not designated as hedge transactions to the extent and in a manner consistent with the Corporation's SIPGO, to establish an asset class exposure or in order to affect a change in the overall allocation strategy of the investment portfolio or to affect currency hedging for non–US dollar positions. Derivative instruments not designated as hedge transactions consist of spot currency contracts and forward currency contracts. The financial exposure is managed through an independent money manager in accordance with the Corporation's investment policies. The Corporation is exposed to foreign currency risk and market interest risk as a result of the changes in the fair value of the derivative.

For the year ended June 30, 2009, the Corporation has recorded a net realized loss on derivative instruments not designated as hedge transactions amounting to approximately $6,153,000. In addition, the Corporation had an unrealized holding net loss amounting to approximately $14,000 on derivative instruments not designated as hedge transactions with a notional amount of $28,314,000 as of June 30, 2009. At June 30, 2009, the specific collateral held by counterparties consisted of a money market fund with a carrying value of $9,289,000.

16. EMPLOYEES' RETIREMENT PLAN

Defined Benefit Pension Plan — The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "Retirement System"), 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. All regular employees of the Corporation hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the Retirement System as a condition of their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

The Retirement System provides retirement, death, and disability benefits pursuant to legislation enacted by the Legislature of the Commonwealth. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and non–occupational disabilities. However, a member must have at least 10 years of service to receive non–occupational disability benefits.

Members who have attained 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $200 per month.

Participants who have completed 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% of the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Corporation is required by the same statute to contribute 9.275% of each participant's gross salary.

Defined Contribution Plan — The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to establish, among other things, a defined contribution savings plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the defined benefit pension plan, received a refund of their contributions and were rehired on or after January 1, 2000 (in which case they would have received a refund of their prior contributions), become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined benefit pension plan had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to individual accounts established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semiannually.

The Corporation is required by Act No. 305 to contribute 9.275% of each participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump–sum payment. In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries. Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

Total employee contributions for the defined benefit pension plan and the defined contribution plan during the year ended June 30, 2009 amounted to approximately $16,003,000 and $1,870,000 respectively. The Corporation's contributions during the years ended June 30, 2009, 2008, and 2007 amounted to approximately $20,095,000, $19,580,000, and $19,916,000, respectively. These amounts represented 100% of the required contribution for the corresponding year. Individual information for each option is not available since the allocation is performed by the Retirement System.

17. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

The Corporation provides the following OPEB:

- Health and other health related benefits: medical, prescription drugs, dental, and vision benefits are provided together in a fully–insured health plan. Upon retirement, an eligible employee receives two years of non–contributory healthcare benefits from the Corporation and through its healthcare plan. The Corporation's healthcare plan covers medical, prescription drugs, vision, dental, and life insurance (see next paragraph). After the two years, the retiree can continue participation in the Corporation's plan (for lifetime) by contributing the difference between the plan premium and the Corporation's contribution of $35/month ($40/month for members of the "Union de Empleados de la Corporación del Fondo del Seguro de Estado") per retiree (including dependents, if any). The $35/month and $40/month contributions end when the retiree reaches 65 years of age and, thereafter, the retiree must contribute the full plan premium. Some retirees who retired under a special incentive program have the two–years extended (up to 7 years total). After the two–year period (or the special retirement program period), the retiree can continue the spouse or family coverage for the lifetime of the retiree.

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

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

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

- Retirement bonus benefit — Same eligibility as for the health benefits. Unionized doctors and unionized lawyers receive 25% of final salary as a lump sum and all other employees receive 30% of final salary as a lump sum.

- Disability benefit — To be eligible for temporary disability benefits, the employee must be a permanent full–time employee. To be eligible for total disability benefits, the employee must be a permanent full–time employee who meets the disability requirements of the Social Security Administration, Worker Compensation or the Retirement System. If the disabled does not so qualify then the disabled is terminated (can retire if eligible).

At June 30, 2009, membership in the Corporation's OPEB Program consisted of the following:

Retirees and beneficiaries currently receiving benefits	2,009
Current participating employees	4,108
Total membership	6,117

Funding Policy and Annual OPEB Cost — The required contribution is based on projected pay–as–you–go financing requirements. Benefits are actuarially calculated by an independent actuary.

The Annual OPEB Cost is calculated based on the annual required contribution of the employer (the "ARC"). The ARC is determined in accordance with plan provisions, demographic participant data, actuarial assumptions, actuarial cost method, and other actuarial methods prescribed by GASB Statement No. 45. While pre–funding is not required, the ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC will generally increase with benefit cost increases and participant growth; in addition, gains/losses resulting from demographic and/or assumption changes will also alter the ARC.

The following tables show the components of the Corporation's annual OPEB cost for the fiscal year ended June 30, 2009, the amount actually contributed to the OPEB Program, the change in the Corporation's net obligation and the funded status of the OPEB Program. The ARC and year–end net OPEB obligation were projected from the fiscal year 2008 results.

Net OPEB Obligation Movement:	**For the Year Ended June 30, 2009**
ARC	$ 13,441,650
Interest on the net OPEB obligation	291,220
Adjustments to the ARC	(533,890)
Annual OPEB cost (expense)	13,198,980
Employer contribution	(4,816,636)
Increase in the net OPEB obligation	8,382,344
Net OPEB obligation — beginning of year, as restated (see Note 22)	7,280,503
Net OPEB obligation — end of year	$ 15,662,847
Percentage of annual OPEB cost contributed	36.49 %
Funded Status:	
Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL) *	$ 118,355,710
Unfunded AAL *	$ 118,355,710
Funded ratio	0 %
Annual covered payroll	$ 218,896,766

* Forecasted for June 30, 2009 from July 1, 2007 valuation.

OPEB Actuarial Valuation — The following table shows the most significant actuarial methods and assumptions used to estimate the net OPEB obligation. As permitted by GASB Statement No. 45, the actuarial valuation is performed every two years.

Actuarial Methods and Assumptions:

Valuation year	July 1, 2007 – June 30, 2008
Actuarial cost method	Projected Unit Credit, level dollar
Amortization method	30 years for annual benefits and 15 years for one-time benefits, level dollar open amortization*
Asset valuation method	N/A
Discount rate	4.00 %
Projected payroll growth rate	4.00 %
Mortality rate	The blended healthy active employee/retiree RP–2000 Mortality table for males and females projected 10 years to 2010 using Scale AA is used for all non–disabled participants. The RP-2000 Disabled Retiree Mortality table is used for all current and future disabled participants.
Heath care cost trend rate for medical and prescription drugs	10% in fiscal 2008 based on actual increases, then 12% in fiscal 2009 decreasing by one percentage point per year to an ultimate of 5.0% in fiscal 2016 and after.

* Open amortization means a fresh–start each year for the cumulative unrecognized amount.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents information about the actuarial value of program assets relative to the actuarial accrued liability for benefits.

Calculations are based on the types of benefits provided at the time of each valuation and on the pattern of sharing of costs between the employer and members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal and contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

18. SEGREGATION OF FUND

The Corporation is required to maintain an adequate accounting system and to segregate the financial resources by funds, as defined by the Act, as amended. The provisions of the Act establish the segregation of the funds be based on their purposes, as defined.

As of June 30, 2009, the Corporation was required to account for the Death and Total Disability Fund (the "DTDF") and for the Reserve for Catastrophic Fund (the "RCF"). The DTDF recognizes the claims awarded to the workers (injured employees or its beneficiaries). The Corporation maintains a separate account to record the inventory of claims adjudicated, which is part of the liabilities for incurred but unpaid benefits and benefit adjustment expenses, reflected in the accompanying financial statements. As of June 30, 2009, the DTDF (adjudged cases) amounted to approximately $147,215,000 and the investments portfolio serves to fund the obligation incurred.

The RCF is required by the Article 23 of the Act, which serves to provide funds in an event of catastrophic situation. The provisions of Article 23 allow the Corporation to use the funds in the RCF to reduce any deficit incurred by the Corporation. As of June 30, 2009, the RCF amounted to approximately $13,499,000.

19. COMMITMENTS

Operating Lease Agreements — The Corporation rents certain of its administrative offices and clinics under non–cancelable long–term operating lease agreements. Rent expense for the year ended June 30, 2009, was approximately $23,018,000. The minimum future rental obligations under operating lease agreements are approximately as follows:

Fiscal Year Ending June 30,	Amount
2010	$12,715,000
2011	11,129,000
2012	7,989,000
2013	2,196,000
2014	201,000
Total	$34,230,000

See Note 14 for commitments with other governmental agencies.

20. CONTINGENCIES

The Corporation is included as defendant or co–defendant in several claims and lawsuits pending final resolution. The Corporation had medical malpractice insurance coverage through June 3, 1991, and for the period from December 31, 1996 to April 1, 2007. During the periods from June 4, 1991 to December 30, 1996 and from April 2, 2007 to present, the Corporation had no medical malpractice coverage. Management has recorded an accrual of approximately $9.1 million to cover claims and lawsuits that may be assessed against the Corporation, including malpractice cases not covered by the related policy.

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

During the year 2003, the Corporation filed various lawsuits in the District Court of Puerto Rico, seeking the cancellation of various contracts entered into by the Corporation for the acquisition of four (4) regional offices in prior years, under the premise that the actual terms are contrary to enacted legislation of the Commonwealth. Management, under the advice of their legal counsel, is of the opinion that these contracts were granted contrary to the best interests of the Corporation and is claiming the termination of the contracts plus undetermined damages. All of the defendants filed counter claims seeking the continuation of the terms of the related agreements, without claiming any monetary damages except one of the parties, which alleges damages of $31.0 million. Management believes, based on the opinion of legal counsel that the counter claims are without merits.

21. TRANSACTIONS WITH GOVERNMENTAL ENTITIES

During the year ended June 30, 2009, insurance premiums earned by the Corporation from the governmental sector are approximately as follows: $190,504,000 from the Commonwealth and its agencies and public corporations and $42,409,000 from the municipalities for a total amount of $232,913,000 from the governmental sector. These amounts represent approximately 31% of the total of premiums earned.

Interest bearing deposits with GDB, and its accrued interest receivable amounted to $282,420,299 and $541,101, respectively, as of June 30, 2009. Interest income earned on these deposits amounted to $8,011,200 for the year ended June 30, 2009.

The Corporation has invested $23,582,756 in the Commonwealth's agency bonds as of June 30, 2009.

Investment with the PRGITF, amounted to $8,455,973 as of June 30, 2009. Dividend income earned on this investment amounted to $169,235 for the year ended June 30, 2009.

Note payable to GDB and its accrued interest payable amounted to $243,000,000 and $15,586,178, respectively, as of June 30, 2009. Interest expense on this loan amounted to $6,456,949 for the year ended June 30, 2009.

Investment manager fees paid to GDB amounted to$1,053,939 for the year ended June 30, 2009.

For transfers to (from) other governmental agencies, see Note 14.

22. RESTATEMENT

Subsequent to the issuance of the Corporation's 2008 basic financial statements, management of the Corporation identified several errors in such previously issued financial statements, as follows:

- On November 17, 2006, the Governor of Puerto Rico enacted Law No. 249, which among other things, (1) created the Special Health Fund to cover a deficiency of resources experienced by the "Administración de Servicios de Salud" (ASES) in the implementation of the Puerto Rico Health Reform and other needs of the "Administración de Servicios Médicos de Puerto Rico" (ASEM), (2) authorized GDB to extend a loan of $253.0 million to the Special Health Fund, and (3) obligated the Corporation to repay the loan in full through periodic payments of principal and interest over a six-year period. In addition, Law No. 249 provides that the legislature may make annual appropriations in the Commonwealth's budget for the reimbursement to the Corporation of the payments of principal and interest made by the Corporation to the GDB. During fiscal 2007, GDB disbursed $253.0 million under the loan, however, the Corporation failed to recognize the full liability that Law No. 249 imposed upon the Corporation in its 2007 and 2008 basic financial statements and recognized only the obligation for the first installment under the loan and related interest in its 2008 basic financial statements. The cumulative effect of the correction of this error was to reduce the Corporation's fiscal 2009 beginning of year net assets by $235.8 million and to increase liabilities by an equal amount.

- On July 1, 2007, the Corporation adopted prospectively the provisions of GASB Statement No. 45. At June 30, 2008, the Corporation had a liability for postemployment benefits amounting to

$34.7 million based on an internally developed estimate. During fiscal 2009, the Corporation retained the services of an independent actuary to determine the actuarial liability for postemployment benefits resulting from the adoption of GASB Statement No. 45. As a result of the external actuarial valuation, management determined that the liability for postemployment benefits of the beginning of the fiscal year 2009 was overstated by $27.4 million. The cumulative effect of the correction of this error was to increase the Corporation's fiscal 2009 beginning of year net assets by $27.4 million and to decrease liabilities by an equal amount.

- As a result of an oversight, the accounts payable at June 30, 2008 did not include certain unclaimed amounts. The cumulative effect of the correction of this error was to decrease the Corporation's fiscal 2009 beginning of year net assets by $10.5 million and to increase the accounts payable by an equal amount.

- Pursuant to its accounting policies, the Corporation's cash and cash equivalents are comprised of cash on hand and in deposit and highly liquid instruments with original maturities of three months or less. As a result of an oversight, the Corporation's beginning of year cash and cash equivalents, as presented in the accompanying statement of cash flows, was incorrectly reported because it failed to consider substantially all of the Corporation's cash equivalents, which were incorrectly presented as investments. As a result, the Corporation's fiscal 2009 beginning of year cash and cash equivalents has been restated to include $409.8 million of cash equivalents misclassified as investments.

The following table set forth the previously reported and restated amount of selected items within the statement of net assets as of June 30, 2008:

	June 30, 2008	
	As Previously Reported	**As Restated**
Cash and cash equivalents	$ 5,293,736	$415,094,887
Net assets	746,082,040	527,184,773

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

TEN–YEAR CLAIMS DEVELOPMENT INFORMATION (AMOUNTS IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FISCAL YEAR ENDED JUNE 30

Description	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1) Projected gross earned premiums	$552,650	$598,019	$605,002	$653,037	$693,887	$729,206	$733,792	$740,860	$746,506	$731,561
2) Unallocated expense	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
3) Estimated ultimate awards at end of policy year	473,750	486,750	487,800	455,200	438,250	496,100	494,000	477,598	478,404	476,369
4) Awarded as of:										
12 months	182,466	187,331	205,937	204,587	220,232	245,159	260,638	266,889	269,569	276,197
24 months	254,095	262,311	269,097	271,467	287,801	317,854	330,546	336,490	337,774	
36 months	285,985	290,594	298,340	297,224	313,454	347,332	358,867	367,869		
48 months	300,962	305,745	312,038	310,119	325,917	361,764	374,105			
60 months	310,081	314,510	320,059	317,793	333,515	371,092				
72 months	315,912	320,299	325,512	325,229	338,640					
84 months	320,349	324,672	329,281	329,221						
96 months	323,239	328,104	332,358							
108 months	325,629	330,488								
120 months	327,565									
5) Re–estimated ultimate incurred:										
12 months	473,750	486,750	487,800	455,200	438,250	496,100	494,000	477,598	478,404	476,369
24 months	448,150	435,050	414,575	395,400	400,900	441,800	449,171	460,651	462,871	
36 months	398,650	390,350	377,025	367,250	374,500	428,502	446,943	456,440		
48 months	368,876	362,353	359,383	350,642	366,466	429,045	444,532			
60 months	354,742	352,120	352,393	350,550	366,579	429,753				
72 months	347,579	348,040	352,927	352,563	365,676					
84 months	344,684	348,185	351,956	352,536						
96 months	344,324	349,388	352,773							
108 months	345,335	349,553								
120 months	346,251									

NA = Not available

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
REQUIRED SUPLEMENTARY INFORMATION (UNAUDITED)
FISCAL YEAR ENDED JUNE 30, 2009

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) ALL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (2) (c)	UAAL as a Percentage of Covered Payroll (3) [(b) - (a)/(c)]
July 1, 2007	$ -	$ 109,732,923	$ 109,732,923	0 %	$ 218,896,766	50.1 %

Schedule of Employer Contributions:

Fiscal Year Ended	Annual Required Contribution (ARC)	Employer Contributions (1)	Percentage Contributed	Net OPEB Obligation
June 30, 2008	$12,829,776	$5,549,273	43.3 %	$7,280,503

(1) Since there is no funding, these are estimated cash plan premiums and other payments less estimated participant contributions.
(2) Estimated plan participant payroll as of June 30, 2008, includes only plan participants.
(3) Actuarial accrued liability as of the end of the fiscal year.