State Insurance Fund Corporation

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and
Required Supplementary Information
as of and for the Year Ended June 30, 2010, and
Independent Auditors' Report

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

TABLE OF CONTENTS

SCHERRER
HERNANDEZ & CO.
Member of Polaris International

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
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, 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial accounting systems used to record insurance premiums earned, collections and related adjustments are not adequate to ascertain that such transactions are properly recorded on a timely basis. Because of these deficiencies, premiums receivables, other receivables, due to employers, unearned premiums, accrual for reimbursement of premiums, insurance premiums earned, miscellaneous income-net, reimbursement of insurance premiums and credit for uncollectible insurance premiums might be materially different from those reported as of June 30, 2010 and for the year then ended.

In our opinion, except for the effect of such adjustments, if any, which might have been determined to be necessary because of the deficiencies described in the preceding paragraph, the financial statements referred to above, present fairly, in all material respects, the financial position of State Insurance Fund Corporation as of June 30, 2010, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22 to the financial statements, certain errors resulting in an overstatement of accounts payable and an understatement other notes payable previously reported as of June 30, 2009, were discovered by management of the Corporation during the current year. Accordingly, an adjustment amounting to $5,446,517 has been made to net assets - beginning of year as of June 30, 2010 to correct the error.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2011 on our consideration of the Corporation's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
State Insurance Fund Corporation
Page - 2 -

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying management's discussion and analysis is not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. We did not audit such information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information comprising the Ten-Year Claims Development Information and the Schedule of Funding Progress and Employer Contributions for Postemployment Benefits Other than Pensions on pages 54 and 55, is not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. We did not audit such information and express no opinion on it.

Scheuer Hernández & Co.

San Juan, Puerto Rico

March 4, 2011

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2012
Stamp 2511728 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

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 the Corporation as of and for the year ended June 30, 2010. 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.

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

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***.

The Corporation implemented Governmental Accounting Standards Board ("GASB") Statement No. 51, ***Accounting and Financial Reporting for Intangible Assets*** ("GASB No. 51"). This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies relating to recognition, initial measurement, and amortization, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The Statement requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered identifiable. Additionally, the Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. This Statement also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software. The Statement also establishes guidance specific to intangible assets related to amortization. Guidance is provided on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful lives are subsequently determined to no longer be indefinite due to a change in circumstances. The adoption of GASB No. 51 at July 1, 2009 did not have any effect on the Corporation's basic financial statements.

The Corporation also implemented GASB Statement No. 53, ***Accounting and Financial Reporting for Derivative Instrument*** ("GASB No. 53"). This Statement enhances the usefulness and comparability of derivative instrument information reported by state and local governments by providing a comprehensive framework for the recognition, measurement, and disclosure of derivative instrument transactions. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. A key provision of GASB Statement No. 53 is that certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value by governments in their basic financial statements. This provision should allow users of those financial statements to more fully understand a government's resources available to provide services. The application of interperiod equity means that changes in fair value are recognized in the reporting period to which they relate. The changes in fair value of hedging derivative instruments do not affect investment revenue but are reported as deferrals. Alternatively, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. The adoption of GASB No. 53 at July 1, 2009 did not have any effect on the Corporation's basic financial statements.

RESTATEMENT OF 2008 and 2009 BASIC FINANCIAL STATEMENTS

Subsequent to the issuance of the Corporation's 2009 basic financial statements, management of the Corporation identified several errors in such previously issued financial statements. As a result of oversights, the accounts payable at June 30, 2009 included an amount due to a governmental agency of $7.0 million for a law that was derogated in fiscal year 2004. Also, other notes payable were understated by an unamortized discount of $1.6 million. The cumulative effect of the correction of these errors was to increase the Corporation's fiscal 2009 beginning of year net assets by $4.4 million, to increase the other notes payable by $1.6 million and to decrease the accounts payable by $7.0 million at June 30, 2009 and to decrease the interest expense on notes payable and the transfers from other governmental agencies by approximately $87,000 and $1.0 million, respectively, for the year ended June 30, 2009.

The following table set forth the previously reported and restated amount of selected items within the statement of net assets as of June 30, 2009 and the statement of revenues, expenses, and changes in net assets for the year ended June 30, 2009:

	June 30, 2009	
Condensed statement of net assets (in thousands):	**As previously reported**	**As restated**
Current liabilities	$ 677,420	$ 670,420
Non–current liabilities	865,186	866,740
Total liabilities	1,542,606	1,537,160
Net assets:		
Invested in capital assetsrestricted net assets– net of related debt	17,468	15,914
Unrestricted	339,292	346,292
Total net assets	356,760	362,206
	For the year ended June 30, 2009	
Condensed statement of revenues, expenses, and changes in net assets (in thousands):	**As previously reported**	**As restated**
Non–operating expenses–net	($52,023)	($51,936)
Transfers to other governmental agencies–net	(34,072)	(33,072)
Changes in net assets	(170,425)	(169,338)
Prior period adjustments	-	4,359
Net assets – beginning of year	527,185	531,544
Net assets – end of year	356,760	362,206

Refer to Note 22 to the 2010 basic financial statements for additional information regarding the effect of the restatement on the beginning of year balances.

FINANCIAL HIGHLIGHTS

The following is the condensed financial position of the Corporation as of June 30, 2010 and 2009:

Condensed statement of net assets (in thousands):

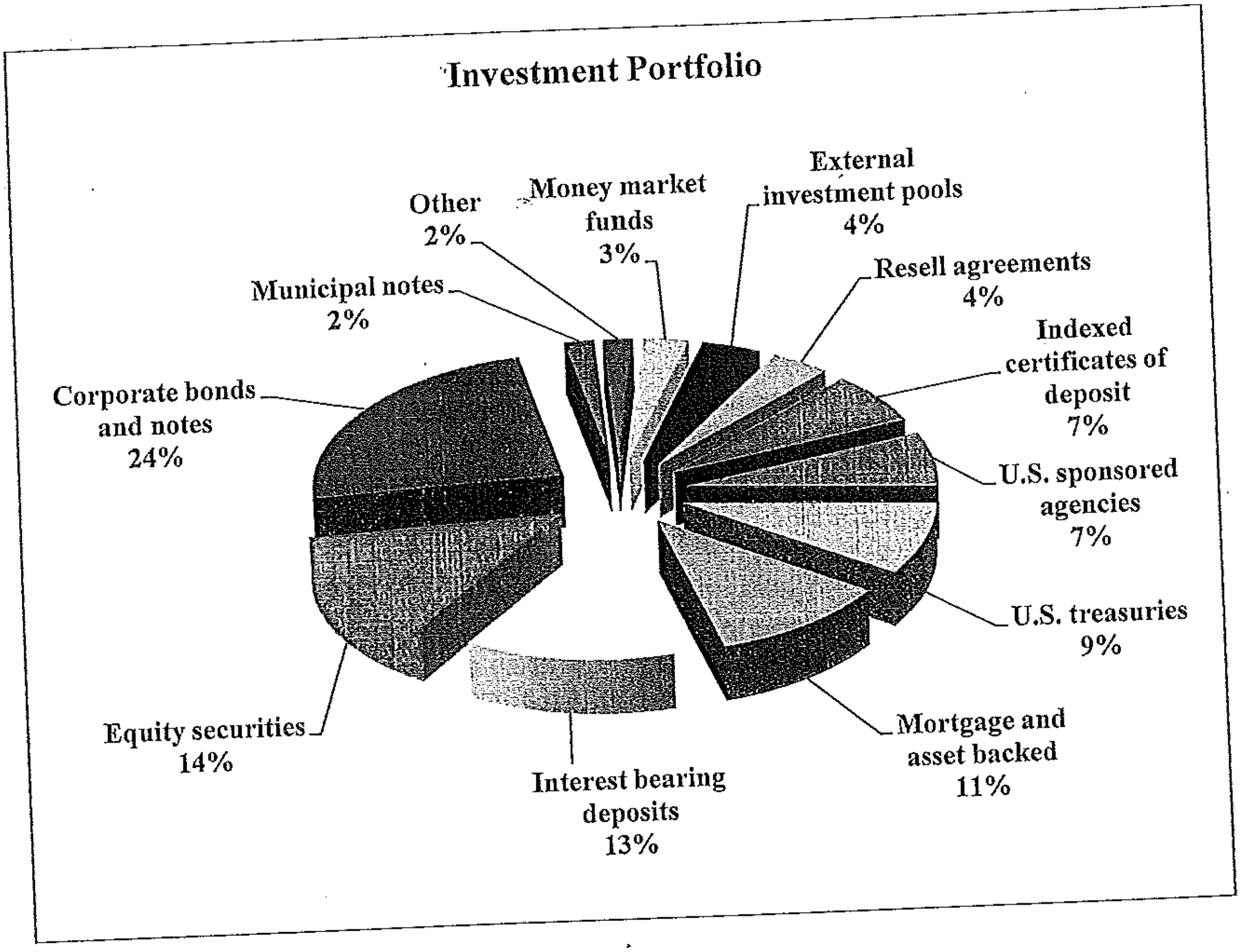
	2010	2009	Variance
Assets:			
Current assets	$ 850,768	$ 899,642	$ (48,874)
Non–current assets:			
Capital assets – net	92,830	96,326	(3,496)
Other noncapital assets	973,562	903,398	70,164
Total assets	$ 1,917,160	$ 1,899,366	$ 17,794
Liabilities:			
Current liabilities	$ 589,570	$ 670,420	$ (80,850)
Non–current liabilities	960,687	866,740	93,947
Total liabilities	1,550,257	1,537,160	13,097
Net assets:			
Invested in capital assets – net of related debt	17,357	15,914	1,443
Unrestricted	349,546	346,292	3,254
Total net assets	366,903	362,206	4,697
Total liabilities and net assets	$ 1,917,160	$ 1,899,366	$ 17,794

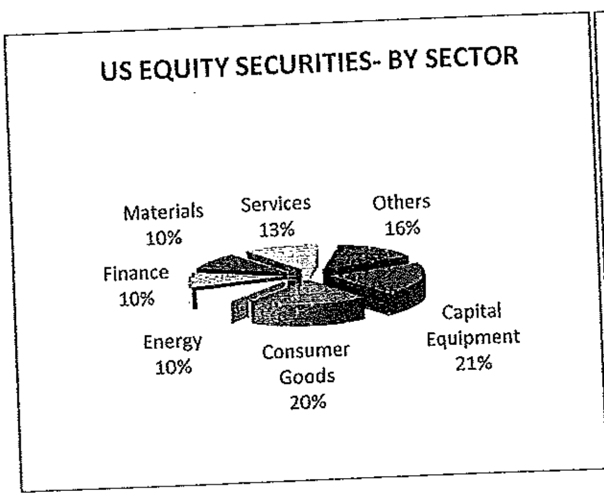
- **The Corporation's total assets increased by $17.8 million in 2010 (or 1%)**

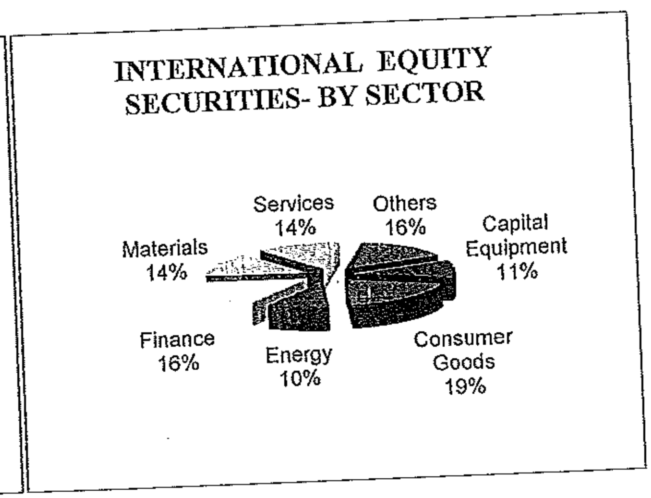
The Corporation's total assets increase was substantially driven by an increase on investments.

Investments, including those reported as cash equivalents and interest bearing deposits with Government Development Bank for Puerto Rico ("GDB"), increased by $21.2 million or 1%, from $1.68 billion at June 30, 2009, to $1.70 billion at June 30, 2010. The investments in debt and equity securities were positively impacted by the US market improvement in fiscal year 2010, which resulted in a net increase in fair value of investments of $89.3 million and in interest and dividend income, net of costs (investment managers' fees), of $42.7 million for the year ended June 30, 2010. For the year ended June 30, 2010, the return on investments, including those reported as cash equivalents, was 7.72%.

The following graphs present the distribution of the investment portfolio as of June 30, 2010:







Accounts receivable – net decreased by $75,000, from $114.2 million at June 30, 2009, to $114.1 million at June 30, 2010. The Corporation's accounts receivable are with employers and other entities in Puerto Rico.

Capital assets, net decreased by $3.5 million or 4%, from $96.3 million at June 30, 2009, to $92.8 million at June 30, 2010. The decrease in capital assets, net was due to the depreciation and amortization expense of $5.0 million which was partially offset by $1.5 million in acquisitions of capital assets during the year ended June 30, 2010.

- **The Corporation's total liabilities increased by $13.1 million in 2010 (or 1%)**

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 $39.7 million or 5% from $738.5 million at June 30, 2009, to $778.2 million at June 30, 2010. For the year ended June 30, 2010, incurred compensation and medical benefits amounted to $556.6 million; meanwhile, compensation and medical benefits payments amounted to $516.9 million for the year ended June 30, 2010. The increase in the liability for incurred but unpaid compensation and medical benefits, including benefit adjustment expenses, was partially offset by an increase in the discounting factor from 3.25% in fiscal year 2009 to 3.80% in fiscal year 2010 which resulted in a decrease of this liability by $18.2 million. 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 $133.7 million as of June 30, 2010, a decrease of $3.9 million or 3% when compared to the prior year balance. The discounting of this liability in 2010, using a discount factor of 1.70%, resulted in a decrease of this accrual of $5.9 million as of June 30, 2010.

Accounts payable and accrued liabilities decreased by $30.8 million or 16% from $194.4 million at June 30, 2009, to $163.6 million at June 30, 2010 mainly as a result of the decrease of $15.0 million in the accrued interest payable on the GDB loan and the payments of certain prior year accrued liabilities.

Long–term debts decreased by $27.9 million or 9% from $323.4 million at June 30, 2009, to $295.5 million at June 30, 2010 as a result of payments made in fiscal year 2010.

- **The Corporation's net assets increased by $4.7 million in 2010 (or 1%)**

As of June 30, 2010, the Corporation had $349.5 million in net assets categorized as unrestricted assets and $17.4 invested in capital assets – net of related debt, for a total net asset of $366.9 million. In fiscal year 2010, net assets increased by $4.7 million or 1%, from $362.2 million as of June 30, 2009, due to a net non-operating revenue of $124.1 million, net of an operating loss of $75.6 million and of a net transfers to other governmental agencies of $43.8 million.

The following summarizes the condensed changes in net assets of the Corporation for the years ended June 30, 2010 and 2009:

Condensed statement of revenues, expenses and changes in net assets (in thousands):

	2010	2009	Variance
Operating revenues	$ 628,442	$ 602,984	$ 25,458
Operating expenses:			
Compensation and medical benefits	556,650	533,819	22,831
General and administrative	147,394	153,495	(6,101)
Total operating expenses	704,044	687,314	16,730
Operating loss	(75,602)	(84,330)	8,728
Non–operating revenues (expenses)– net	124,097	(51,936)	176,033
Transfers to other governmental agencies – net	(43,798)	(33,072)	(10,726)
Changes in net assets	4,697	(169,338)	174,035
Net assets – beginning of the year, as previously reported	356,760	527,185	(170,425)
Prior period adjustments	5,446	4,359	1,087
Net assets – beginning of the year, as restated	362,206	531,544	(169,338)
Net assets – end of year	$ 366,903	$ 362,206	$ 4,697

The Corporation recognizes as income the subscribed premiums, which represent the preliminary premiums assessed at the beginning of the fiscal year plus additional premiums imposed or expected to be imposed 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. The regular policies are issued for a one–year period consistent with the Corporation's fiscal year, which runs from July 1 to June 30. Incidental policies are issued to cover special risks over a pre-determined period 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.

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 increased by $25.4 million in 2010 (or 4%)**

Operating revenues increased by $25.4 million or 4% during the year ended June 30, 2010. The increase in operating revenues was primarily due to the decreases of $46.6 million in the reimbursement of insurance premiums and of $41.4 million in the provision for uncollectible insurance premiums, which were partially offset by the decrease of $61.5 million in the insurance premiums earned. In fiscal year 2009, the Corporation increased its estimate of the accrual for reimbursement of insurance premiums as a result of the upward trend in the returned of premiums because of the reduction in the employers' payrolls and increased its provision for uncollectible insurance premiums as a result of the recessionary economy environment in Puerto Rico, which negatively impacted the realization of the Corporation's accounts receivable. However, in fiscal year 2010, the Corporation decreased its estimates of the accrual for reimbursement of insurance premiums principally because of the effect of discounting this liability of approximately $5.9 million and decreased its allowance for uncollectible insurance premiums by $3.1 million because of the stabilization in the realization of its accounts receivable.

The decrease in the insurance premiums earned in fiscal year 2010 was the result of the current recessionary economic environment in Puerto Rico, which has negatively impacted the employers' payrolls and consequently, the imposition of insurance premiums.

- **Compensation and medical benefits increased by $22.8 million in 2010 (or 4%)**

Compensation and medical benefits increased by $22.8 million or 4% during the year ended June 30, 2010. Compensation benefits for the year ended June 30, 2010 amounted to $171.4 million, an increase of $13.4 million or 8%, when compared to $158.0 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, 2010 amounted to $362.3 million, an increase of $8.3 million or 2%, when compared to $354.0 million for the prior year. The increase is mainly related to increases in the medical benefits provided to injured workers such as: radiology, laboratory, hospitalization, physical therapy, medicines, donated medical equipment and other medical services.

The provision for compensation and medical benefits and benefit adjustment expense for the year ended June 30, 2010 amounted to $22.9 million, an increase of $1.1 million or 5%, when compared to a provision of $21.8 million in 2009, mainly as a result of the increase on benefits granted to injured workers as required by Law No. 263 of September 8, 2004 and in the liability for loss adjustments expenses. This increase in benefits was partially offset by the increase in the discount factor from 3.25% in fiscal year 2009 to 3.80% in fiscal year 2010 which resulted in a decrease in the liability for incurred but unpaid benefits and benefit adjustment expenses of $18.2 million.

- **General and administrative expenses decreased by $6.1 million in 2010 (or 4%)**

General and administrative expenses decreased by $6.1 million or 4% during the year ended June 30, 2010 mainly as a result of the decreases in the rent expense, the provision for obsolete inventories, the depreciation and amortization expense and in other miscellaneous expenses.

The Act provides that the Corporation's administrative expenses shall not exceed 22% of the total insurance premiums collected during the previous fiscal year. Administrative expenses exclude depreciation and amortization expense, provision for (recoveries of) uncollectible accounts, interest expense and investment managers' fees. The Corporation complied with this requirement of the Act for the year ended June 30, 2010.

- **Non–operating revenues– net increased by $176.0 million in 2010 (or 339%)**

Net non–operating revenues represent principally interest and dividend income, net change in fair value of investments, including 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.

The investments in debt and equity securities were positively impacted by the US market improvement in fiscal year 2010. Net increase in fair value of investments, including derivative instruments, amounted to $89.3 million in 2010, an increase of $182.1 million or 196% when compared to a decrease in fair value of investments of $92.8 million in 2009. On the other hand, interest and dividend income, net of costs (investment managers' fees) amounted to $42.7 million in 2010, a decrease of $12.2 million or 22%, when compared to $54.9 million in 2009.

Interest expense amounted to $7.6 million in 2010, a decrease of $5.3 million or 41%, when compared to $12.9 million in 2009 mainly as a result of lower borrowing cost in the GDB loan.

- **Transfers to other governmental agencies – net increased by $10.7 million in 2010 (or 32%)**

Net transfers to other governmental agencies increased by $10.7 million or 32% during the year ended June 30, 2010 mainly as a result of a recovery amounted to $10.0 million received in fiscal year 2009 from the Central Government's General Fund pursuant to Law No. 249. No such recovery was received in fiscal year 2010.

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, 2010, 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 $43.8 million compared to $43.1 million in 2009.

CAPITAL ASSETS AND LONG–TERM DEBTS

- **Capital assets – net decreased by $3.5 million in 2010 (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, 2010 capital assets, net of depreciation and amortization, decreased by $3.5 million or 4% due to depreciation and amortization expense of $5.0 million, which was partially offset by the acquisitions of medical and office equipments and the improvement to buildings of $1.5 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 $27.9 million (or 9%)**

Long–term debts amounted to $295.5 million at June 30, 2010, a decrease of $27.9 million or 9% when compared to $323.4 million at June 30, 2009. Long–term debts at June 30, 2010 and 2009 consisted of the following:

(In thousands)	2010	2009	Variance
Debts related to capital assets:			
Notes payable	$ 43,803	$ 48,283	$ (4,480)
Obligation under capital lease	31,669	32,129	(460)
Total debts related to capital assets	75,472	80,412	(4,940)
Other – note payable to GDB	220,000	243,000	(23,000)
Total long–term debts	$ 295,472	$ 323,412	$ (27,940)

Pursuant to Law No. 249 of November 17, 2006, GDB granted a loan of $253.0 million 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, 2010, the Corporation was not in compliance with the scheduled payments. On March 1, 2011, GDB waived this non–compliance event.

On December 14, 2010, the Corporation renegotiated the terms of this loan. Now, the loan will be payable in fifteen annual principal payments of $14,666,667 beginning on September 15, 2012, plus semiannual interest payments at three-month LIBOR plus 400 basis points beginning on March 15, 2011.

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. In the past, the economy of Puerto Rico has generally followed economic trends in the overall U.S. economy.

Although the Puerto Rico economy is closely linked to the United States economy, for fiscal years 2007, 2008 and 2009, the Puerto Rico real gross national product decreased by 1.2%, 2.8%, and 3.7%, respectively, while the United States economy grew at a rate of 1.8% and 2.8% during fiscal years 2007 and 2008, respectively, and contracted during fiscal year 2009 at a rate of 2.5%.

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 five 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 2011. The main driver that have contributed 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.

In addition to the Puerto Rico's economic contraction, the Commonwealth of Puerto Rico government is currently addressing a fiscal deficit which has been estimated at approximately $3.2 billion or over 30% of its annual budget. It is implementing a multi-year budget plan for reducing the deficit and achieving a balanced budget, as its access to the municipal bond market and its credit ratings depend, in part, on achieving a balanced budget. Some of the measures implemented by the government include reducing expenses, including public-sector employment through employee layoffs, financing the deficit and achieving a balanced budget by year 2012.

The Puerto Rico Labor Department reported an unemployment rate of 14.3% for December 2009, compared with an unemployment rate of 13.1% for December 2008.

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 investment's 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 parties with a general overview of the Corporation's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to State Insurance Fund Corporation, 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, 2010

ASSETS

CURRENT ASSETS:		
Cash and cash equivalents	$	346,443,297
Accounts receivable — net		108,759,543
Inventories		6,851,136
Prepaid expenses		337,049
Investments in debt and equity securities		388,377,336
Total current assets		850,768,361
NON–CURRENT ASSETS:		
Investments in debt securities		968,236,558
Accounts receivable — net		5,325,891
Capital assets — net of accumulated depreciation/amortization:		
Land		13,010,166
Depreciable assets, including software		79,819,337
Total non–current assets		1,066,391,952
TOTAL ASSETS	$	1,917,160,313

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Liability for incurred but unpaid benefits and benefit adjustment expenses	$	196,182,000
Accounts payable		73,528,298
Accrued liabilities		79,115,961
Unearned premiums		23,928,470
Accrual for reimbursement of premiums		58,804,000
Securities lending obligations		155,341,866
Current portion of:		
Other notes payable		2,159,669
Obligation under capital lease		509,307
Total current liabilities		589,569,571

(Continued)

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

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

NON–CURRENT LIABILITIES:	
Liability for incurred but unpaid benefits and benefit adjustment expenses	$ 582,061,075
Accrued liabilities	10,967,972
Accrual for reimbursement of premiums	74,855,000
Note payable to Government Development Bank of Puerto Rico ("GDB")	220,000,000
Other notes payable	41,643,274
Obligation under capital lease	31,160,053
Total non–current liabilities	960,687,374
Total liabilities	1,550,256,945
COMMITMENTS AND CONTINGENCIES (Notes 19 and 20)	
NET ASSETS:	
Invested in capital assets — net of related debt	17,357,200
Unrestricted	349,546,168
Total net assets	366,903,368
TOTAL LIABILITIES AND NET ASSETS	$ 1,917,160,313

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, 2010

OPERATING REVENUES:	
Insurance premiums earned	$ 684,629,808
Miscellaneous income — net	2,285,987
Plus (less):	
Reimbursement of insurance premiums	(61,566,153)
Credit for uncollectible insurance premiums	3,092,000
Total operating revenues	628,441,642
OPERATING EXPENSES:	
Compensation benefits	171,363,481
Medical benefits and legal fees	362,350,190
Provision for compensation benefits, medical benefits, and benefit adjustment expenses	22,936,552
Administrative expenses	142,354,252
Depreciation and amortization	5,038,713
Total operating expenses	704,043,188
OPERATING LOSS	(75,601,546)
NON–OPERATING REVENUES (EXPENSES):	
Interest and dividend income — net	42,691,953
Net increase in fair value of investments	89,285,516
Cost of securities lending transactions	(291,705)
Interest on notes payable and obligation under capital lease	(7,588,955)
Total non–operating revenues— net	124,096,809
REVENUE BEFORE TRANSFERS TO OTHER GOVERNMENTAL AGENCIES	48,495,263
TRANSFERS TO OTHER GOVERNMENTAL AGENCIES	(43,798,000)
CHANGES IN NET ASSETS	4,697,263
NET ASSETS — Beginning of year, as previously reported	356,759,588
PRIOR PERIOD ADJUSTMENTS (Note 22)	5,446,517
NET ASSETS — Beginning of year, as restated	362,206,105
NET ASSETS — End of year	$ 366,903,368

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, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:	
Excess of collections over reimbursements of insurance premiums	$ 622,348,466
Payments of compensation benefits	(158,723,524)
Payments of medical benefits and legal fees	(358,158,624)
Payments of administrative expenses	(156,735,405)
Net cash used in operating activities	(51,269,087)
CASH FLOWS FROM NON–CAPITAL FINANCING ACTIVITIES:	
Transfers to governmental agencies	(43,798,000)
Increase in securities lending obligations	41,768,535
Payments of note payable to GDB	(23,000,000)
Payments of interest on note payable to GDB	(16,375,614)
Payments of securities lending transaction costs	(291,705)
Net cash used in non–capital financing activities	(41,696,784)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(1,541,623)
Payments of notes payable — net of imputed interest	(4,480,079)
Payments of obligation under capital lease	(459,991)
Payments of interest on notes payable and obligation under capital lease	(6,223,444)
Net cash used in capital and related financing activities	(12,705,137)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and redemptions of debt and equity securities	857,831,155
Purchases of debt and equity securities	(897,684,325)
Collections of interest and dividend income	43,448,106
Cash received on derivative transactions	5,026,299
Collections in excess of originations of employees loans	650,772
Net cash provided by investing activities	9,272,007
NET DECREASE IN CASH AND CASH EQUIVALENTS	(96,399,001)
CASH AND CASH EQUIVALENTS — Beginning of year	442,842,298
CASH AND CASH EQUIVALENTS — End of year	$ 346,443,297

(Continued)

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	$ (75,601,546)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	5,038,713
Credit for uncollectible accounts	(1,692,378)
Changes in assets and liabilities:	
Decrease in operating assets:	
Accounts receivable	5,435,071
Inventories	1,110,149
Prepaid expenses	237,266
Increase (decrease) in operating liabilities:	
Liability for incurred but unpaid benefits and benefit adjustment expenses	39,768,075
Accounts payable	(593,982)
Accrued liabilities	(15,281,980)
Unearned premiums	(5,799,475)
Accrual for reimbursement of premiums	(3,889,000)
Net cash used in operating activities	$ (51,269,087)
SUMMARY OF NON–CASH TRANSACTIONS:	
Securities purchased but not yet received	$ 9,054,565
Securities sold but not yet delivered	$ 13,272,868
Net increase in the fair value of investments	$ 89,285,516
Accreation of discount on investments	$ 127,840
Transfers payable to other governmental agencies	$ 600,000
Retirement of capital assets:	
Cost	$ 4,568,457
Accumulated depreciation	$ 4,568,457

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. Administrative expenses exclude depreciation and amortization expense, provision for (recoveries of) uncollectible accounts, interest expense and investment managers' fees. The Corporation complied with this requirement of the Act for the year ended June 30, 2010.

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. As of June 30, 2010, the Corporation does not have restricted net assets.

- 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, which include those that result from providing insurance coverage and compensation benefits to the injured and disabled workers, including death benefits. Revenues and expenses not meeting these definitions are reported as non–operating revenues and expenses.

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

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 include 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 pre-determined 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 based on the historical and projected results of the settlement of premiums under the policies. These amounts are estimates, and while the Corporation believes such amounts are reasonable, there can be no assurance that the amounts ultimately received or disbursed will equal the recorded amounts.

The accrual for reimbursement of premiums was discounted to reflect the present value of future reimbursable premium payments using a discounting factor of 1.70% at June 30, 2010. Management believes that discounting such liability results in a better matching of costs and revenues since reimbursable premiums have a long payment cycle.

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

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 discounting factor of 3.80% at June 30, 2010.

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, 2010, 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 — From time to time, the Corporation enters into purchases of securities under agreements to resell ("resell agreements"). The amounts advanced under these agreements generally represent short–term loans and are reflected as an asset. The securities underlying these agreements are usually held by the broker or his/her agent, with whom the agreement is transacted.

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. 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.

Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the Corporation has the ability to pledge or sell them without a borrower default. Liabilities resulting from these securities lending transactions also are reported in the statement of net assets. Securities lending transactions collateralized by letters of credit or by securities that the Corporation does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the statement of net assets.

Derivative Financial Instruments — The Corporation accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB No. 53"). This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This statement provides that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value. The changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Fair value is determined based on quoted market prices.

Derivative instruments associated with hedgeable items that are determined to be effective in reducing exposures to identified financial risks are considered hedging derivative instruments. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. This statement describes the methods of evaluating effectiveness. If the derivative is effective, hedge accounting is applied. Under hedge accounting, the changes in fair values of the hedging derivative instrument are reported as either deferred inflows or deferred outflows in the Bank's statement of net assets.

This statement also provides disclosures required for derivative instruments. The objectives, terms, and risks of hedging derivative instruments are required disclosures. Disclosures also include a summary of derivative instrument activity that provides an indication of the location of fair value amounts reported on the financial statements. The disclosures for investment derivative instruments are similar to the disclosures of other investments. The adoption of GASB No. 53 at July 1, 2009 did not have any effect on the Corporation's basic financial statements.

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
Information systems	3 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.

The Corporation accounts for the intangible assets classified as capital assets in accordance with GASB No. 51, *Accounting and Financial Reporting for Intangible Assets* ("GASB No. 51"). This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets.

The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies relating to recognition, initial measurement, and amortization, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The Statement requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered identifiable. Additionally, the Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. This Statement also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software. The Statement also establishes guidance specific to intangible assets related to amortization. Guidance is provided on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful lives are subsequently determined to no longer be indefinite due to a change in circumstances. The adoption of GASB No. 51 at July 1, 2009 did not have any effect on the Corporation's basic financial statements.

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. In the event of employee resignation, an employee is reimbursed for accumulated vacation and sick leave days.

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.

Future Adoption of Accounting Pronouncements — The GASB has issued the following Statements:

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

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

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

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for periods beginning after December 15, 2011.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, which is effective for periods beginning after June 15, 2012.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for periods beginning after December 15, 2011.

Management is evaluating the impact that these statements will have on the Corporation's basic financial statements.

2. CASH AND CASH EQUIVALENTS

The Corporation's cash and cash equivalents as of June 30, 2010 are comprised of the following:

Description	Amount
Cash on hand	$ 2,568,907
Due from commercial banks	3,957,154
Total cash and due from banks	6,526,061
Interest bearing deposit accounts ("IBA's") with GDB:	
Due on demand	41,497,554
Certificates of deposit	106,024,599
Cash equivalents- IBA's	147,522,153
Cash equivalents- investments (see Note 3)	192,395,083
Total	$346,443,297

Custodial credit risk related to deposits is the risk that in the event of a financial institution failure, the Corporation's deposits might not be recovered. 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, 2010). At June 30, 2010, all securities pledged by depository institutions as collateral are held by a trustee of the Treasury Department of the Commonwealth. As of June 30, 2010, the Corporation had approximately $3,957,000 in depository balance with a financial institution, which was insured and/or collateralized.

Interest bearing deposits with GDB are uninsured and uncollateralized. These deposits are exposed to custodial credit risk.

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 $174,235 at June 30, 2010. Cash in foreign currency present minimal foreign currency risk at June 30, 2010.

See Note 3 for additional information related to credit risk, foreign currency risk and custodial credit risk on cash equivalent investments.

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, and custodians. The SIPGO establishes standards for review and communication of compliance with the prevailing policies and procedures. The SIPGO also provides that the Finance Committee of the BOD (the "Finance Committee") is responsible for implementing and monitoring the investment program of the Corporation. The Finance Committee meets on a quarterly basis.

The SIPGO 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 purposes, as well as for the creation of synthetic products, which qualify under any of the foregoing investment categories
- Open–end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or AAA by Moody's
- 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 executed.

The following table summarizes the type and maturity of investments held by the Corporation at June 30, 2010. 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 investment portfolio at June 30, 2010.

Investment Type	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
U.S. Treasuries	$ 20,938,916	$ 86,536,323	$ 20,124,038	$ 25,396,116	$ 152,995,393
U.S. sponsored agencies bonds and notes:					
Federal Home Loan Bank (FHLB)	1,575,049	44,834,633	1,141,250	-	47,550,932
Federal Home Loan Mortgage Corporation (FHLMC)	8,295,040	15,624,502	9,069,121	2,633,155	35,621,818
Federal National Mortgage Association (FNMA)	1,110,155	2,338,436	9,439,802	1,853,890	14,742,283
Federal Farm Credit Bank (FFCB)	12,106,934	2,243,858	1,016,250	-	15,367,042
Other	-	5,611,855	-	-	5,611,855
Mortgage–backed securities:					
Government National Mortgage Association (GNMA)	-	42,190	-	16,831,233	16,873,423
FNMA	192	1,876,472	4,719,725	27,593,099	34,189,488
FHLMC	635	7,359	116,985	27,247,321	27,372,300
Collateralized mortgage obligations (CMO's) issued and/or guaranteed by:					
GNMA	-	-	-	25,396,890	25,396,890
FNMA	-	-	153,019	284,025	437,044
FHLMC	-	-	19,170	3,311,271	3,330,441
Commercial mortgages	-	-	-	27,558,420	27,558,420
Other	-	-	-	1,922,322	1,922,322
Asset–backed securities	-	32,927,986	6,370,869	4,084,951	43,383,806
Corporate bonds and notes	36,827,039	193,199,772	131,663,864	37,630,943	399,321,618
Foreign government bonds and notes	3,754,254	6,601,110	711,922	-	11,067,286
U.S. municipal notes	-	4,830,150	4,212,539	23,732,562	32,775,251
Commonwealth agency bonds	-	-	3,087,883	3,335,889	6,423,772
Money market funds	47,380,411	-	-	-	47,380,411
Indexed certificates of deposit	-	120,810,490	-	-	120,810,490
External investment pools — fixed–income securities	8,466,141	745,218	29,347,680	-	38,559,039
Investments held under securities lending transactions:					
Interest bearing deposits	70,069,441	-	-	-	70,069,441
Resell agreements	61,729,713	-	-	-	61,729,713
Commercial paper	21,042,712	-	-	-	21,042,712
Corporate bonds and notes	2,500,000	-	-	-	2,500,000
Total debt securities and fixed–income external investment pools	$295,796,632	$518,230,354	$221,194,117	$228,812,087	1,264,033,190
Equity securities					236,926,922
External investment pools — equity securities:					
Russell 1000 Growth Index Fund					1,122,835
Invesco Structured Small Cap Equity Fund					35,770,407
Guayacan Private Equity Fund L.P. II					5,217,018
Guayacan Fund of Funds III, L.P.					5,903,248
Investment in derivative instruments:					
Equity Index Futures					(442,535)
Commodity Futures					(34,627)
Bond Index Futures					190,215
Other					322,304
Total					$1,549,008,977

As of June 30, 2010, investments were classified as current and non–current in the accompanying statement of net assets as follows:

Description	Amount
Current assets:	
Cash equivalents	$ 192,395,083
Investments in debt and equity securities	388,377,336
Total current assets	580,772,419
Non–current assets	968,236,558
Total	$1,549,008,977

The Corporation's investments presented as cash equivalents as of June 30, 2010 are comprised of the following:

Description	Amount
Interest bearing deposits held under securities lending transactions:	
Foreign certificates of deposit with other banks, due within three months	$ 47,069,441
Investments in debt securities held under securities lending transactions:	
Commercial paper, due within three months	21,042,712
Resell agreements, due overnight	56,729,714
	77,772,426
Investments in:	
Money market funds	47,380,411
US Treasuries- US Treasury bills	20,172,805
	67,553,216
Total	$192,395,083

Investments in fixed–income external investment pools include $8,466,141 invested with the Puerto Rico Government Investment Trust Fund (the "PRGITF"), a government–sponsored pool, which is administered by the GDB. The PRGITF may purchase only high quality securities denominated in U.S. dollars that the investment advisors believe present minimal credit risk. The PRGITF had an average maturity of less than 60 days; accordingly, they were presented as investments with maturity of less than one year. 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, 2010, amounted to approximately $11.1 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 the fiscal year 2010, an additional investment of approximately $2,457,000 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, 2010 to $5,217,018. 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 the fiscal year 2010, an additional investment of approximately $3,129,000 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, 2010 to $5,903,248. 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, 2010, the Corporation has variable-rate interest investments, which reset in the frequency shown below, at 100% of an interest rate index plus a spread, as follows:

Investment Type	Reset	Amount
Mortgage–backed securities:		
FNMA	Monthly	$ 4,630,639
FHLMC	Monthly	4,044,157
CMO's issued and/or guaranteed by:		
GNMA	Monthly	4,454,287
FHLMC	Monthly	1,230,128
Commercial mortgage	Monthly	10,387,795
Other	Monthly	1,278,316
Corporate bonds and notes	Semiannually	5,527,629
Commonwealth agency bonds	Quarterly	1,121,794
Investments held under securities lending transactions:		
Interest bearing deposits	Monthly	18,000,000
Resell agreements	Daily	5,000,000
Corporate bonds and notes	Quarterly	2,500,000
Total		$58,174,745

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

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, 2010 are as follows:

Investment Type	Credit Risk Rating AAA to A-	BBB+	BBB	BBB-	BB+	BB	Not Rated	Total
U.S. sponsored agencies bonds and notes:								
FHLB	$ 47,550,932	$ -	$ -	$ -	$ -	$ -	$ -	$ 47,550,932
FHLMC	35,621,818	-	-	-	-	-	-	35,621,818
FNMA	14,742,283	-	-	-	-	-	-	14,742,283
FFCB	15,367,042	-	-	-	-	-	-	15,367,042
Other	5,611,855	-	-	-	-	-	-	5,611,855
Mortgage–backed securities:								
FNMA	34,189,488	-	-	-	-	-	-	34,189,488
FHLMC	27,372,300	-	-	-	-	-	-	27,372,300
CMO's issued and/or guaranteed by:								
FNMA	437,044	-	-	-	-	-	-	437,044
FHLMC	3,330,441	-	-	-	-	-	-	3,330,441
Commercial mortgage	27,558,420	-	-	-	-	-	-	27,558,420
Other	690,661	-	-	1,231,661	-	-	-	1,922,322
Asset–backed securities	18,673,660	238,586	-	-	-	-	24,471,560	43,383,806
Corporate bonds and notes	298,645,443	46,343,021	30,675,216	19,611,077	-	-	4,046,861	399,321,618
Foreign government bonds and notes	11,067,286	-	-	-	-	-	-	11,067,286
U.S. municipal notes	32,775,251	-	-	-	-	-	-	32,775,251
Commonwealth agency bonds	2,214,095	1,121,794	567,195	1,432,131	1,088,557	-	-	6,423,772
Money market funds	47,380,411	-	-	-	-	-	-	47,380,411
Indexed certificates of deposit	-	-	-	-	62,900,227	38,521,690	19,388,573	120,810,490
External investment pools — fixed–income securities	9,211,359	-	-	-	-	-	29,347,680	38,559,039
Investments held under securities loans:								
Interest bearing deposits	70,069,441	-	-	-	-	-	-	70,069,441
Resell agreements	61,729,713	-	-	-	-	-	-	61,729,713
Commercial paper	21,042,712	-	-	-	-	-	-	21,042,712
Corporate bonds and notes	2,500,000	-	-	-	-	-	-	2,500,000
Total	$ 787,781,655	$ 47,703,401	$31,242,411	$ 22,274,869	$ 63,988,784	$38,521,690	$ 77,254,674	$1,068,767,484

Interest bearing deposits 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, 2010, investment maturities as a percentage of total debt securities and fixed–income external investment pools are as follows:

Maturity	Maximum Maturity
Within one year	23 %
After one to five years	41
After five years to ten years	18
After ten years	18

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, 2010, the Corporation had the following investments denominated in foreign currency:

Description	Currency	Fair value
Money market funds	Australian Dollar	$ 49,466
	British Pound	64,487
	Canadian Dollar	71,846
	Euro	214,322
	Hong Kong Dollar	62,005
	Singapore Dollar	57
	Swedish Krona	82,883
Total money market funds		545,066
Common stock	Australian Dollar	3,679,364
	British Pound	6,731,671
	Canadian Dollar	4,529,514
	Euro	13,328,336
	Hong Kong Dollar	3,170,741
	Japanese Yen	13,603,013
	Norwegian Krone	898,949
	Singapore Dollar	1,336,337
	Swedish Krona	472,783
	Swiss Franc	5,643,363
Preferred stock	Euro	820,265
Total equity securities		54,214,336
Investment in derivative instruments:		
Equity index futures	Australian Dollar	(38,821)
	Euro	(17,098)
	Hong Kong Dollar	(12,131)
	Japanese Yen	(17,237)
Total equity index futures		(85,287)
Bond index futures	British Pound	87,232
	Euro	13,424
	Japanese Yen	51,642
Total bond index futures		152,298
Total		$ 54,826,413

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, 2010, 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, 2010, money market funds with a carrying value of approximately $5,109,000 were held by counterparties of derivative instrument transactions (see Note 15).

Interest and dividend income for the year ended June 30, 2010, consist of the following:

Description	Amount
Interest income on interest bearing deposits with GDB	$ 1,898,945
Interest income on investments	40,066,481
Dividend income on investments	4,725,059
Dividend income on investment in PRGITF	10,168
Interest income on investments in cash and non–cash collateral received on securities lending transactions	556,096
Other interest income	313,941
	47,570,690
Less investment managers' fees	(4,878,737)
Total interest and dividend income — net	$42,691,953

Net increase in the fair value of investments for the year ended June 30, 2010, consists of the following:

Description	Investments	Derivative Instruments	Total
Gross realized gains	$ 47,309,117	$ 5,765,128	$ 53,074,245
Gross realized losses	(26,766,290)	(1,119,288)	(27,885,578)
Net increase in fair value	63,988,632	108,217	64,096,849
Total	$ 84,531,459	$ 4,754,057	$ 89,285,516

4. ACCOUNTS RECEIVABLE — NET

Accounts receivable as of June 30, 2010, consist of:

Description	Amount
Insurance premiums receivable, including estimated additional premiums — net of allowance for uncollectible insurance premiums of $249,634,216	$ 81,264,038
Interest and dividends receivable	9,274,636
Securities sold but not yet delivered	13,272,868
Employees' accounts receivable, collateralized with motor vehicles — net of allowance for uncollectible accounts of $597,008	7,423,891
Other accounts receivable — net of allowance for uncollectible accounts of $137,800,234	2,850,001
Total	$ 114,085,434

Insurance premiums receivable include an estimate for additional premiums of $58,009,000. 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.

As of June 30, 2010, accounts receivable, net were classified as current and non–current in the accompanying statement of net assets as follows:

Description	Amount
Current assets	$108,759,543
Non–current assets	5,325,891
Total	$114,085,434

5. INVENTORIES

Inventories as of June 30, 2010, consist of:

Description	Amount
Medicines and medical supplies	$6,252,623
Office materials and supplies	598,513
Total	$6,851,136

6. CAPITAL ASSETS — NET

The activity of capital assets for the year ended June 30, 2010 is as follows:

Description	Balance June 30, 2009	Increase	Decrease	Balance June 30, 2010
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	96,833,910	605,148	-	97,439,058
Medical and office equipment	42,186,185	912,819	(77,571)	43,021,433
Software	12,091,236	23,656	-	12,114,892
Motor vehicles	784,116	-	-	784,116
Assets under capital leases:				
Building and improvements	27,850,000	-	-	27,850,000
Office equipment	4,490,886	-	(4,490,886)	-
	184,236,333	1,541,623	(4,568,457)	181,209,499
Less accumulated depreciation and amortization:				
Buildings and improvements	(38,772,681)	(2,544,848)	-	(41,317,529)
Medical and office equipment	(37,219,551)	(1,005,098)	77,571	(38,147,078)
Software	(11,378,598)	(495,077)	-	(11,873,675)
Motor vehicles	(703,190)	(65,357)	-	(768,547)
Assets under capital leases:				
Building and improvements	(8,355,000)	(928,333)	-	(9,283,333)
Office equipment	(4,490,886)	-	4,490,886	-
	(100,919,906)	(5,038,713)	4,568,457	(101,390,162)
Capital assets being depreciated and amortized — net	83,316,427	(3,497,090)	-	79,819,337
Capital assets — net	$ 96,326,593	$ (3,497,090)	$ -	$ 92,829,503

As of June 30, 2010, the net carrying value of assets under capital leases amounted to $25,716,667. Amortization of assets under capital leases amounted to $928,333 for the year ended June 30, 2010.

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 3.80% in 2010. The actuarial study considered the experience of the Corporation from fiscal years 1995–1996 to 2009–2010, 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 3.25% in 2009 to 3.80% in 2010 resulted in a decrease to the liability for incurred but unpaid benefits and benefit adjustment expenses of $18.2 million.

The Corporation has established a liability for both, reported and unreported insured events, which includes estimates of future payment of benefits and related benefit adjustment expenses. The liability for incurred but unpaid benefits and benefit adjustment expenses as of June 30, 2010, consists of:

Description	**Amount**
Compensation benefits:	
Cases adjudged:	
Long–term partial disability	$ 24,987,686
Long–term total disability	198,226,656
Death	33,778,907
	256,993,249
Cases reported not adjudged and cases incurred but not reported:	
Short-term disability (per diem)	104,432,015
Long–term partial disability	152,936,367
Long–term total disability	76,098,608
Death	3,002,374
	336,469,364
Total compensation benefits	593,462,613
Medical benefits	115,716,662
Loss adjustment expense, including legal fees	69,063,800
Total	$778,243,075

As of June 30, 2010, the liabilities for incurred but unpaid benefits and for benefit adjustment expenses were classified as current and non–current in the accompanying statement of net assets as follows:

Description	**Amount**
Current liabilities	$196,182,000
Non–current liabilities	582,061,075
Total	$778,243,075

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, 2010:

Description	Amount
Liability for incurred but unpaid benefits and benefit adjustment expenses — beginning of year	$ 738,475,000
Incurred benefits related to:	
Insured events of the current year	519,545,873
Insured events of the prior years	37,104,350
Total incurred benefits	556,650,223
Benefit payments related to:	
Insured events of the current year	(337,784,628)
Insured events of the prior years	(179,097,520)
Total benefit payments	(516,882,148)
Liability for incurred but unpaid benefits and benefit adjustment expenses — end of year	$ 778,243,075

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2010, consist of:

Description	Amount
Accounts payable:	
Securities purchased but not yet received	$ 9,054,565
Due to employers	15,618,126
Suppliers, professional services and others	48,855,607
Total accounts payable	73,528,298
Accrued liabilities:	
Compensated absences–vacations and sick leaves	48,667,536
Accruals for Christmas bonus, salary increases, compensatory time and other fringe benefits	14,708,114
Early retirement plan and other retirement benefits	3,456,763
Postemployment benefits other than pensions (see Note 17)	17,525,841
Accruals for claims and contingencies (see Note 20)	5,149,604
Accrued interest payable to GDB	576,075
Total accued liabilities	90,083,933
Total	$ 163,612,231

As of June 30, 2010, 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	$ 73,528,298
Accrued liabilities	79,115,961
Non–current liabilities — accrued liabilities	10,967,972
Total	$163,612,231

9. ACCRUAL FOR REIMBURSEMENT OF PREMIUMS

As of June 30, 2010, the accrual for reimbursement of premiums as determined by the independent actuary was classified as current and non-current in the accompanying statement of net assets as follows:

Description	Amount
Current liabilities	$ 58,804,000
Non–current liabilities	74,855,000
Total	$133,659,000

The reimbursement of insurance premiums for the year ended June 30, 2010, amounted approximately to $61,566,000, which includes a current year credit of $3,889,000 to reflect changes in the accrual for reimbursement of premiums determined by an independent actuary. The effect of discounting at 1.70% the accrual for reimbursement of premiums in fiscal year 2010 resulted in a decrease of this liability of approximately $5.9 million.

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, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, securities and/or irrevocable bank letters of credit.

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

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

Securities lent as of June 30, 2010 had a fair value of $200,842,901 and were secured with collateral received with a fair value of $205,310,005.

Securities lent for which cash was received as collateral as of June 30, 2010, consist of:

Description	Amount
U.S. Treasury notes and bonds	$ 10,750,117
U.S. sponsored agencies bonds and notes	28,061,090
Corporate bonds and notes	71,028,609
Foreign government bonds and notes	2,790,520
Equity securities	39,161,896
External investment pools	262,920
Total	$ 152,055,152

Cash collateral received as of June 30, 2010 amounted to $155,341,866 (see Note 3) and was invested as follows:

Description	Amount
Commercial paper	$ 21,042,712
Corporate bonds and notes	2,500,000
Resell agreements	61,729,713
Interest bearing deposits:	
Certificates of deposit with other banks	18,000,000
Foreign certificates of deposit with other banks, denominated in US dollars	52,069,441
Total	$155,341,866

In addition, the Corporation had the following lending obligations as of June 30, 2010 for which securities were received as collateral:

	Fair Value	
Description	Securities Lent	Collateral Received
U.S. Treasury notes and bonds	$46,343,995	$47,455,961
U.S. sponsored agencies bonds and notes	2,437,540	2,505,834
Equity securities	6,214	6,344
Total	$48,787,749	$49,968,139

Cost of securities lending transactions for the year ended June 30, 2010 consist of the following:

Description	Amount
Borrower rebates	$ 115,447
Agent fees	176,258
Total	$ 291,705

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.

On December 14, 2010, the Corporation renegotiated the terms of this loan. Now, the loan will be payable in fifteen annual principal payments of $14,666,667 beginning on September 15, 2012, plus semiannual interest payments at three-month LIBOR plus 400 basis points beginning on March 15, 2011.

The activity of the note payable to GDB for the year ended June 30, 2010, is as follows:

Balance June 30, 2009	Advances	Payments	Balance June 30, 2010
$243,000,000	$ -	$23,000,000	$220,000,000

Maturities of the note payable to GDB are as follows:

Fiscal Year Ending June 30,	
2013	$ 14,666,667
2014	14,666,667
2015	14,666,667
2016–2020	73,333,333
2021–2025	73,333,333
2026–2027	29,333,333
Total non–current portion	$ 220,000,000

At June 30, 2010, the loan bore interest at three–month LIBOR, plus 25 basis points (0.54%). Law No. 249 provides the Corporation to recover the contributions made as part of the debt services, plus interest based on the ten-year US Treasury bond rate, through annual appropriations under "Resolución

Conjunta del Presupuesto General del Gobierno del Estado Libre Asociado de Puerto Rico" for each fiscal year.

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, 2010, the Corporation was not in compliance with the scheduled payments. On March 1, 2011, GDB waived this non–compliance event. On July 8, 2010, the Corporation made an interest payment to the GDB loan of $576,075.

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, effective interest rate of 6.54%	$ 35,001,060
2	Non–interest bearing note, due in September 2018, payable in 40 semiannual installments, effective interest rate of 6.54%	21,419,834
3	Non–interest bearing note, due in October 2018, payable in 40 semiannual installments, effective interest rate of 6.31%	16,619,468
4	Non–interest bearing note, due in March 2019, payable in 40 semiannual installments, effective interest rate of 6.84%	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, 2010, is as follows:

Description	Balance June 30, 2009	Advances	Payments	Balance June 30, 2010
Note payable (gross):				
Note 1	$ 18,317,764	$ -	$(1,803,088)	$ 16,514,676
Note 2	9,805,361	-	(927,895)	8,877,466
Note 3	6,886,434	-	(630,112)	6,256,322
Note 4	29,219,421	-	(4,077,545)	25,141,876
Total	$ 64,228,980	$ -	$(7,438,640)	$ 56,790,340
Portion representing interest:				
Note 1	$ (4,367,431)	$ -	$ 838,254	$ (3,529,177)
Note 2	(2,366,365)	-	448,665	(1,917,700)
Note 3	(1,628,996)	-	306,770	(1,322,226)
Note 4	(7,583,166)	-	1,364,872	(6,218,294)
Total	$(15,945,958)	$ -	$ 2,958,561	$(12,987,397)
Principal of note payable:				
Note 1	$ 13,950,333	$ -	$ (964,834)	$ 12,985,499
Note 2	7,438,996	-	(479,230)	6,959,766
Note 3	5,257,438	-	(323,342)	4,934,096
Note 4	21,636,255	-	(2,712,673)	18,923,582
Total	$ 48,283,022	$ -	$(4,480,079)	$ 43,802,943

Maturities of these notes payable as of June 30, 2010, are as follows:

Fiscal Year Ending June 30,	Present Value Notes Payable	Unamortized Discount	Undiscounted Value Notes Payable
2011	$ 2,159,669	$ 2,738,377	$ 4,898,046
2012	3,991,864	2,489,240	6,481,104
2013	4,489,202	2,208,771	6,697,973
2014	5,026,926	1,894,419	6,921,345
2015	5,607,970	1,543,449	7,151,419
2016–2019	22,527,312	2,113,141	24,640,453
	43,802,943	12,987,397	56,790,340
Less current portion	(2,159,669)	(2,738,377)	(4,898,046)
Non–current portion	$41,643,274	$10,249,020	$51,892,294

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 total payments of approximately $111.7 million over 30 years. The effective interest rate was determined at 10.23%.

The activity of the obligation under capital lease for the year ended June 30, 2010, is as follows:

Description	Balance June 30, 2009	Advances	Payments	Balance June 30, 2010
Future payments on assets under capital lease	$ 78,222,376	$ -	$ (3,724,876)	$ 74,497,500
Portion representing interest	(46,093,025)	-	3,264,885	(42,828,140)
Present value minimum lease payments	$ 32,129,351	$ -	$ (459,991)	$ 31,669,360

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, 2010, is as follows:

Fiscal Years Ending June 30,	Present Value Capital Lease	Imputed Interest	Undiscounted Value Capital Lease
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	765,416	2,959,459	3,724,875
2016-2020	5,248,684	13,375,691	18,624,375
2021–2025	8,733,696	9,890,679	18,624,375
2026–2030	14,532,681	4,091,694	18,624,375
	31,669,360	42,828,140	74,497,500
Less current portion	(509,307)	(3,215,568)	(3,724,875)
Non–current portion	$31,160,053	$39,612,572	$70,772,625

14. TRANSFERS TO OTHER GOVERNMENTAL AGENCIES

Transfers to other governmental agencies during the year ended June 30, 2010, are as follows:

Description	Amount
Industrial Commission of Puerto Rico	$ 23,915,000
Department of Labor and Human Resources:	
Occupational Safety and Health Office	8,231,490
Labor Standards Offices	10,911,510
Department of the Family — Vocational Rehabilitation Program	600,000
Labor Affairs Office	140,000
Total	$ 43,798,000

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 July 20, 1990, which authorizes the Corporation to transfer certain amounts as prescribed by law to cover operational expenses of the above mentioned offices.

The 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, 2010, the amount due under this Program amounted to $600,000.

15. INVESTMENT DERIVATIVE INSTRUMENTS

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. These investment derivative instruments consist of spot currency contracts, forward currency contracts and future 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, 2010, the Corporation recorded within net increase in fair value of investment in the statement of activities, a net gain on investment derivative instrument transactions amounting to approximately $4,754,000. At June 30, 2010, the outstanding investment derivative instruments consisted of future contracts with an unrealized holding net loss amounting to approximately $287,000 and maturity date within six months. This unrealized holding net loss on investment derivative instruments at June 30, 2010 is presented as part of investments in the statement of net assets (see Note 3).

The fair value balances and notional amounts of the investment derivative instruments outstanding at June 30, 2010 and the changes in fair value of such derivative instruments for the fiscal year then ended as reported in the 2010 financial statements are as follows:

Currency Denomination	Derivative Position	Notional Contract Number	Notional Contract Size	Changes in Fair Value	Fair Value at June 30, 2010
Equity Index Futures:					
British Pound	Long	11	10	$ (38,821)	$ (38,821)
Euro	Long	16	10	(17,098)	(17,098)
Hong Kong Dollar	Long	3	50	(12,131)	(12,131)
Japanese Yen	Long	7	10,000	(17,237)	(17,237)
US Dollar	Long	203	50	(503,200)	(503,200)
US Dollar	Long	11	100	(28,298)	(28,298)
US Dollar	Short	(68)	100	174,250	174,250
Bond Index Futures:					
British Pound	Long	24	100,000	87,232	87,232
Euro	Long	30	100,000	13,424	13,424
Japanese Yen	Long	48	10,000,000	51,642	51,642
US Dollar	Long	26	100,000	44,158	44,158
US Dollar	Short	(4)	100,000	(6,241)	(6,241)
Commodity Futures:					
US Dollar	Long	44	100	31,425	31,425
US Dollar	Long	5	25	(54,576)	(54,576)
US Dollar	Long	11	1,000	(11,476)	(11,476)

At June 30, 2010, the specific collateral held by counterparties consisted of a money market fund with a carrying value of approximately $5,109,000.

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 under 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. 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, 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, 2010 amounted to approximately $16,135,000 and $2,074,000 respectively. The Corporation's contributions during the years ended June 30, 2010, 2009, and 2008 amounted to approximately $20,436,000, $20,095,000, and $19,580,000, 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 itself.

Additional information on the Retirement System is provided in its stand alone financial statements for the year ended June 30, 2010, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its instrumentalities. P.O. Box 42004, San Juan PR 00940-2004.

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 from the Corporation's assets.

The Corporation provides the following OPEB:

- Health and other health related benefits: medical, prescription drugs, dental, and vision benefits are provided together in a fully–insured 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 of life coverage for retiree only).

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

- Retirement payment benefit — Eligibility required at least 15 years of service at the Corporation and at least 30 years of credited service at the Retirement System 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. Trust employees receive 21% of final salary as a lump sum and all other employees receive 30% of final salary as a lump sum.

- Disability benefit — To be eligible for disability benefits, the employee must be a permanent full–time employee. A totally disabled employee who meets the disability requirements of the Social Security Administration, the Worker Compensation or the Retirement System receives a lump sum of $5,000. A totally disabled employee who resigns and is not eligible for the disability requirements mention above, receives a lump sum of 55% of the last year salary and up to $5,000 for rehabilitation costs ($4,800 for trust employees).

At June 30, 2010, membership in the Corporation's OPEB Program consisted of the following:

Retirees and beneficiaries currently receiving benefits	414
Current participating employees	3,824
Total membership	4,238

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 impact the ARC.

The following tables show the components of the Corporation's annual OPEB cost for the fiscal year ended June 30, 2010, the amount actually contributed to the OPEB Program, the change in the Corporation's net obligation and the funded status of the OPEB Program.

Net OPEB Obligation Movement:	**For the Year Ended June 30, 2010**
ARC	$ 11,082,189
Interest on the net OPEB obligation	603,020
Adjustments to the ARC	(1,065,573)
Annual OPEB cost (expense)	10,619,636
Employer contribution	(8,756,642)
Increase in the net OPEB obligation	1,862,994
Net OPEB obligation — beginning of year	15,662,847
Net OPEB obligation — end of year	$ 17,525,841
Percentage of annual OPEB cost contributed	82.46 %
Funded Status:	
Actuarial valuation date	July 1, 2009
Actuarial accrued liability (AAL)	$ 94,241,106
Unfunded AAL	$ 94,241,106
Funded ratio	0 %
Annual covered payroll	$ 236,285,677

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, 2009
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	3.85 %
Projected payroll growth rate	4.00 %
Mortality rate	RP–2000 Generational Healthy Mortality Table for blended healthy active employee/retiree RP-2000 Combined Disability Mortality Table for disabled participants
Heath care cost trend rate for medical and prescription drugs	12% in fiscal 2010, decreasing by one percentage point per year to an ultimate of 5.0% in fiscal 2019 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 multiyear trend 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 projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or 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, 2010, 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, 2010, the DTDF (adjudged cases) amounted to approximately $158,098,000 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, 2010, the RCF amounted to approximately $14,124,000.

19. COMMITMENTS

Operating Lease Agreements — The Corporation rents certain of its administrative offices and clinics under non–cancelable long–term operating lease agreements. Certain leases contain escalation clauses providing for increased rental. Rent charged to operations in fiscal year 2010 amounted to approximately $23.5 million. At June 30, 2010, the minimum annual future rentals under non–cancelable leases, without considering renewal options, are approximately as follows:

Fiscal Year Ending June 30,	Amount
2011	$21,558,000
2012	18,418,000
2013	12,655,000
2014	10,488,000
2015	3,054,000
2016-2019	4,199,000
Total	$70,372,000

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 $5.1 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, 2010, insurance premiums earned by the Corporation from the governmental sector are approximately as follows: $179.0 million from the Commonwealth and its agencies and public corporations and $48.5 million from the municipalities for a total amount of $227.5 million from the governmental sector. These amounts represent approximately 33% of the total of premiums earned.

Interest bearing deposits with GDB, and its accrued interest receivable amounted to $147,522,153 and $351,683, respectively, as of June 30, 2010. Interest income earned on these deposits amounted to $1,898,945 for the year ended June 30, 2010.

The Corporation has invested $6,423,772 in the Commonwealth's agency bonds as of June 30, 2010. Accrued interest receivable on the Commonwealth's agency bonds amounted to $115,261 as of June 30, 2010. Investment with the PRGITF amounted to $8,466,141 as of June 30, 2010. Dividend income earned on this investment amounted to $10,168 for the year ended June 30, 2010.

Accounts receivable from and payable to the Commonwealth's agencies and public corporations amounted to $16.6 million and $2.8 million, respectively, as of June 30, 2010. Medical and administrative expenses paid to the Commonwealth's agencies and public corporations amounted to approximately $9.0 million for the year ended June 30, 2010.

Note payable to GDB and its accrued interest payable amounted to $220,000,000 and $576,075, respectively, as of June 30, 2010. Interest expense on this loan amounted to $1,365,510 for the year ended June 30, 2010.

Investment manager fees paid to GDB amounted to $1,300,722 for the year ended June 30, 2010.

For transfers to (from) other governmental agencies, see Note 14. For transactions with the Retirement System, see Note 16.

22. RESTATEMENT

Subsequent to the issuance of the Corporation's 2009 basic financial statements, management of the Corporation identified several errors in such previously issued financial statements. As a result of oversights, the accounts payable at June 30, 2009 included an amount due to a governmental agency of $7.0 million for a law that was derogated in fiscal year 2004. Also, other notes payable were understated by an unamortized discount of $1.6 million. The cumulative effect of the correction of these errors was to increase the Corporation's fiscal 2010 beginning of year net assets by $5.4 million and the other notes payable by $1.6 million and to decrease the accounts payable by $7.0 million.

The net assets amount as previously reported and restated as of June 30, 2009 is as follows:

	As Previously Reported	As Restated
Net assets	$356,759,588	$362,206,105

23. SUBSEQUENT EVENTS

As disclosed in Note 11, the Corporation renegotiated the terms of the note payable to GDB on December 14, 2010. Now, the loan will be payable in fifteen annual principal payments of $14,666,667 beginning on September 15, 2012, plus semiannual interest payments at three-month LIBOR plus 400 basis points beginning on March 15, 2011.

* * * * * *

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	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1) Projected gross earned premiums	$597,022	$604,108	$652,638	$690,916	$726,567	$731,001	$737,892	$747,874	$724,922	$686,831
2) Unallocated expense	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
3) Estimated ultimate awards										
at end of policy year	486,750	487,800	455,200	438,250	496,100	494,000	477,598	478,404	476,369	496,427
4) Awarded as of:										
12 months	187,331	205,937	204,587	220,232	245,159	260,638	266,889	269,569	276,197	292,341
24 months	262,311	269,097	271,467	287,801	317,854	330,546	336,490	337,774	350,117	
36 months	290,594	298,340	297,224	313,454	347,332	358,867	367,869	372,665		
48 months	305,745	312,038	310,119	325,917	361,764	374,105	386,247			
60 months	314,510	320,059	317,793	333,515	371,092	385,132				
72 months	320,299	325,512	325,229	338,640	379,397					
84 months	324,672	329,281	329,221	343,373						
96 months	328,104	332,358	332,804							
108 months	330,488	335,234								
120 months	332,885									
5) Re–estimated ultimate incurred:										
12 months	486,750	487,800	455,200	438,250	496,100	494,000	477,598	478,404	476,369	496,427
24 months	435,050	414,575	395,400	400,900	441,800	449,171	460,651	462,871	467,551	
36 months	390,350	377,025	367,250	374,500	428,502	446,943	456,440	454,667		
48 months	362,353	359,383	350,642	366,466	429,045	444,532	455,030			
60 months	352,120	352,393	350,550	366,579	429,753	443,561				
72 months	348,040	352,927	352,563	365,676	431,112					
84 months	348,185	351,956	352,536	366,790						
96 months	349,388	352,773	353,748							
108 months	349,553	353,300								
120 months	346,253									

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, 2010

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 [(b) – (a)/(c)]
July 1, 2009	$ -	$ 95,143,078	$ 95,143,078	0 %	$ 223,413,260	42.6 %
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, 2010	$10,619,636	$ 8,756,642	82.5 %	$ 17,525,841
June 30, 2009	$13,198,980	$ 4,816,636	36.5 %	$ 15,662,847
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, includes only plan participants.

SCHERRER
HERNANDEZ & CO.
Member of Polaris International

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

To the Board of Directors of
State Insurance Fund Corporation:

We have audited the financial statements of the State Insurance Fund Corporation (a component unit of the Commonwealth of Puerto Rico) (the "Corporation") as of June 30, 2010, and have issued our report thereon dated March 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in _Government Auditing Standards_, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Corporation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above. Significant deficiencies and material weaknesses are listed in a separate letter dated March 4, 2011.

Compliance and Other Matters

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

We noted certain matters that we reported to the Corporation's management in a separate letter dated March 4, 2011.

This report is intended solely for the information and use of the audit committee, management and the Legislature and the Comptroller of the Commonwealth of Puerto Rico, and is not intended to be and should not be used by anyone other than these specified parties.

Schiena Hernández & Co.

San Juan, Puerto Rico

March 4, 2011

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2012
Stamp 2511729 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report