RSM ROC & Company
Certified Public Accountants & Consultants

State Insurance Fund Corporation
A Component Unit of the Commonwealth of Puerto Rico

Estado Libre Asociado de Puerto Rico
Corporacion del Fondo del Seguro del Estado

Basic Financial Statements
and Other Supplementary Information
June 30, 2008

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

BASIC FINANCIAL STATEMENTS
AND OTHER SUPPLEMENTARY INFORMATION
June 30, 2008

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SECTION I

Independent Auditors' Report

RSM ROC & Company
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To: The Board of Directors of
State Insurance Fund Corporation

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the State Insurance Fund Corporation (the Corporation), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2008, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 15, the Corporation adopted the Government Accounting Standards Board (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* effective for periods beginning after December 15, 2006. This statement requires that the projected cost of such benefits be actuarially determined and recognized, on an accrual basis, over a period that approximates employee's years of service. 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. The Corporation provides post retirement benefits to all employees who meet certain age and years of service requirements. Such benefits consist principally of health care benefits, recorded on a pay-as-you-go basis and postemployment bonuses recorded and calculated by the Corporation using methodology and assumptions similar to actuarial calculations. Healthcare benefits are provided for a period of two (2) years after retirement. Thereafter, the Corporation contribution is limited to $35 monthly until employee reaches the age of 65 years. The Corporation retained an external actuary for the calculation of the postemployment benefits other than pension in accordance with provisions of GASB No. 45. At the date of our report, the actuarial evaluation, and related report, has not been concluded. The estimate of the postemployment benefits other than pension amounted to approximately $34.7 million, internally developed using actuarial methodology and assumptions. The estimate did not include the portion of the healthcare cost. We were unable to extend our audit procedures sufficiently to satisfy ourselves as to the adequacy of the potential postemployment obligation and related disclosures.

In our opinion, except for the effect of such adjustments and/or disclosure, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence regarding the postemployment benefit obligation, the financial statements referred to above present fairly, in all material respects, the financial position of the State Insurance Fund Corporation as of June 30, 2008, 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.

The Management's Discussion and Analysis presented in Section II is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Corporation's basic financial statements. The supplementary information presented in Section IV, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the Corporation's management. We did not audit the information contained in Section IV and express no opinion on it.

RSM ROC & Company

San Juan, Puerto Rico
December 29, 2008.

Stamp No. 2363262 was affixed to
the original of this report.

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SECTION II

Management's Discussion and Analysis

The State Insurance Fund Corporation (the Corporation) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Law No. 45 of April 18, 1935, as amended, known as the Workmen Compensation Insurance Act (the Act). 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.

This section of the Corporation's annual financial report presents our discussion and analysis of the Corporation's financial performance during the fiscal year ended on June 30, 2008. Please read it in conjunction with the Corporation's financial statements and accompanying footnotes.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts: the Management's Discussion and Analysis (this section), the basic financial statements, and other required supplementary information. 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. These statements are presented in a manner similar to a private business, such as commercial institutions and insurance or health providers. The Corporation imposes insurance premiums based on the employer accident and injuries experience.

FINANCIAL HIGHLIGHTS

The following is the financial position of the Corporation as of June 30, 2008 and 2007:

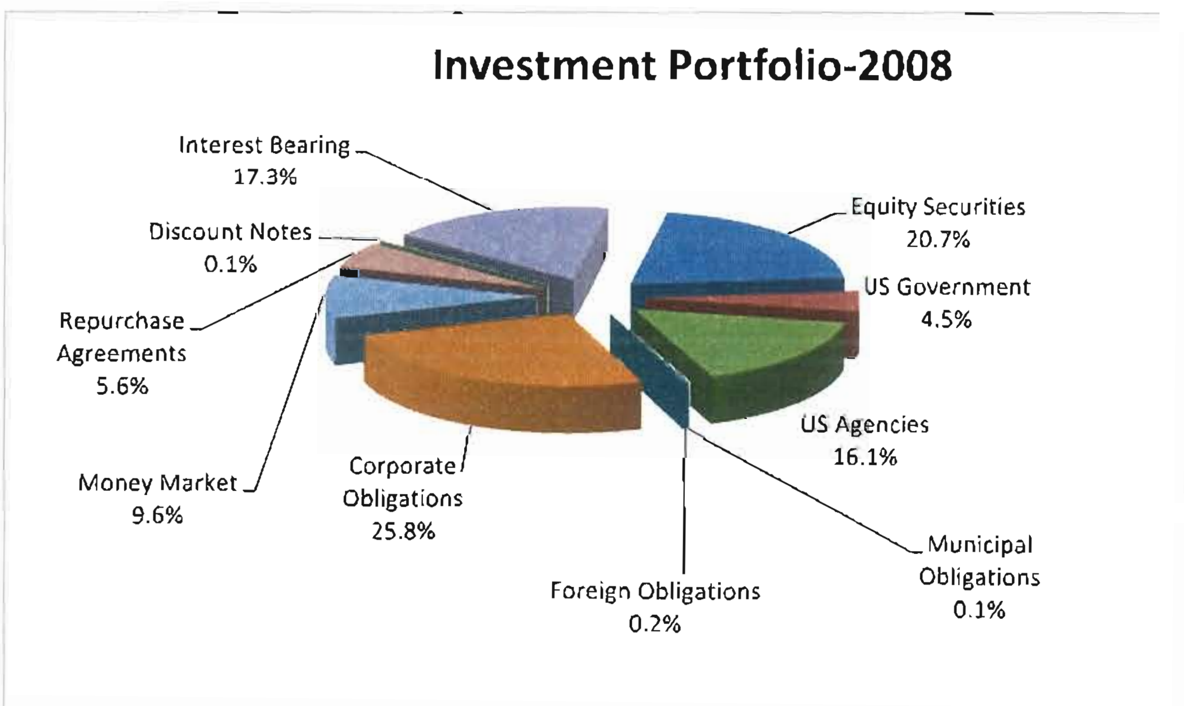
STATEMENTS OF NET ASSETS ('000)

Assets:	2008	2007	Variance
Current assets	$ 1,135,779	$ 1,173,238	$ -37,459
Noncurrent assets:			
Capital assets, net	100,246	106,947	-6,701
Other, noncapital assets	758,785	781,816	-23,031
Total assets	$ 1,994,810	$ 2,062,001	$ -67,191
Liabilities:			
Current liabilities	$ 636,708	$ 640,124	$ -3,416
Noncurrent liabilities	612,020	591,654	20,366
Total liabilities	1,248,728	1,231,778	16,950
Net assets:			
Invested in capital assets, net of related debts	18,344	22,391	-4,047
Unrestricted	727,738	807,832	-80,094
Total net assets	746,082	830,223	-84,141
Total liabilities and net assets	$ 1,994,810	$ 2,062,001	$ -67,191

- **The Corporation's total assets decreased by $ 67.2 million in 2008 (or 3.3%)**

The Corporation total assets decreased was substantially driven by the decrease in investments in debt and equity security during the year ended June 30, 2008 by approximately $103.0 million net of security lending transactions. This decrease is a result of various actions and events that occurred during the year. Investment managers, following the investment policy, temporarily transferred certain funds into governmental deposits and money funds by $65.3 million, until investment instruments to better position the portfolio are identified. In addition, the investments in debt and equity securities were affected by the global market decline due to the setbacks in the global financial markets, which resulted in investment holding unrealized net loss of $76.7 million as of June 30, 2008. In the overall, the actions undertaken, which constitutes a direct result of the Board of Directors investment policy, are sought to maximize the total yield of the security instruments based on an acceptable risk thresholds; leading to a revision of the asset allocation strategy, an alignment of the investments portfolio to future market expectations, and a systematic evaluation of the money managers and how they are complying with the investment policy and strategy. The investment portfolio increased in corporate bonds and decreased in government and agency bonds. These actions resulted in a net realized gain of $6.2 million of the investment held during the year ended June 30, 2008. In addition, amounts due from insurance premium increased the total assets by approximately $25.6 million.

The following graphs present the investments portfolio's asset allocations as of June 30, 2008:



- <u>The Corporation's total liabilities increased by $17.0 million in 2008 (or 1.4%)</u>

As part of the total liabilities a reserve for both reported and unreported insured events was required by the enacting law, which includes an estimation of future payments and related adjustment expenses, medical benefits and reimbursement of premiums, which is developed by an independent actuarial from historical benefit payments gathered by the Corporation. The liability for compensation benefits is based on historical claims experience data, assumptions, and projections as to future events, including claims frequency, severity, persistency and inflationary trends. The assumptions used in estimating and establishing the liability is reviewed annually based on current circumstances and trends.

The provision for both reported and unreported insured events increased by $14.5 million as of June 30, 2008, which include an increased in compensation reserve of approximately $18.2 million offset by a reduction in medical reserve of approximately $3.7 million. The result in the reserves are reflections of the actual trend in the Corporation reported cases of employees' injuries and claims for the last years, as determined by the independent actuarial. Similarly, the actuarially developed reserved include the accrual for reimbursements of premiums, which was increased by $16.3 million as of June 30, 2008.

In addition, the Corporation increased the reserve for post-employment bonus by approximately $5.5 million. The estimate of the post-employment bonus benefit amounted to approximately $34.7 million as of June 30, 2008, internally developed using actuarial methodology and assumptions. Healthcare benefits were recognized on a pay as you go basis, no accrual for actuarial liability was reflected in the accompanying financial statements. As required by Government Accounting Standards Board (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the Corporation retained an external actuary to develop the applicable reserve, which remained uncompleted as of the date of this management discussion and analysis report and the related effect, if any, remained unaccounted as of June 30, 2008.

The Corporation accrued approximately $26.3 million for annual required contributions, to cover the debt service of the amount loaned by GDB to the Special Health Fund, pursuant to provisions of Law No. 249 of November 17, 2006. The Law No. 249 imposes the payments of principal and interest to the Corporation, upon become payable as defined, for a period of six years ending September 15, 2013. The Law No. 249 allows for recovery of annual required contributions from appropriations to the Commonwealth of Puerto Rico's general funds, although such recoveries are recorded upon approval of the appropriation or receiving the funds, whichever first.

- **The Corporation's net assets decreased by approximately $ 84.1 million in 2008 (or 10.1%)**

As of June 30, 2008, the Corporation had $727.7 million in *net assets* categorized as *unrestricted assets and $18.3 invested in capital assets*. Changes in net assets amounted to $84.1 million for the year ended June 30, 2008, mainly due to operating loss of $1.4 million, a non-operating loss of $13.3 million and the transfer to other governmental agencies of $69.4 million.

The following summarizes the comparative financial results of operations of the Corporation for the years ended June 30, 2008 and 2007:

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS ('000)

	2008	2007	Variance
Operating revenues	$ 665,782	$ 653,405	$ 12,377
Operating expenses			
Compensation and medical	498,700	448,391	50,309
General and administrative	168,528	176,860	-8,332
Total operating expenses	667,228	625,251	41,977
Operating margin	(1,446)	28,154	-29,600
Non-operating revenues, net	(13,249)	129,061	-142,310
Transfers to other governmental agencies	(69,446)	(40,875)	-28,571
Changes in net assets	(84,141)	116,340	-200,481
Net assets, beginning of the year	830,223	713,883	116,340
Net assets, end of year	$ 746,082	$ 830,223	$ -84,141

- **Net insurance premiums earned increase by $12.4 million during 2008 (or1.9 %)**

The Corporation recognizes as income the subscribed premiums, which represents the preliminary premiums assessed at the beginning of the fiscal year plus any additional premiums imposed as a result of the final settlement of premiums under the insurance policy or reduced by any unearned or reimbursable portion, as determined. 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.

The net insurance premiums increased by $12.4 million during the year ended June 30, 3008. The increase in the net insurance premiums was related to: the increase of $16.8 million in insurance premium earned, mostly from increases in eventual policies and government entities, offset by an increase in the reimbursement of insurance premium, actuarially determined, of $19.1 million, and a positive fluctuation of the provision for uncollectible premium of $14.7 million when compared to last year expense.

- **Compensation benefits and medical benefits increased by $26.7 million during 2008 (or 5.8%)**

The compensation benefits and medical benefits increased by $26.7 million during the year ended June 30, 2008. The increase is related to Law No. 263 which amends Law 45 of 1935, raising the compensation payment to injured workers for partial permanent disability, total permanent disability and death.

- **Provision for compensation benefits, medical benefits and benefits adjustment expenses amounted to $14.5 million in 2008.**

The reserve for injured compensation obligation is evaluated on a yearly basis by reviewing the current circumstances and trends. The ultimate liabilities are developed based on the evaluation of the past years' experiences of claims and the amount being billed. The provision for compensation benefits reflects provision of $14.5 million for 2008, due to an expected increase in the unreported insured events based on the independent actuarial study.

- **General and administrative expenses decreased by approximately $ 8.3 million during 2008 (or 4.7%)**

The decrease in general and administrative expenses during the year ended June 30, 2008, of $8.3 million is comprised of last year's one time charge for early retirement programs cost of $15.8 million offset by current increases in labor cost related to unions collective bargain agreements of $5.5 million and $2.0 million of special law that increased benefits for retired personnel.

- **Non-operating revenues and expenses decreases by $142.3 million during 2008 (or 110.3%)**

The non-operating income substantially represents interests and dividends income, realized gain and losses on investments and changes in fair market value of investments reduced by interest incurred on notes payable and assets under capital leases. Government accounting policies requires that investments be carried at market value; therefore unrealized gains and losses are passed through operations. The interests and dividends earned amounted to $64.0 million during 2008 or a decrease of $2.6 million when compared to interests and dividends earned during 2007. Realized net gains for the year ended decreased by $ $17.4 million from $23.6 million in 2007 to $6.2 million in 2008. In addition, during the year ended June 30, 2008, the Corporation experienced a significant reduction in the fair market value of the investments as a result of the global collapse of the financial market, which affect the fair value of our investment in equity causing an unrealized holding loss of approximately $76.6 million, which is a substantial turnaround of $122.4 million from the reported unrealized holding gain of $45.8 million in 2007.

- **Transfers to other governmental agencies increased by $28.6 million during 2008 (or 69.9%)**

The Corporation is required by legislation to transfers to other governmental agencies funds for programs related to injured employees and their families. During the year ended June 30, 2008, pursuant to Law No. 249 of November 17, 2006, the Corporation accrued $26.3 million related with the required contribution to cover the debt service of the amount loaned by GDB to the Special Health Fund.

- **Capital assets, net decreased by approximately $6.7 million during 2008 (or 6.3 %)**

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, 2008 capital assets, at cost, decreased by $6.7 million mostly due to depreciation and amortization.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

The purpose of the financial report is to inform the Puerto Rico residents and taxpayer, and our customers and clients with a general financial overview of the Corporation's finances and to comply with the Corporation's accountability of the assets, funds and appropriations it holds and receives. If you have any questions about this report or need additional information, contact the Finance Office Director Ivette Diaz Vélez at PO BOX 365028 San Juan Puerto Rico 00936-5028.

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SECTION III

Basic Financial Statements

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

STATEMENT OF NET ASSETS
June 30, 2008

ASSETS

CURRENT ASSETS:		
Cash and cash equivalents	$	5,293,736
Accounts receivable, net		163,206,270
Inventories		9,645,243
Prepaid expenses		509,513
Investments-		
Puerto Rico Government Investment Trust Fund		31,546,630
Interest bearing deposits		265,181,187
Debt and equity securities		660,395,904
Total current assets		1,135,778,483
NON-CURRENT ASSETS:		
Investments in debt and equity securities		758,785,460
Capital assets, net		100,246,475
Total non-current assets		859,031,935
Total assets	$	1,994,810,418

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Liability for incurred but unpaid benefits	$	216,051,712
Reserve for benefit adjustment expenses		17,284,000
Accounts payable		63,560,041
Accrued liabilities		102,498,121
Current portion of notes payable		2,628,324
Current portion of obligation under capital lease		415,452
Unearned premiums		44,862,046
Accrual for reimbursement of premiums		93,141,000
Securities lending obligations		96,267,272
Total current liabilities		636,707,968

Continues...

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

STATEMENT OF NET ASSETS
June 30, 2008

Continued...

NON-CURRENT LIABILITIES:	
Liability for incurred but unpaid benefits	$ 434,277,288
Reserve for benefit adjustment expenses	34,742,000
Accrued liabilities	64,142,235
Notes payable	46,729,536
Obligation under capital lease	32,129,351
Total non-current liabilities	612,020,410
Total liabilities	1,248,728,378
NET ASSETS:	
Invested in capital assets, net of related debts	18,343,812
Unrestricted	727,738,228
Total net assets	746,082,040
Total liabilities and net assets	$ 1,994,810,418

The accompanying notes are an integral part of this statement of net assets.

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, 2008

OPERATING REVENUES:		
Insurance premiums earned	$	745,620,051
Less: Reimbursement of insurance premiums		(77,991,533)
Provision for uncollectible insurance premiums		(1,846,840)
Total operating revenues		665,781,678
OPERATING EXPENSES:		
Compensation benefits		152,986,293
Medical benefits and legal fees		331,188,119
Provision for compensation benefits, medical benefits and benefit adjustment expenses		14,526,000
Administrative expenses		160,413,075
Depreciation and amortization		8,114,565
Total operating expenses		667,228,052
OPERATING LOSS		(1,446,374)
NON-OPERATING REVENUES (EXPENSES):		
Interest and investment income, net		64,018,446
Net decrease in fair value of investments		(70,480,710)
Interest on notes payable and obligations under capital leases		(6,746,155)
Loss on disposition of assets		(40,218)
Total non-operating expenses, net		(13,248,637)
LOSS BEFORE TRANSFERS TO OTHER GOVERNMENTAL AGENCIES		(14,695,011)
TRANSFERS TO OTHER GOVERNMENTAL AGENCIES		(69,446,292)
CHANGES IN NET ASSETS		(84,141,303)
NET ASSETS, beginning of year		830,223,343
NET ASSETS, end of year	$	746,082,040

The accompanying notes are an integral part of this statement.

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

STATEMENT OF CASH FLOWS
For the year ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Insurance premiums collected	$ 654,903,752
Payments of compensation benefits	(137,916,293)
Payments of medical benefits and legal fees	(347,273,993)
Payments of administrative expenses	(134,866,903)
Net cash provided by operating activities	34,846,563
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Transfers to governmental agencies	(43,128,292)
Increase in securities lending obligations	(52,750,591)
Payments of securities lending transaction costs	(5,130,830)
Net cash used in non-capital financing activities	(101,009,713)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(1,414,525)
Payments of notes payable net of imputed interest	(2,278,480)
Payments of obligation under capital lease	(375,224)
Payments of interests on notes payable and obligation under capital lease	(6,746,155)
Net cash used in capital and related financing activities	(10,814,384)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net deposits to interest bearing accounts and Puerto Rico Government Investment Trust Fund	(65,311,153)
Proceeds from sales and redemptions of debt and equity securities	1,030,747,594
Purchase of debts and equity securities	(951,329,585)
Net collections from employees loans	1,031,552
Collections of interest, dividend income, and non-cash collateral received on securities lending transactions	63,851,705
Net cash provided by investing activities	78,990,113
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,012,579
CASH AND CASH EQUIVALENTS, beginning of year	3,281,157
CASH AND CASH EQUIVALENTS, end of year	$ 5,293,736

Continues...

STATEMENT OF CASH FLOWS
For the year ended June 30, 2008

...Continued

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$	(1,446,374)
Adjustments to reconcile operating loss to net cash provided by operating activities-		
Depreciation and amortization		8,114,565
Provision for uncollectible accounts		1,846,840
Changes in assets and liabilities:		
Increase in operating assets-		
Accounts receivable		(25,838,515)
Inventories		(1,886,530)
Prepaid expenses		(509,513)
Increase (decrease) in operating liabilities-		
Liability for incurred but unpaid benefits		14,526,000
Accounts payable		20,220,628
Accrued liabilities		6,665,495
Unearned premiums		(3,202,033)
Accrual for reimbursement of premiums		16,356,000
Net cash provided by operating activities	$	34,846,563
SUMMARY OF NON-CASH TRANSACTIONS:		
Securities purchased but not yet received	$	14,036,482
Securities sold but not yet delivered	$	654,651
Retirement of capital assets:		
Cost	$	59,606
Accumulated depreciation	$	59,606
Contribution payable to Governmental Development Bank-Law No. 249, Special Health Fund	$	26,318,000

The accompanying notes are an integral part of this statement.

1) **Organization and summary of significant accounting policies:**

A) Organization – The 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 their 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 Board of Directors, the Administrator and the Industrial Medical Advisory Board.

The Corporation's administrative expenses shall not exceed 22% of the total insurance premiums collected during the previous fiscal year. The Corporation did not comply with this requirement for the year ended June 30, 2008.

B) 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. 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 Governmental Accounting Standards Board (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 Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. GASB 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. It requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, the portion of the debt is included in the same net assets component as the unspent proceeds.

- *Restricted* – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.

- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

As permitted by Governmental Accounting Standard Board (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 (FASB) Statements and Interpretations, issued after November 30, 1989, that do not conflict with those issued by GASB.

Use of estimates – 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.

Revenue recognition and unearned premiums – The Corporation recognizes as income the subscribed premiums, which represents the preliminary premiums assessed at the beginning of the fiscal year plus any additional premiums imposed as a result of the final settlement of premiums under the insurance policy during the year. Premiums are based on individual employers' reported payroll using predetermined insurance rates based on employer's risk classification. The regular policies are issued for a one-year period consistent with the Corporation's fiscal year, from July 1 to June 30. Incidental policies are issued to cover special risks over a specified period of time. Unearned premiums represent the remaining portion at the end of the fiscal year, which is attributed to the unexpired term of the incidental policies issued during the fiscal year.

Insurance premiums due to the Corporation are recorded as insurance premiums receivable, net of the allowance for uncollectible accounts. Premiums receivable consist of both billed and unbilled accounts. Unbilled amounts include policies, which have not been assessed plus an estimate for additional premiums 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 with the policyholder. The difference between the estimated and the actual amount of the premiums is recorded in the year when it is determined. The estimate of additional premiums is determined essentially as a result of the final settlement of premium under the policies and through the audit of the employers' payrolls. The accrual of premiums to be reimbursed represents an estimate actuarially determined as a result of 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.

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 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. The Act, which created the Corporation, provides for a catastrophe fund to be used to cover large losses arising from catastrophic situations.

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) 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 for additional medical treatment or benefits.

The liabilities for incurred but unpaid benefits, and benefit adjustment expenses, were discounted to reflect the present value of future benefit payments using a discount factor of 2% at June 30, 2008. Management believes that discounting such liabilities results in a better matching of costs and revenues since workers' 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, 2008, 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.

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. Fair value is determined based on quoted market prices. Changes in the fair value of investments are recognized in the statement of revenues, expenses and changes in net assets. 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. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year are included as part of the change in the fair value of investments reported in the current year.

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

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

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

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

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

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

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

Compensated absences – Compensated absences, such as unpaid vacation and sick leave pay, are accrued when incurred using the pay or salary rates in effect at the statement of net assets' date. An additional amount is accrued for certain salary related benefits associated with the payment of compensated absences.

Postemployment benefits other than pension benefits – The Corporation provides post retirement benefits to all employees who meet certain age and years of service requirements. Such benefits consist principally of health care benefits and a postemployment bonus payment. The Corporation accounts for healthcare benefits in accordance with the provisions of GASB Statement No. 45, *Accounting and financial reporting by employees for postemployment benefits other than pension*. Healthcare benefits are provided for a period of two (2) years after retirement. Thereafter, the Corporation contribution is limited to $35 monthly until the employee reaches the age of 65 years. Postemployment bonus payment is recorded on the accrual basis of accounting (see Note 15).

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.

Securities lending transactions – The Corporation accounts for and reports its security lending transactions in accordance with the provisions of GASB Statement No. 28, as amended, *Accounting and Financial Reporting for Securities Lending Transactions*. 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.

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 34, required that the direct method be used to present the funds inflows and outflows of the Corporation. For purposes of the statement of cash flows, demand money market funds are considered to be cash equivalents

Fair value of financial instruments – The reported fair values of debt and equity securities are based on quoted market prices or dealer quotes for comparable instruments. The carrying amounts of cash, interest bearing deposits, Puerto Rico Government Investment Trust Fund (PRGITF) and securities lending obligations approximate fair value due to the short maturity of these financial instruments. The carrying value of notes payable equals fair value. The fair value of financial instruments related to insurance contracts is not provided, as it is not required by accounting principles generally accepted in the United States of America.

Operating revenues and expenses – Operating revenues and expenses are those that result from providing insurance coverage and compensation benefits to the injured and disabled workers, including death benefits.

Non-exchange transactions – GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, establishes accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations). In non-exchange transactions, a government gives or receives value without directly receiving or giving equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. Under the provisions of this statement, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied. The Corporation is required under certain laws of the Commonwealth to contribute to other agencies and programs (refer to Note 12).

Deposits and investment risk – The Corporation adopted the Governmental Accounting Standards Board issued Statement No. 40, *Deposit and Investment Risk Disclosure* - an amendment of GASB Statement No. 3. The statement addresses common deposit and investment risks related to credit, concentration, interest rate and foreign currency. Among other disclosures, the statement requires certain disclosures applicable to deposits or investments having fair values that are highly sensitive to changes in interest rates.

Recently issued accounting standards – The GASB has issued the following accounting pronouncements that have effective date after June 30, 2008:

(a) ***GASB Statement No. 49***, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is effective for financial statements for periods beginning after December 15, 2007.

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

(c) ***GASB Statement No. 52***, *Land and Other Real Estate Held as Investment by Endowments*, which is effective for financial statements for periods beginning after June 15, 2008.

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

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

2) **Cash and cash equivalents:**

The Corporation's cash and cash equivalents is comprised of cash in hand and deposits held in custody by financial institutions. The deposits are either insured by the Federal Depository Insurance Corporation (FDIC) up to $100,000, or collateralized with various financial instruments held by a trustee of the Treasury Department of the Commonwealth of Puerto Rico, or uncollateralized. Based on these provisions, insured or collateralized deposits are not considered to be subject to custodial risk, which is the risk that in the event of a bank's failure, the Corporation's deposits may not be returned. As of June 30, 2008, the Corporation had approximately $3,990,000 in this financial institution, which were insured or collateralized.

3) **Investments:**

Puerto Rico Government Investment Trust Fund

Custodial Credit Risk – The Puerto Rico Government Investment Trust Fund (the Trust) is a non-load diversified collective investment trust of the Commonwealth of Puerto Rico. The purpose of the Trust is to provide eligible investors a convenient and economic way to invest in a money market portfolio. Units of the Trust are offered exclusively to the Commonwealth of Puerto Rico and its agencies, municipalities, public corporations and other public authorities and instrumentalities. The Trust may purchase only high quality securities denominated in U.S. dollars that the investment advisors believe present minimal credit risk. The Corporation was exposed to custodial credit risk. As of June 30, 2008, the total amount invested in the Trust was approximately $31,547,000. The average investment return for the year ended June 30, 2008 was 2.12%.

Interest bearing deposits

Custodial Credit Risk – Interest bearing deposits comprised interest bearing cash deposits and short time deposits with the Puerto Rico Government Development Bank. Such deposits are uninsured and uncollateralized. The deposits are exposed to custodial credit risk. As of June 30, 2008, interest-bearing deposits were as follows:

Description	Amount	Interest rate	Due on
Interest bearing deposits	$ 46,181,187	1.93%	Demand
Certificates of deposit	219,000,000	2.49%	August 29, 2008
	$ 265,181,187		

Debt and equity securities

Policies – The Board of Directors of the Corporation has enacted the Statement of Investment Policy, Guidelines and Objectives (the SIPGO) pursuant to providing general and specific guidance for the maximization of resources available to the injured worker as the pervasive goal of the workers' compensation coverage of its insurance program. SIPGO sets as the primary objective for the available funds, the strategic investment to maximize the yield, while having the adequate liquidity to pay the 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 Board of Directors, Corporation's management, investment consultants, portfolio managers, custodian, establishes standards for review and communication of compliance with the prevailing policies and procedures, and provide for annual updates to the SIPGO.

The Corporation's SIPGO permits management to purchase and/or acquire the following investment instruments:

- United States Government and agencies obligations
- Obligations of the Commonwealth of Puerto Rico, 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 bonds
- Money market funds and bank-sponsored short-term investment funds
- Commercial paper
- Options, futures and interest-rate swap agreements for hedging and risk control purpose, as well as for the creation of synthetic products, which qualify under any of the foregoing investment categories
- Open-end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or Aaa by Moody's
- Securities lending transactions

As permitted by SIPGO, other assets classes may be considered to (1) improve risk-adjusted return through diversification, and (2) to add a protective component.

As of June 30, 2008, the SIPGO had established the optimum or efficient allocation for the total portfolio in accordance with time horizon, risk tolerance, return expectations, and assets class preferences as follows:

	Allocation limits			As of
Assets classes	Lower	Strategic	Upper	June 30, 2008
Stocks*	20%	25%	25%	18%
Fixed income	60%	70%	80%	63%
Cash and equivalents	5%	5%	15%	10%
Overlay	0%	-	9%	9%
* Following are the allocation for stocks:				
Stocks in United States Markets -				
Large and medium capitalization - Value	5%	6%	15%	4%
Large and medium capitalization - Growth	5%	6%	15%	5%
Small capitalization	5%	8%	15%	4%
Stocks in International Markets	0%	5%	5%	5%

Based on the SIPGO, the performance objectives will be annually evaluated against certain market benchmarks. As of June 30, 2008, the return on investments was -1.2%, which outperformed the performance benchmarks established by the SIPGO.

As of June 30, 2008, debt and equity securities were as follows:

Description	Cost	Fair value
Equity securities-		
Not on securities loan	$ 337,372,879	$ 355,216,173
U.S Government obligations-		
Not on securities loan	75,473,590	76,439,195
U.S agencies obligations-		
Not on securities loan	273,754,264	275,828,232
Municipal bonds and notes-		
Not on securities loan	2,389,986	2,534,270
Foreign government obligations-		
Not on securities loan	3,626,875	3,514,280
Corporate bonds and notes-		
Not on securities loan	451,263,745	442,977,975
Money market funds-		
Not on securities loan	173,352,691	164,407,389
Repurchase agreement held under securities loan	96,267,272	96,267,272
Discounted notes-		
Not on securities loan	1,996,578	1,996,578
	$ 1,415,497,880	$ 1,419,181,364

Credit risk- 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 in high quality investments (BBB or better, according to Standard and Poor's or other equivalent rating when maturities are longer than a year). In addition, the Corporation restricts investment in certain securities to avoid concentration, increase duration, and or types of securities. The Corporation does not consider investments guaranteed by the United States of America to have credit risk.

As of June 30, 2008, the credit ratings of the investment were as follows:

Description	Fair value	%
High-quality investments not requiring credit rating evaluation for investment based SIPGO		
Money market funds	$ 164,407,389	
Repurchase agreements	96,267,272	
Discounted notes	1,996,578	
	262,671,239	24.69%
AAA		
U.S. Government obligations	76,439,195	
U.S. agencies obligations	275,828,232	
Corporate bonds and notes	119,449,883	
	471,717,310	44.34%
AA		
Corporate bonds and notes	73,067,315	
Municipal bonds and notes	2,534,270	
	75,601,585	7.11%
A		
Foreign government	3,514,280	
Corporate bonds and notes	155,811,999	
	159,326,279	14.97%
BBB		
Corporate bonds and notes	85,145,552	8.00%
BB		
Corporate bonds and notes	9,503,226	0.89%
	$ 1,063,965,191	100.00%

Interest rate risk – Is the possibility of a reduction in the value of a security, especially a bond, resulting from a rise in interest rates. The Corporation limits its exposure to interest rate risk by setting duration of the investment portfolio of the fixed income assets not to exceed more than 10% of the duration of the specific market selected as a benchmark. The duration is a measure of a debt investment's exposure to fair value changes arising from changing in interest rates. It uses the present value of cash flows, weighted for those cash flows as percentage of the investment's full price. As of June 30, 2008, the duration of the fixed income portfolio amounted to 5.9 years, while the selected benchmark was 4.6 years or 28% over.

The cost and fair value of securities at June 30, 2008, by contractual maturity, are shown below:

Description	Cost	Fair value - Current	Fair value - Non-current
U.S government obligations:			
Less than one year	$ 4,909,139	$ 4,997,182	$ -
One year to five years	36,130,664	-	36,420,488
Six years to ten years	10,093,325	-	10,573,690
More than ten years	24,340,462	-	24,447,835
	75,473,590	4,997,182	71,442,013
U.S. agencies obligations:			
Less than one year	2,063,086	2,106,817	-
One year to five years	90,250,380	-	91,838,817
Six years to ten years	28,946,166	-	28,965,075
More than ten years	152,494,632	-	152,917,523
	273,754,264	2,106,817	273,721,415
Foreign government obligations:			
Six years to ten years	$ 3,626,875	$ -	$ 3,514,280
Municipal bonds and notes:			
One year to five years	788,832	839,858	-
More than ten years	1,601,154	-	1,694,412
	2,389,986	839,858	1,694,412

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Description	Cost	Fair value Current	Fair value Non-current
Corporate bonds and notes:			
Less than one year	33,974,917	34,564,635	-
One year to five years	203,133,182	-	201,503,473
Six years to ten years	119,751,918	-	116,818,598
More than ten years	94,403,728	-	90,091,269
	451,263,745	34,564,635	408,413,340
Money market funds	173,352,691	164,407,389	-
Repurchase agreements held under securities loan	96,267,272	96,267,272	-
Discounted notes	1,996,578	1,996,578	-
Securities with no contractual maturities:			
Equity securities	337,372,879	355,216,173	-
	$ 1,415,497,880	$ 660,395,904	$ 758,785,460

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayments penalties. Proceeds from sales and redemptions of debt and equity securities during the year ended June 30, 2008, amounted to approximately $1,030,748,000.

Foreign currency risk – Is the risk that changes in exchange rates will adversely affect the fair value of an investment. The SIPGO 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, 2008, the Corporation had the following investment in foreign currency:

Description	Currency	Fair value
Money market funds	British Pound	$ 47
	Japanese Yen	90,821
	Canadian Dollar	78,186
	Swedish Krona	223,916
	Euro	160,291
		553,261
Common stocks	British Pound	10,503,729
	Canadian Dollar	864,998
	Danish Krone	842,240
	European monetary unit	18,563,059
	Hong Kong Dollar	1,922,818
	Japanese Yen	16,023,983
	Norwegian Krone	851,921
	Swedish Krona	2,533,260
	Swiss Franc	6,243,243
		58,349,251
		$ 58,902,512

Interest and investment income for the year ended June 30, 2008, consist of the following:

Description	Amount
Interest income on interest bearing deposits	$ 926,900
Interest income on investments	58,798,797
Dividend income on investments	6,352,422
Dividend income on investment in PRGITF	668,142
Interest income on investment in cash and non-cash collateral received on securities lending transactions	5,781,171
Other interest income	343,890
	72,871,322

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Description	Amount
Less:	
Investment managers fees	$ (3,722,047)
Cost of securities lending transactions-	
Borrower rebates	(4,697,283)
Agent fees	(433,546)
	$ 64,018,446

Net increase (decrease) in the fair value of investments for the year ended June 30, 2008, consists of the following:

Description	Amount
Gross realized gains	$ 40,144,569
Gross realized losses	(33,936,742)
Net decrease in fair value	(76,688,537)
	$ (70,480,710)

4) **Accounts receivable, net:**

Accounts receivable as of June 30, 2008, consist of:

Description	Amount
Insurance premiums receivable, net of allowance for uncollectible insurance premiums of $214,467,024	$ 130,537,648
Interest receivable	9,678,154
Securities sold but not yet delivered	3,113,369
Employee accounts receivable, collateralized with motor vehicles, net of allowance for uncollectible accounts of $133,974	8,693,394
Receivable from sale of capital asset	3,500,000
Other accounts receivable, net of allowance for uncollectible accounts of $126,403,517	7,683,705
	$ 163,206,270

Insurance premiums receivable include an estimate for additional premiums of $67,600,000. The Corporation follows a policy of not charging-off uncollectible insurance premiums against the related allowance for uncollectible accounts. Other accounts receivable include the portion of insurance premiums of previously uninsured employers considered to be collectible.

5) **Inventories:**

Inventories as of June 30, 2008, consist of:

Description		Amount
Medicines and medical supplies	$	8,511,265
Office materials and supplies		1,133,978
	$	9,645,243

6) **Capital assets, net:**

The activity of capital assets for the year ended June 30, 2008, is as follows:

Description		Balance June 30, 2007		Increase		Decrease		Balance June 30, 2008
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		95,696,826		471,738		-		96,168,564
Medical and office equipment		59,675,082		919,472		(60,467)		60,534,087
Motor vehicles		778,368		23,315		-		801,683
Assets under capital leases:								
Building and improvements		27,850,000		-		-		27,850,000
Office equipment		4,490,886		-		-		4,490,886
		188,491,162		1,414,525		(60,467)		189,845,220

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Description	Balance June 30, 2007	Increase	Decrease	Balance June 30, 2008
Less accumulated depreciation and amortization:				
Buildings and improvements	(33,291,408)	(2,659,271)	-	(35,950,679)
Medical and office equipment	(49,830,302)	(4,390,425)	59,606	(54,161,121)
Motor vehicles	(443,022)	(136,536)	-	(579,558)
Assets under capital leases:				
Building and improvements	(6,498,334)	(928,333)	-	(7,426,667)
Office equipment	(4,490,886)	-	-	(4,490,886)
	(94,553,952)	(8,114,565)	59,606	(102,608,911)
Capital assets being depreciated and amortized, net	93,937,210	(6,700,040)	(861)	87,236,309
Capital assets, net	$ 106,947,376	$ (6,700,040)	$ (861)	$ 100,246,475

As of June 30, 2008, the book value of assets under capital leases amounted to approximately $27,573,000. Amortization of assets under capital leases amounted to $928,333 for the year ended June 30, 2008.

7) **Liability for incurred but unpaid benefits and benefit adjustment expenses:**

The liability for compensation benefits 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. The liability for benefits and expenses payable has been discounted at 2% in 2008. The actuarial study considered the experience of the Corporation from fiscal years 1991-1992 to 2007-2008, and included estimates for cases reported that have not been adjudged and cases incurred but not reported. The actuarial study also included estimates for medical benefits, benefit adjustment expenses and reimbursement of premiums. 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 Corporation has established a liability for both, reported and unreported insured events, which include estimates of future payment of benefits and related benefit adjustment expenses. Liability for incurred but unpaid benefits and benefit adjustment expenses as of June 30, 2008, consists of:

Description	Amount
Compensation benefits:	
Cases adjudged-	
Long-term partial disability	$ 19,140,132
Long-term total disability	102,164,455
Death	18,475,126
	139,779,713
Cases reported not adjudged and cases incurred but not reported-	
Short-term disability (per diem)	95,193,000
Long-term partial disability	163,498,868
Long-term total disability	158,061,545
Death	17,523,874
	434,277,287
Total compensation benefits	574,057,000
Medical benefits	76,272,000
Loss adjustment expense including legal fees	52,026,000
	$ 702,355,000

As of June 30, 2008, liability for incurred but unpaid benefits and benefit adjustments has been included in the accompanying statement of net assets as follows:

Description	Amount
Current:	
Liability for incurred but unpaid benefit	$ 216,051,712
Reserve for benefit adjustment expenses	17,284,000
Non-current:	
Liability for incurred but unpaid benefit	434,277,288
Reserve for benefit adjustment expenses	34,742,000
	$ 702,355,000

The following provides a reconciliation of the beginning and ending balance liability for incurred but unpaid benefits and benefits adjustment expenses for the year ended June 30, 2008:

Description	Amount
Liability for incurred but unpaid benefits and benefit adjustment expenses, beginning of year	$ 687,829,000
Incurred benefits related to:	
Insured events of the current year	147,969,000
Insured events of the prior years	299,576,564
Total incurred benefits	447,545,564
Benefit payments related to:	
Insured events of the current year	270,492,351
Insured events of the prior years	162,527,213
Total benefit payments	433,019,564
Liability for incurred but unpaid benefits and benefit adjustment expenses, end of year	$ 702,355,000

8) **Accounts payable and accrued liabilities:**

Accounts payable and accrued liabilities as of June 30, 2008, consist of:

Description	Amount
Securities purchased but not yet received	$ 5,507,899
Accounts payable	58,052,142
Accruals for vacations, sick leave, Christmas bonus, salary increases and compensatory time	74,286,684
Early retirement plan	15,793,519
Post employment benefit liability	34,707,687
Accruals for claims and lawsuit	15,534,466
Special Health Fund- Law No. 249	26,318,000
	$ 230,200,397

As of June 30, 2008, 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	$	63,560,041
Accrued liabilities		102,498,121
Non-current liabilities:		
Accrued liabilities		64,142,235
	$	230,200,397

9) Securities lending obligations:

The Commonwealth statutes and the Corporation's Board of Directors policies permit the Corporation to use its investments to enter into securities lending transactions. The Corporation commenced its securities lending program effective May 1997. The Corporation's securities custodian, as agent of the Corporation, manages the securities lending program and receives cash collateral, securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the Corporation unless the borrower defaults. The collateral requirement is equal to 102 percent for securities issued in the United States and 105 percent for securities issued outside of the United States, of the fair value of the security lent Additional collateral has to be provided by the next business day if its value falls to less than 100 percent of the fair value of the securities lent. At year-end, the Corporation has no credit risk exposure to borrowers because the amounts the Corporation owes the borrowers exceed the amounts the borrowers owe the Corporation. Contracts with the lending agents require them to indemnify the Corporation if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Corporation for income distributions by the securities' issuers while the securities are on loan.

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

Securities lent for which collateral was received as of June 30, 2008 consist of $144,639,534, with collateral in the amount of $148,726,981. They are detailed as follows:

Securities lent for which cash was received as collateral as of June 30, 2008, consist of:

Description		Amount
Equity securities	$	39,103,643
U.S. Government, agencies and instrumentalities obligations		31,835,132
Corporate bonds and notes		22,263,113
	$	93,201,888

Cash collateral received as of June 30, 2008 amounted to $96,267,272 (see Note 3) and it was invested as follows:

Description	Amount
Repurchase agreements	$ 96,267,272

In addition, the Corporation had the following lending obligations for which securities of the U.S. Government, agencies and instrumentalities obligations were received as collateral:

	Fair value	
Description	Securities lent	Collateral received
U.S. Government, agencies, and instrumentalities obligations	$ 51,437,646	$ 52,459,709

10) **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 underlying facilities. The original terms of the notes payable are as follows:

Note	Description	Original balance
1	Non-interest bearing note, due in September 2018, payable in 40 semiannual installments, discounted at 6.54%	$ 35,001,060
2	Non-interest bearing note, due in September 2018, payable in 40 semiannual installments, discounted at 6.54%	21,419,834
3	Non-interest bearing note, due in October 2018, payable in 40 semiannual installments, discounted at 6.31%	16,619,468
4	Non-interest bearing note, due in March 2019, payable in 40 semiannual installments, discounted at 6.84%	53,285,454
	Total payments	126,325,816
	Less: imputed interest at the inception of the notes	(54,957,702)
		$ 71,368,114

The activity of notes payable for the year ended June 30, 2008, is as follows:

Description	Balance June 30, 2007	Advances	Payments	Balance June 30, 2008
Notes payable (gross)				
Note 1	$ 21,767,918	$ -	$ (1,699,584)	$ 20,068,334
Note 2	11,552,584	-	(855,872)	10,696,712
Note 3	8,055,702	-	(569,772)	7,485,930
Note 4	34,395,423	-	(2,549,752)	31,845,671
	75,771,627	-	(5,674,980)	70,096,647
Portion representing interest				
Note 1	(6,707,675)	-	973,711	(5,733,964)
Note 2	(3,607,439)	-	514,354	(3,093,085)
Note 3	(2,472,676)	-	348,774	(2,123,902)
Note 4	(11,347,497)	-	1,559,661	(9,787,836)
	(24,135,287)	-	3,396,500	(20,738,787)
Principal of note payable				
Note 1	15,060,243	-	(725,873)	14,334,370
Note 2	7,945,145	-	(341,518)	7,603,627
Note 3	5,583,026	-	(220,998)	5,362,028
Note 4	23,047,926	-	(990,091)	22,057,835
	$ 51,636,340	$ -	$ (2,278,480)	$ 49,357,860

Maturities of notes payable as of June 30, 2008, are as follows:

Fiscal year ending June 30,	Present value notes payable	Unamortized discount	Total
2009	$ 2,628,324	$ 3,239,344	$ 5,867,668
2010	3,007,644	3,058,490	6,066,134
2011	3,418,609	2,851,944	6,270,553
2012	3,863,533	2,617,571	6,481,104
2013	4,344,908	2,353,075	6,697,983
2014-2018	32,094,842	6,618,363	38,713,205
	49,357,860	20,738,787	70,096,647
Less: current portion	(2,628,324)	(3,239,344)	(5,867,668)
Non-current portion	$ 46,729,536	$ 17,499,443	$ 64,228,979

11) Obligation under capital lease:

As of June 30, 2000, the Corporation acquired the facility where a regional office is located under a capital lease agreement. The agreement requires the Corporation to make payments of approximately $111.7 million over 30 years. Capital lease obligation as of June 30, 2008, amounted to approximately $32,545,000.

The activity of the obligation under capital lease for the year ended June 30, 2008, is as follows:

Description	Balance June 30, 2007	Advances	Payments	Balance June 30, 2008
Future payments on assets under capital lease	$ 85,672,126	$ -	$ (3,724,875)	$ 81,947,251
Portion representing interest	(52,752,099)	-	3,349,651	(49,402,448)
Present value minimum lease payments	$ 32,920,027	$ -	$ (375,224)	$ 32,544,803

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, 2008, is as follows:

Fiscal year ending June 30,	Present value capital lease	Imputed interest	Total
2009	$ 415,452	$ 3,309,423	$ 3,724,875
2010	459,992	3,264,883	3,724,875
2011	509,307	3,215,568	3,724,875
2012	563,907	3,160,968	3,724,875
2013-2017	3,866,891	14,757,484	18,624,375
2018-2022	6,434,422	12,189,953	18,624,375
2023-2027	10,706,737	7,917,638	18,624,375
2028-2030	9,588,095	1,586,531	11,174,626
	32,544,803	49,402,448	81,947,251
Less: current portion	(415,452)	(3,309,423)	(3,724,875)
Non-current portion	$ 32,129,351	$ 46,093,025	$ 78,222,376

12) Transfers to other governmental agencies:

Transfers to other governmental agencies during the year ended June 30, 2008, are as follows:

Description	Amount
Industrial Commission	$ 24,004,292
Department of Labor and Human Resources:	
Occupational Safety and Health Office	6,952,400
Labor Standards Offices	10,431,600
Department of Family – Vocational Rehabilitation Program	600,000
Puerto Rico Housing Bank and Finance Agency Housing Sub-Program	1,000,000
Labor Affairs Office	140,000
Special Health Fund – Law No. 249:	
Annual contributions	31,947,017
Recovery of annual contributions	(5,629,017)
	$ 69,446,292

The expenses incurred by the Industrial Commission 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 legislation as of June 20, 1990, which authorizes the Corporation to transfer certain amounts as prescribed by law to cover operational expenses of the above mentioned offices.

The transfer to the Department of Family is made under the provisions of Law No. 243, of July 23, 1974, which authorizes 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.

The transfer to Puerto Rico Housing Bank and Finance Agency is made under the provision of law No. 59, of August 9, 1991, amended on July 23, 1998, which authorizes the Corporation to transfer to the Housing Sub-Program an amount of $1,000,000 each year for the workers of State Insurance Fund and their dependents. As of June 30, 2008, the amount due under this Sub-Program amounted to $1,000,000.

On November 17, 2006, the Legislative Assembly of the Commonwealth Puerto Rico enacted Law No. 249, which among other things, created the Special Health Fund (the Special 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 the Government Development Bank of the Commonwealth of Puerto Rico (GDB) to extend a loan of $253 million to the Special Health Fund.

Law No. 249 also requires annual contributions, during a period of six (6) years, from the State Insurance Fund Corporation (Corporation) to cover the principal and interest of loaned amount as follows:

Fiscal year	Maturity date	Principal payment
June 30, 2008	September 15, 2007	$ 23,000,000
June 30, 2009	September 15, 2008	46,400,000
June 30, 2010	September 15, 2009	46,400,000
June 30, 2011	September 15, 2010	46,400,000
June 30, 2012	September 15, 2011	46,400,000
June 30, 2013	September 15, 2012	44,400,000
		$ 253,000,000

Outstanding balances will bear interest at a rate defined in the loan agreement between the Special Health Fund and GDB. Law No. 249 provides the Corporation to recover the contributions made as part of the debt services through annual appropriations under "Resolución Conjunta del Presupuesto General del Gobierno del Estado Libre Asociado de Puerto Rico" for each fiscal year.

Pursuant with terms of Law No. 249, the Corporation accounts for annual contributions, and related recovery, following provisions of GASB 33 Accounting and Financial Reporting for Nonexchange Transactions, which among other things, affects the period in which assets, liabilities, revenues and expenses are recognized. The Corporation evaluates the requirements of the annual contributions separately from the recovery requirements consistent with criteria of enabling legislation, and related restrictions, to determine the accounting and reporting treatment in the accompanying financial statements as follows:

Annual contributions – Based on Law No. 249, the Corporation is required to contribute the total of annual principal payments and accrued interest, as aforementioned defined, during the period of 75 days commencing on the beginning of the applicable fiscal year.

Recovery of Annual Contributions – The Corporation recognizes the related recovery of annual contributions when all requirements are met or resources are received, whichever is first. Consistent with the annual appropriation requirement under "Resolucion Conjunta del Presupuesto General del Gobierno del Estado Libre Asociado de Puerto Rico", the Corporation recognized the applicable recovery of the annual contribution up to the amount of actual resources received, as related appropriations were not authorized for fiscal year ended June 30, 2008.

As June 30, 2008, the annual contributions and recovery accounted by the Corporation, based on requirements met, were as follows:

Description		Principal		Interest		Total
Annual required contribution as of:						
September 15, 2007	$	23,000,000	$	5,629,017	$	28,629,017
September 16, 2007 to June 30, 2008		n/a		3,318,000		3,318,000
		23,000,000		8,947,017		31,947,017
Recovery of annual contribution as of June 30, 2008		-		(5,629,017)		(5,629,017)
Annual contribution net of recovery	$	23,000,000	$	3,318,000	$	26,318,000

On September 12, 2007, the Treasury Department of the Commonwealth of Puerto Rico (Hacienda) transferred approximately $5.6 million to GDB for interest accrued under the Special Health Fund credit facility. Subsequent to June 30, 2008, Hacienda transferred $10 million to GDB to partially pay the $23 million due by the Special Health Fund. The Corporation, consistent with GASB 33, will record the recovery during the fiscal year ending June 30, 2009.

13) Derivative instruments:

Commencing in April 2003, the Corporation entered into derivative transactions to the extend and in a manner consistent with the Corporation's Statement of Investment Policy, Guide and Objectives, 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 position. Derivatives consist of purchases of instruments at specified time in the future at guaranteed price, generally the market price at the time the contract commences. The financial exposure is managed through an independent money manager in accordance with the Corporation's investment policies. It is possible that the market price before or at the specified time to purchase the contract may be lower than the price at which the Corporation is committed to buy. This would affect the value of the contract.

Derivative instruments not designated as hedge transactions are comprised of purchase options used to manage exposure to the stock market on stock index deposits. For the year ended June 30, 2008, the Corporation has recorded a net realized loss on derivative instruments amounting to approximately $1,561,000. In addition, the Corporation had an unrealized holding net loss amounting to approximately $754,000 as of June 30, 2008.

14) Employees' retirement plan:

The Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the System) is a cost sharing multiple-employer defined-benefit pension plan sponsored by, and reported as a component unit of the Commonwealth.

The System was created under Act No. 447 (the Act), approved on May 15, 1951, as amended, and became effective on January 1, 1952. All regular appointed and temporary employees of the Corporation under the age of fifty-five (55) at the date of employment become plan participants of the System.

The System provides retirement, death, and disability benefits Retirement benefits depend upon age at retirement and number of years of credited service. Benefits generally vest after ten (10) years of plan participation.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest thirty-six (36) months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of $200 per month and a maximum of 75 percent (75%) of the average compensation.

Contribution requirements, which are established by Law and are not actuarially determined, are as follows:

Description	Percentage
Commonwealth	9.275% of applicable payroll
Employees:	
Hired on or before March 31, 1990	5.775% of monthly gross salary up to $550
	8.275% of monthly gross salary over $550
Hired on or after April 1, 1990	8.275% of monthly gross salary

On September 24, 1999, an amendment to Act, which created the System, was enacted with the purpose of establishing a defined contribution plan known as System 2000.

System 2000 became effective on January 1, 2000. Employees participating in the defined-benefit plan (the traditional plan) at December 31, 1999, had the option to either stay in the traditional plan or transfer to System 2000. Persons employed on or after January 1, 2000, are only allowed to become members of System 2000.

System 2000 is a hybrid defined-contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which is invested by the System, together with those of System 2000 benefit plan. The Commonwealth does not guarantee benefits at retirement age. The annuity is based on a formula which assumes that each year the participants' contribution (with a minimum of 8.275 percent of the participants' salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined benefit contribution plans showing their accrued balances. Disability pensions are not granted under System 2000. The employers' contributions (9.275% of the employee's salary) are used to fund the traditional plan.

System 2000 reduces the retirement age from sixty-five (65) years to sixty (60) years for those employees who joined the current plan on or after January 1, 2000.

Total employee and employer contributions (rounded) for the years ended June 30, 2008, 2007 and 2006, were approximately as follows:

	2008	2007	2006
Traditional Plan -			
Employer	$ 17,964,000	$ 18,534,000	$ 18,082,000
Employee	$ 16,014,000	$ 15,491,000	$ 15,466,000
System 2000 -			
Employer	$ 1,616,000	$ 1,382,000	$ 556,000
Employee	$ 1,385,000	$ 1,289,000	$ 1,025,000

During the years ended June 30, 2008 and 2007, the System informed and charged the Corporation the cost of certain special laws enacted by the Commonwealth of Puerto Rico's Legislature regarding retained employees. As of June 30, 2008 and 2007, the amount estimated by the System amounted to approximately $3,539,000 and $4,567,000, respectively. The special laws are payable in four annual installments through the year 2011.

The System issues publicly available financial reports which include their basic financial statements and required supplementary information. Those reports may be obtained by writing to the System's administrator at 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918. Their telephone number is (787) 756-4410.

15) Postemployment benefits:

The Corporation adopted the Government Accounting Standards Board (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for periods beginning after December 15, 2006. This statement requires that the projected cost of such benefits be actually determined and recognized, on an accrual basis, over a period that approximates employee's years of service. 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. The Corporation provides post retirement benefits to all employees who meet certain age and years of service requirements. Such benefits consist principally of health care benefits, recorded on a pay-as-you-go basis and postemployment bonuses recorded and calculated by the Corporation using methodology and assumptions similar to actuarial calculations. Healthcare benefits are provided for a period of two (2) years after retirement. Thereafter, the Corporation contribution is limited to $35 monthly until employee reaches the age of 65 years.

The estimate of the postemployment bonus benefit amounted to approximately $34.7 million, internally developed using actuarial methodology and assumptions. Healthcare benefits were recognized on a pay-as-you-go basis; no accrual for actuarial liability was reflected in the accompanying financial statements.

16) 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, 2008, the Corporation was required to account for the Death and Total Disability Fund (DTDF) and for the Reserve for Catastrophic Fund (RCF). The DTDF recognizes the claims awarded to the workers (injured employees or its beneficiaries). The Corporation maintains 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, 2008, the DTDF (adjudged cases) amounted to approximately $138,163,000 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, 2008, the RCF amounted to approximately $13,924,000

17) **Commitments:**

Operating lease agreements – The Corporation rents certain of its administrative offices and clinics under non-cancelable long-term operating lease agreements. Rent expense for the year ended June 30, 2008, was approximately $22,671,000. The minimum future rental obligations under operating lease agreements are approximately as follows:

Fiscal year ending June 30,		Amount
2009	$	17,656,000
2010		8,874,000
2011		7,843,000
2012		3,557,000
2013-2017		714,000
Total	$	38,644,000

18) **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 December 31, 2000. During the period from June 4, 1991 to December 30, 1996, the Corporation had no medical malpractice coverage. Management has recorded an accrual to cover claims and lawsuits that may be assessed against the Corporation, including malpractice cases not covered by the related policy.

For the year ended June 30, 2008, the Corporation acquired all of its insurance coverage, including malpractice, through the Commonwealth of Puerto Rico's Department of Treasury.

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 District Courts of Puerto Rico, seeking the cancellation of various contracts entered to by the Corporation for the acquisition of four (4) regional offices in prior years, under the premises that the actual terms are contrary to enacted legislation of the Commonwealth of Puerto Rico. Management, under the advice of their legal counsels, is of the opinion that these contracts were granted contrary to the best interest 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 agreements, for the purchase or leasing the facilities, without claiming any monetary damages, except one of the parties which is alleging damages of $31 million. Based on legal counselor's opinion, the counter claim is without merits.

19) **Transaction with primary government:**

During the year ended June 30, 2008, insurance premiums earned generated by the Corporation from the governmental sector, including agencies and public corporations of the Commonwealth of Puerto Rico and municipalities, amounted to approximately $222,600,000. These amounts represent approximately 30% of the total of premiums earned.

20) **Accrual for reimbursement of premiums:**

Reimbursement of insurance premiums for the year ended June 30, 2008, amounted approximately to $93,141,000, which includes a charge of $14,526,000 to reflect changes in the accrual for reimbursement of premiums determined by an independent actuary.

RSM ROC & Company

Certified Public Accountants & Consultants

SECTION IV

Ten Year Claims Development Information

STATE INSURANCE FUND CORPORATION
REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

(In Thousands of Dollars)
Fiscal and Policy Year Ended June 30 (Unaudited)

Description	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1. Selected ultimate premium by policy year	$ 535,479	$ 552,063	$ 597,746	$ 605,170	$ 651,954	$ 689,358	$ 727,737	$ 733,132	$ 736,889	$ 735,288
2 Estimated ultimate awards at end of policy year	467,000	473,750	486,750	487,800	455,200	438,250	496,100	494,000	477,598	478,404
3 Awarded as of:										
End of policy year	179,946	182,466	187,331	205,937	204,589	220,232	245,159	260,638	266,889	269,569
One year later	247,429	254,095	262,311	269,097	271,467	287,801	317,854	330,546	336,490	
Two years later	278,305	285,985	290,594	298,340	297,224	313,454	347,332	358,867		
Three years later	294,003	300,962	305,745	312,038	310,119	325,917	361,764			
Four years later	303,340	310,081	314,510	320,059	317,793	333,515				
Five years later	309,604	315,912	320,299	325,512	325,229					
Six years later	314,251	320,349	324,672	329,281						
Seven years later	317,452	323,239	328,104							
Eight years later	319,848	325,629								
Nine years later	321,706									
4 Re-estimated ultimate incurred:										
End of policy year	467,000	473,750	486,750	487,800	455,200	438,250	496,100	494,900	477,598	478,404
One year later	442,650	448,150	435,050	414,575	395,400	400,900	441,800	449,171	460,651	
Two years later	409,550	398,650	390,350	377,025	367,250	374,500	428,502	446,943		
Three years later	378,300	368,876	362,353	359,383	350,642	368,466	429,045			
Four years later	355,396	354,742	352,120	352,393	350,550	366,579				
Five years later	347,479	347,579	348,040	352,927	352,563					
Six years later	341,869	344,884	348,185	351,956						
Seven years later	340,037	344,324	349,388							
Eight years later	340,339	345,335								
Nine years later	341,063									