COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

Statement of Cash Receipts and
Cash Disbursements for the
General Operational Fund
June 30, 2010
(with Auditors' Report thereon)

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Commonwealth of Puerto Rico Office of the Commissioner of Insurance Statement of Cash Receipts and Cash Disbursements for the General Operational Fund and Required Supplementary Information For the year ended June 30, 2010 and Independent Auditors' Report

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October 15, 2010

INDEPENDENT AUDITORS' REPORT

Commonwealth of Puerto Rico
Office of the Commissioner of Insurance
San Juan, Puerto Rico

We have audited the accompanying statement of cash receipts and cash disbursements for the general operational fund of the **Commonwealth of Puerto Rico Office of the Commissioner of Insurance** (the Office) for the year ended June 30, 2010. This financial statement is the responsibility of the Office's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes 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 1, the statement of cash receipts and cash disbursements for the general operational fund has been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred above presents fairly, in all material respects, the cash receipts and cash disbursements of the general operational fund of the Office for the year ended June 30, 2010 on the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 11 through 12, respectively, are not a required part of the statement of cash receipts and cash disbursements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended for the information and use of the **Office of the Commissioner of Insurance, the Commonwealth of Puerto Rico** and is not intended to be and should not be used by anyone other than these specified parties. However, this report is matter of public record and its distribution is not limited.

Carbonell & Co. LLP.

Carbonell & Co., LLP
Certified Public Accountants

License No. 211 Expires Dec. 1, 2010
Stamp #2565077 of the P.R. Society of Certified Public Accountants has been affixed to the original of this report.

Commonwealth of Puerto Rico Office of the Commissioner of Insurance
Management's Discussion and Analysis
For the year ended June 30, 2010

The Commonwealth of Puerto Rico Office of the Commissioner of Insurance (the Office) management provides this overview and analysis of the financial activities of the Office for the fiscal year ended June 30, 2010, within the limitation of the Office's cash basis of accounting. We encourage readers to consider the information presented here along with the financial statement taken as a whole.

1. Financial Highlights

The Office's General Operational Fund total cash receipts exceeded total cash disbursements, on the cash basis of accounting, by $1,537,252.

2. Using this Report

This report is presented in a format consistent with the presentation of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Office's cash basis of accounting.

3. Report Components

This report consists of three parts as follows:

Statement of Cash Receipts and Cash Disbursements: The Statement of Cash Receipts and Cash Disbursements (the Statement) reports information about the Office's General Operational Fund and includes all receipts and disbursements resulting from cash transactions.

Notes to the Financial Statement: The notes to the financial statement are an integral part of the General Operational Fund financial statement and provide expanded explanation and detail regarding the information reported in the Statement.

Required Supplementary Information: This Management's Discussion and Analysis and the General Operational Fund Budgetary Comparison Schedule represent financial information required to be presented by accounting principles generally accepted in the United States of America. Such information provides users of this report with additional data that supplements the Statement and notes.

4. Basis of Accounting

The Office has elected to present its Statement of Cash Receipts and Cash Disbursements on a cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues and expenses. Under the Office's cash basis of accounting, revenues and expenses are recorded when they result from cash transactions.

Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

5. The Fund Financial Statement

The Office's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds report the acquisition of capital assets and payments for expenditures and not as changes to asset and debt balances. The governmental fund provides a detailed short-term view of the Office's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Office's programs. The Office considers the General Operational Fund to be its significant or major governmental fund.

6. A Financial Analysis of the Office's General Fund

For the year ended June 30, 2010, on the cash basis of accounting, the Office's General Operational Fund reported cash receipts of $9,721,361 and cash disbursements of $8,184,109 resulting in an excess of $1,537,252. The following table, summarizes the results of operations between fiscal years ended June 30, 2010 and 2009:

	2010	2009	Change in dollars	Change in %
Cash receipts:				
Licenses	$ 8,642,867	$ 8,450,686	$ 192,181	2 %
Testing fees	525,767	577,618	(51,851)	(9)%
Fines	463,768	852,422	(388,654)	(46)%
Sales of publications	65,888	92,350	(26,462)	(29)%
Interest	3,955	39,825	(35,870)	(90)%
Other	19,116	13,092	6,024	46 %
Total cash receipts	9,721,361	10,025,993	(304,632)	(3)%
Cash disbursements:				
Personal services				
Salaries and fringe benefits	5,085,569	5,548,604	(463,035)	(8)%
Professional services	332,289	409,939	(77,650)	(19)%
Other	754,540	818,106	(63,566)	(8)%
Total cash disbursements for personal services	6,172,398	6,776,649	(604,251)	(9)%
Non-personal services:				
Rent	1,088,850	1,059,181	29,669	3 %
Repairs and maintenance	53,896	15,209	38,687	254 %
Materials	79,337	121,883	(42,546)	(35)%
Advertising	67,165	62,295	4,870	8 %
Telephone and communication	100,867	108,973	(8,106)	(7)%
Equipment	111,644	90,498	21,146	23 %
Travel	37,563	51,182	(13,619)	(27)%
Other	472,389	275,317	197,072	72 %
Total cash disbursements for non-personal services	2,011,711	1,784,538	227,173	13 %
Total cash disbursements	8,184,109	8,561,187	(377,078)	(4)%
Excess of cash receipts over cash disbursements	$ 1,537,252	$ 1,464,806	$ 72,446	

6. A Financial Analysis of the Office's General Fund (continued)

Eventhough cash receipts from licenses increased by $192,181, total cash receipts decreased by $304,632 compared to prior year. This net decrease in cash receipts is mainly due to the reduction of fines issued and collected. In addition, interests decreased by $35,870 due to a reduction in the rate of return on investments from an average of .98% during the year ended June 30, 2009 to an average of .25% during the year ended June 30, 2010. Also, testing fees collection have decreased by $51,851 as a reduction in the persons taking the examinations.

Total cash disbursements for personal services decreased by $604,251 mainly due to the reduction in temporary personnel.

Total cash disbursement for non-personal services increased by $227,173 mainly as a result of a reimbursement made to MCS Health Management Option in the amount of $167,000. The aforementioned company paid in excess the certificate of authority last year. In addition, repairs and maintenance increased by $38,687 due to improvements made to the area of customer service.

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7. General Fund Budgetary Highlights

Over the course of the year, the Office revised the General Fund budget at various times. The final adjusted budget, however, was consistent with original budget. The only difference between the current and prior year budget was an overall increase of $1,066,472 from prior year. The budgetary comparison of Cash Receipts and Disbursements for the General Fund is as follows:

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
Cash receipts:				
Licenses	$ 9,633,191	$ 9,633,191	$ 8,642,867	$ (990,324)
Testing fees	1,174,779	1,174,779	525,767	(649,012)
Fines	469,912	469,912	463,768	(6,144)
Sales of publications	234,956	234,956	65,888	(169,068)
Interest	117,478	117,478	3,955	(113,523)
Other	350,962	350,962	19,116	(331,846)
Total cash receipts	11,981,278	11,981,278	9,721,361	(2,259,917)
Cash disbursements:				
Salaries and fringe benefits	5,775,000	5,775,000	5,085,569	(689,431)
Professional services	555,000	555,000	332,289	(222,711)
Rent	1,100,000	1,100,000	1,088,850	(11,150)
Repairs and maintenance	20,000	20,000	53,896	33,896
Materials	107,000	107,000	79,337	(27,663)
Advertisement	100,000	100,000	67,165	(32,835)
Telephone and communication	98,000	98,000	100,867	2,867
Equipment	154,000	154,000	111,644	(42,356)
Travel	172,000	172,000	37,563	(134,437)
Other	1,369,000	1,369,000	1,226,929	(142,071)
Total cash disbursements	9,450,000	9,450,000	8,184,109	(1,265,891)
Excess of cash receipts over cash disbursements	$ 2,531,278	$ 2,531,278	$ 1,537,252	$ (994,026)

8. Contacting the Office's Financial Management

This report is designed to provide general overview of the Office's financial information and to demonstrate the Office's accountability for the money it receives. Also, this report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass through entities and is not intended to be and should not be used by anyone other than these specified parties. If you have questions about this report or need additional information, contact the Office at B5 Tabonuco Street, PMB 356, Guaynabo PR 00968-3029 or telephone at (787)304-8686.

Commonwealth of Puerto Rico Office of the Commissioner of Insurance
Statement of Cash Receipts and Cash Disbursements for the General Operational Fund and Required Supplementary Information
For the year ended June 30, 2010

Cash receipts:	
Licenses	$ 8,642,867
Testing fees	525,767
Fines	463,768
Sales of publications	65,888
Interests	3,955
Other	19,116
Total cash receipts	9,721,361
Cash disbursements:	
Personal services	
Salaries and fringe benefits	5,085,569
Professional services	332,289
Other	754,540
Total cash disbursements for personal services	6,172,398
Non-personal services:	
Rent	1,088,850
Repairs and maintenance	53,896
Materials	79,337
Advertising	67,165
Telephone and communication	100,867
Equipment	111,644
Travel	37,563
Other	472,389
Total cash disbursement for non-personal services	2,011,711
Total cash disbursements	8,184,109
Excess of cash receipts over cash disbursements	$ 1,537,252

See accompanying Notes to Financial Statements and Auditors' Report.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Commonwealth of Puerto Rico Office of the Commissioner of Insurance (the Office) is an executive department of the Commonwealth of Puerto Rico (the Commonwealth) created by Act No. 77 dated June 19, 1957, as amended. The Office has the authority to regulate, supervise, and oversee the insurance industry in Puerto Rico. In addition, it examines and licenses insurance personnel and companies, collects taxes over insurance premiums, advises the public and other government agencies about insurance issues, investigates, and resolves complaints and regulates the commercial practices and advertising of the insurance industry in Puerto Rico to avoid unfair and deceiving practices.

Basis of Accounting - The accompanying Statement of Cash Receipts and Cash Disbursements for the General Operational Fund has been prepared on the cash basis method of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. All transactions relating to the Office's participation in the General Operational Fund are recognized as either cash receipts or disbursements. Non-cash transactions are not recognized in the statement.

Basis of Presentation - The Office's fund is, as required by law, under the custody and control of the Secretary of the Department of Treasury of the Commonwealth of Puerto Rico and is-also accounted for in the Central Government Accounting System. The Office prepares its Statement of Cash Receipts and Cash Disbursements for the General Operational Fund on the cash basis method. A statement of net assets has not been presented because, as of June 30, 2010, the Office had no cash available.

2. RELATED PARTY

As of June 30, 2010, the Office collected taxes over insurance premiums and other funds on behalf of the Department of Treasury of the Commonwealth of Puerto Rico amounting to approximately $26 million. These collections are not reflected in the accompanying statement of cash receipts and cash disbursements since the Office only serves as a collector of these funds.

3. COMMITMENTS

On December 14, 2005, the Office entered into a non-cancelable operating lease agreement for a new location of the office facilities including common area maintenance charges, parking spaces and electricity expenses. The lease expires on December 31, 2010, with a renewal option period of 90 days. Also, the Office has several non-cancelable operating leases for equipment, which are payable on a month-to-month basis.

3. COMMITMENTS (Continued)

The minimum rental commitments for leases in effect at June 30, 2010, are as follows:

Year Ending June 30,	Amount
2011	$ 772,122
2012	28,948
2013	24,441
2014	9,621
2015	3,912
	$ 839,044

4. PENSION PLAN

The Employees Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System), created pursuant to Act No. 447 dated May 15, 1951, as amended, is a cost-sharing multi-employer defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Office under the age of 55 at the date of employment become members of the System as a condition to their employment. No benefits are payable if the participant receives a refund of accumulated contributions.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth Legislature. Death and disability retirement benefits are available to members for occupational and non-occupational death and disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after 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 36 months of compensation recognized by the Retirement System. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Act No. 1 of 1990, made certain amendments applicable to new participants joining the Retirement System effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to one and one-half percent of the average compensation for all years of creditable service, a decrease in the maximum disability and death benefits annuities from 50% to 40% average compensation, and the elimination of the Merit annuity for participants who have completed 30 years of creditable service.

4. PENSION PLAN (Continued)

On September 24, 1999 and amendment to Act No. 447 dated May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the Retirement System as of December 31, 1999, had the option to stay in the defined plan or transfer to System 2000. System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the Retirement System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employees contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in a account which will either: (1) earn a fixed rate based on the two-year Constant Treasury Note or, (2) earn a rate equal to 75% of the return of the Retirement System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic accounts statements similar to those of defined contributions plans showing their accrued balances.

Funding Policy

Contribution requirements are established by law and are as follows:

Commonwealth	9.275%	of gross salary
Employees:		
Hired on or before March 31, 1990	5.775%	of gross salary up to $6,600
	8.275%	of gross salary over $6,600
Hired on or after April 1, 1990	8.275%	of gross salary

Total contributions made during the year ended June 30, 2010, were as follows:

	Regular Plan	System 2000
Employer	$ 215,526	$ 174,654

Total covered payroll for the year ended June 30, 2010 was approximately $5 million. For the fiscal year ended June 30, 2010, the Office contributed 100% of total required contributions. Additional information on the System is provided in its financial statements for the year ended June 30, 2010, a copy of which can be obtain from Retirement System Administration, PO Box 42003, San Juan, Puerto Rico 00949.

Commonwealth of Puerto Rico
Office of the Commissioner of Insurance
Budgetary Comparison Schedule of Receipts and Disbursements for the General Operational Fund
For the year ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
Cash receipts:				
Licenses	$ 9,633,191	$ 9,633,191	$ 8,642,867	$ (990,324)
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Total cash disbursements	9,450,000	9,450,000	8,184,109	(1,265,891)
Excess of cash receipts over cash disbursements	$ 2,531,278	$ 2,531,278	$ 1,537,252	$ (994,026)

See notes to budgetary comparison schedule of receipts and disbursements for the general operational fund.

Commonwealth of Puerto Rico Office of the Commissioner of Insurance
Notes to Budgetary Comparison Schedule of Receipts and Disbursements for the General Operational Fund
For the year ended June 30, 2010

1. BASIS OF PRESENTATION

The Budgetary Comparison Schedule of Receipts and Disbursements for the General Operational Fund has been prepared using the cash basis method of accounting. It is drawn primarily from the Office's internal accounting records, which are the basis for the Commissioner's Statement of Cash Receipts and Cash Disbursements.

2. BUDGET AND BUDGETARY ACCOUNTING

The Office's budget system its primarily controlled over expenditures. Budgets are prepared annually and revised semiannually as required. The budget is prepared on the same cash basis of accounting as applied to the governmental funds in the Statement of Governmental Funds Receipts and Disbursements. Budgetary control procedures require the obligation of funds before purchase orders can be placed; that is applicable appropriations must be reserved before purchase orders or contracts can be entered into. Obligated appropriations at year end carry over to the next fiscal year and are not reported as part of next fiscal year's budget. For budgetary purposes, encumbrances accounting is used. The encumbrances (that is, purchase order, contracts) are considered expenditures when paid.